



Bar Harbor Bankshares (BHB)

Updated April 19th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	12.1%	Market Cap:	\$382 M
Fair Value Price:	\$30	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	05/15/24
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date¹:	06/14/24
Dividend Yield:	4.7%	5 Year Price Target	\$38	Years Of Dividend Growth:	21
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Bar Harbor Bankshares (BHB) is a bank holding company. The company's operating subsidiary, Bar Harbor Bank & Trust, is a community bank, which offers a range of deposit, loan, and related banking products, as well as brokerage services provided through a third-party brokerage arrangement. In addition, the company offers trust and investment management services through this subsidiary, as well as wealth management services through its subsidiary Bar Harbor Wealth Management. Operating over 50 locations across Maine, New Hampshire, and Vermont, Bar Harbor Bank & Trust is headquartered in Bar Harbor, Maine since 1887 and has more than \$4.0 billion in assets. Bar Harbor is a \$382 million company.

Bar Harbor's strategy is focused on improving the customer relationship, non-interest income expansion, and reduction in non-interest expenses. The company is running a program to be well-positioned for future success. One of the initiatives is focusing on diversifying income and improving the balance sheet. Furthermore, the company will invest in process improvements, products, training, technology, and infrastructure in the coming years.

On April 18th, 2024, Bar Harbor released its first quarter 2024 results for the period ending March 31st, 2024. For the quarter, the company reported revenue of \$36.6 million. Net income of \$10.1 million, or \$0.66 per diluted share, compared to \$13.0 million, or \$0.86 per diluted share, in the same quarter of 2023. This change is attributed to factors like rising asset yields and a stable net interest income despite a challenging economic environment.

The company's total assets remained steady at \$4.0 billion, supported by commercial loan growth and a slight reduction in cash and securities. Commercial loans grew by 7% annually, driven primarily by increases in commercial real estate and industrial loans. The net interest margin decreased to 3.14% from 3.54% year-over-year, impacted by higher costs of funds even though the yield on loans increased. Non-interest income decreased slightly to \$8.6 million from \$9.2 million, with wealth management income showing modest growth. Non-interest expenses rose to \$23.7 million, driven mainly by increases in salaries, benefits, and marketing costs. The bank continued to demonstrate strong credit quality, with the non-accruing loans to total loans ratio slightly increasing to 0.23% from 0.18% at the end of the previous quarter, yet showing improvement from 0.26% year-over-year. The provision for credit losses significantly decreased to \$289,000, down from \$798,000 in the same quarter of the previous year, reflecting improved asset quality and effective credit risk management.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.63	\$1.67	\$1.63	\$1.70	\$2.12	\$1.45	\$2.18	\$2.61	\$2.88	\$2.95	\$2.70	\$3.45
DPS	\$0.60	\$0.67	\$0.73	\$0.75	\$0.79	\$0.86	\$0.88	\$0.94	\$1.04	\$1.12	\$1.20	\$1.61
Shares²	9	9	10	15	16	16	15	15	15	15	15	15

¹ Estimated date

² In millions.

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Bar Harbor has grown earnings by 6.8% per year over the past decade and 13.2% over the past five years. In 2019, one-time costs associated with the company's branch acquisition and balance sheet optimization initiatives impacted annual earnings by -\$0.46 per share. We expect earnings to increase by 5% per year for the next five years.

The company has been able to increase its yearly dividend payout for 21 consecutive years. Over the last five years, the average annual dividend growth rate is 6.9%. In April 2024, the quarterly dividend increased by 7.1% from \$0.28 to \$0.30 per share. The company's management confirmed its commitment to shareholders to maintain the dividend despite market uncertainty. The board authorized a buyback program of up to 5% of the total outstanding shares.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.1	13.5	22.0	17.2	13.2	17.2	9.6	10.8	10.8	10.0	9.4	11.0
Avg. Yld.	1.9%	3.0%	2.0%	2.6%	2.8%	3.5%	4.2%	3.3%	3.3%	4.0%	4.7%	4.2%

During the past decade shares of Bar Harbor have traded with an average price-to-earnings ratio of about 13.5 times earnings and today, it stands at 9.4. We are using 11 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.7% which is above the average yield over the past decade of 3.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	37%	40%	45%	44%	37%	59%	40%	36%	36%	38%	44%	47%

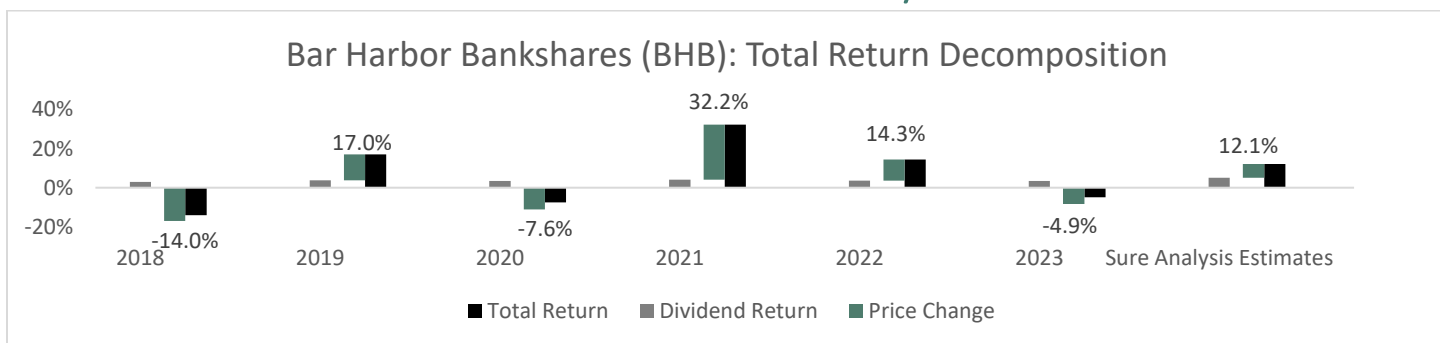
During the past five years, the company's dividend payout ratio has averaged around 41%. Bar Harbor's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at the same pace and keep the payout ratio around the same levels which is safe.

Bar Harbor Bank & Trust is the only community bank headquartered in Northern New England with branches in Maine, New Hampshire, and Vermont. The bank has a good track record in both earnings and dividend growth combined with a good dividend yield which makes the shares attractive for dividend investors. The company is well-positioned and has been able to create a strong loan pipeline and grow its loan portfolio while maintaining credit quality. Next to NIM, fee income is fundamental to the company's profitability through its trust and treasury management services. Looking forward, loan growth combined with strong risk management and further diversification of non-interest income sources is essential for Bar Harbor to continue its growth track record.

Final Thoughts & Recommendation

Bar Harbor Bankshares is a community bank stock with an above average dividend yield and a sound dividend payout ratio. We estimate total return potential of 12.1% per year for the next five years based on a 5% earnings-per-share growth, a 4.7% yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	51	54	58	118	119	119	142	138	149	154
SG&A Exp.	18	19	21	45	46	50	53	52	50	54
D&A Exp.	2	2	2	4	5	5	6	6	5	6
Net Profit	15	15	15	26	33	23	33	39	44	45
Net Margin	28.6%	28.2%	25.9%	22.0%	27.7%	19.0%	23.4%	28.5%	29.5%	29.2%
Free Cash Flow	14	18	12	37	33	21	14	59	55	41
Income Tax	6	6	6	17	8	4	8	9	11	12

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,459	1,580	1,755	3,565	3,608	3,669	3,724	3,709	3,910	3,971
Cash & Equivalents	10	10	8	91	99	57	226	250	92	95
Goodwill & Int.	5	5	5	108	108	127	127	126	125	124
Total Liabilities	1,313	1,426	1,599	3,211	3,238	3,273	3,317	3,285	3,516	3,539
Long-Term Debt	427	454	537	830	724	531	336	179	394	332
Total Equity	146	154	157	355	371	396	407	424	393	432
LTD/E Ratio	2.92	2.94	3.42	2.34	1.95	1.34	0.83	0.42	1.00	0.77

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.0%	0.9%	1.0%	0.9%	0.6%	0.9%	1.1%	1.1%	1.1%
Return on Equity	10.9%	10.1%	9.6%	10.2%	9.1%	5.9%	8.3%	9.5%	10.7%	10.9%
ROIC	2.7%	2.6%	2.3%	2.8%	2.9%	2.2%	4.0%	5.8%	6.3%	5.8%
Shares Out.	8.95	9.09	9.14	15.29	15.56	15.59	15.27	15.05	15.11	15.20
Revenue/Share	5.72	5.92	6.31	7.73	7.63	7.63	9.31	9.16	9.86	10.10
FCF/Share	1.51	2.03	1.37	2.43	2.12	1.34	0.91	3.91	3.65	2.69

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

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