First Financial Bankshares, Inc. (FFIN)

Updated February 13th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	7.2%	**Market Cap:**	$4.7 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/14/2024
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	04/01/2024
Dividend Yield:	2.3%	**5 Year Price Target**	$40	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Founded in 1890 and headquartered in Abilene, Texas, First Financial Bankshares Inc (FFIN) is a financial and bank holding company with a strong focus on community banking. Concentrated solely in Texas, the company's competitive position thrives in this single geographic area. Through its subsidiaries, the company offers a comprehensive range of commercial banking services, including checking, savings, and time deposits, as well as modern conveniences like Internet and mobile banking.

On January 25th, 2024, the company announced results for the fourth quarter of 2023. FFIN reported Q4 non-GAAP EPS of $0.32, missing the market's estimates by $0.02, and revenues of $122.14 million for the quarter, down 6.4% year-over-year. The company also reported net income of $45.98 million, down 12.5% compared to the previous year.

The bank had a resilient year in light of unprecedented interest rate hikes by the Federal Reserve in 2023. Generally, the bank achieved some crucial milestones throughout the year despite the income year-over-year decline in net income, in which the total levels of deposits were maintained to have over 12,500 net new accounts added and organically growing loans by $706.92 million or 10.97%. The bank strategically strengthened its balance sheet to dispose of $411.13 million of the lower-yielding securities, the funds of which have been reallocated to its higher-earning loan portfolio, thereby strengthening future interest income potential.

The earnings decrease was driven by a $17.61 million reduction in net interest income, lower debit card and mortgage revenues, a significant decline in gains on sales of securities, and higher FDIC insurance premiums, partly offset by reduced incentive and profit-sharing expenses for the current period. Net interest income for the fourth quarter of 2023 was $97.51 million, a decrease compared to a year ago but an increase compared to the third quarter. The net interest margin also returned a decrease compared to the previous year to 3.33%. While average interest-earning assets are expected to drop, the optimistic outlook in 2024 supports the company’s strategic positioning and adaptability to economic changes.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.70	$0.77	$0.79	$0.91	$1.11	$1.22	$1.42	$1.60	$1.64	$1.40	***$1.44***	***$2.02***
DPS	$0.28	$0.31	$0.35	$0.38	$0.41	$0.47	$0.51	$0.58	$0.66	$0.72	***$0.72***	***$1.16***
Shares[1]	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2	144.9	***146.8***	***157.0***

High interest rates could reduce consumer demand for credit, particularly for residential real estate loans, which account for about 25% of the total loan portfolio. Loan growth will be supported by the robust economies of First Financial Bankshares' markets. Customers are served by businesses all around Texas, and the state's coincident economic activity index is a reliable indicator of product demand.

As a result, we matched analysts’ EPS estimates EPS of $1.44 in 2024, and we have maintained an annual EPS growth rate of 7.0% for the next five years, lower than the bank's long-term growth rates, which could reach $2.02 by 2029. First Financial Bankshares' DPS had a 10-year and five-year CAGR of 11.1% and 32.5%, respectively. Moreover, the bank has

[1] In millions.

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consistently increased dividend distributions to shareholders for the past 13 years, and we expect it to continue this track.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	21.5	19.9	21.8	23.6	24.4	26.1	21.4	29.8	25.3	21.1	***22.2***	***20.0***
Avg. Yld.	1.9%	2.0%	2.0%	1.8%	1.5%	1.5%	1.7%	1.2%	1.6%	2.4%	***2.3%***	***2.9%***

First Financial Bankshares is trading at a forward P/E of 22.2, lower than its long-term average P/E of around 24.0. Considering the banking sector's fears, the lower multiple is justifiable. Even though FFIN remains intact, considering the AFS risk, we believe that a P/E multiple of 20.0 fairly reflects the bank's risk/reward profile, suggesting a target price of $40 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

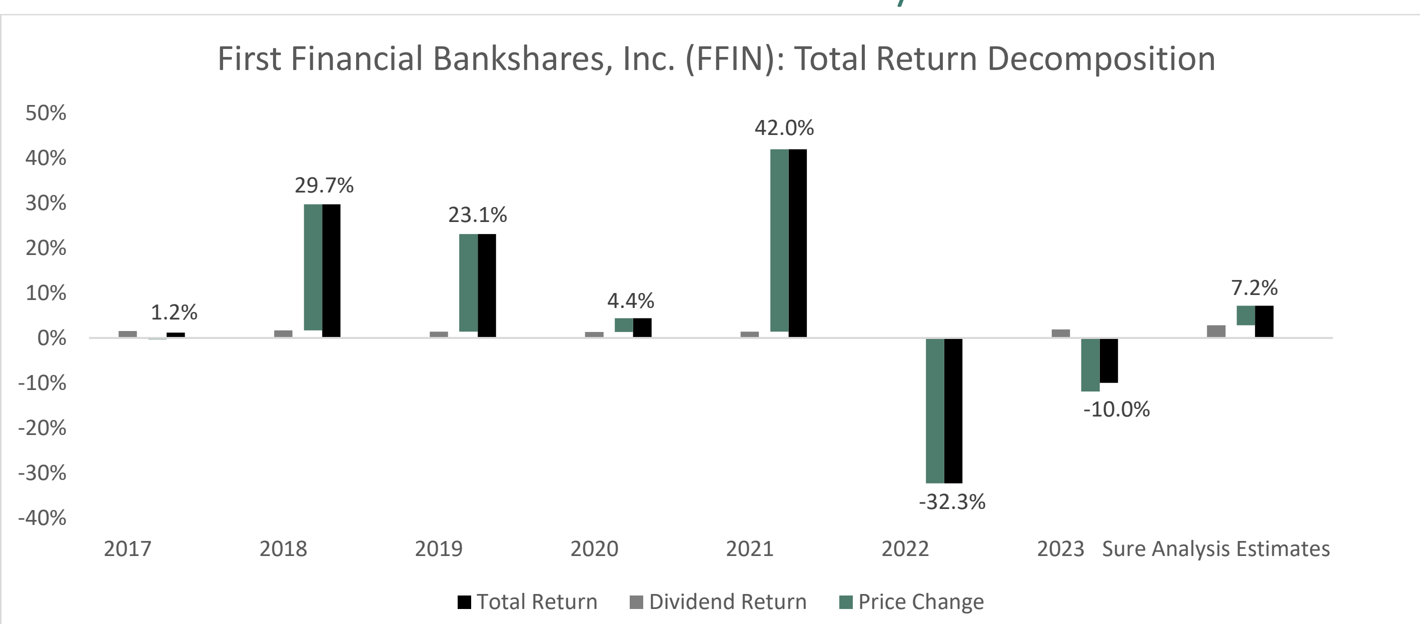
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	40%	40%	44%	42%	37%	39%	36%	36%	40%	51%	***50%***	***57%***

First Financial Bankshares boasts a competitive advantage stemming from its unwavering commitment to customer-centric services and localized approach. The bank has demonstrated resilient recession performance throughout economic downturns due to its conservative lending practices and diversified portfolio. This strategic approach has minimized risk and upheld stability. Finally, First Financial's prudent financial management is evidenced by its manageable debt levels, further contributing to its position as a robust and trustworthy financial institution.

Final Thoughts & Recommendation

Despite the rising concerns in the banking sector and the overall economy, the stock has gained 19% since our last report. Thus, we have revised our buy rating to hold, premised upon the 7.2% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 2.3% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	228	253	284	304	319	364	387	478	500	520
SG&A Exp.	73	81	88	99	103	114	122	141	151	143
D&A Exp.	9	9	11	12	13	13	12	13	13	13
Net Profit	79	90	100	105	120	151	165	202	228	234
Net Margin	34.6%	35.4%	35.4%	34.5%	37.7%	41.3%	42.6%	42.3%	45.6%	45.1%
Free Cash Flow	99	114	92	140	176	169	194	194	334	308
Income Tax	26	29	31	31	27	28	33	40	44	46

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,222	5,848	6,665	6,810	7,255	7,732	8,262	10,905	13,102	12,974
Cash & Equivalents	240	262	273	255	374	250	279	729	529	331
Goodwill & Int.	97	97	144	144	141	175	174	318	317	316
Total Liabilities	4,635	5,167	5,860	5,972	6,332	6,679	7,035	9,226	11,343	11,708
Long-Term Debt	464	1	299	75	-	55	-	-	21	21
Total Equity	588	682	805	838	923	1,053	1,227	1,678	1,759	1,266
LTD/E Ratio	0.79	0.00	0.37	0.09	-	0.05	-	-	0.01	0.02

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.6%	1.6%	1.6%	1.6%	1.7%	2.0%	2.1%	2.1%	1.9%	1.8%
Return on Equity	13.8%	14.1%	13.5%	12.8%	13.7%	15.2%	14.5%	13.9%	13.2%	15.5%
ROIC	8.4%	10.3%	11.2%	10.4%	13.1%	14.8%	14.1%	13.9%	13.2%	15.3%
Shares Out.	127.7	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2
Revenue/Share	1.78	1.97	2.18	2.30	2.41	2.68	2.84	3.35	3.49	3.63
FCF/Share	0.77	0.89	0.70	1.06	1.33	1.24	1.42	1.36	2.33	2.15

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.