C&F Financial Corporation (CFFI)

Updated April 28th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$39	**5 Year CAGR Estimate:**	11.3%	**Market Cap:**	$133 M
Fair Value Price:	$42	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	06/14/24
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Dividend Payment Date[1]:**	07/01/24
Dividend Yield:	4.5%	**5 Year Price Target**	$56	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

C&F Financial Corporation operates as a bank holding company for Citizens and Farmers Bank that provides banking services to individuals and corporates. C&F Bank operates in a decentralized manner in three business segments: community banking and wealth management through C&F Bank, mortgage banking through C&F Mortgage Corporation and consumer finance through C&F Finance Company. C&F Bank operates 31 banking offices and four commercial loan offices located throughout eastern and central Virginia. As of March 31st, 2024, C&F Financial Corp. had total assets of $2.47 billion, total loans of $1.79 billion, and total deposits of $2.09 billion. The company was founded in 1927, has 600 employees, and is headquartered in West Point, Virginia.

On April 19th, 2024, C&F Financial Corporation announced its first quarter results for the period ending March 31st, 2024. The first quarter showed consolidated net income of $3.4 million, a 47% decline compared to the $6.5 million reported in the first quarter of 2023. Earnings per share for the quarter were $1.01, down almost 46% compared to the $1.86 in the year-ago quarter.

C&F Financial Corporation's lower financial results were primarily driven by increased deposit costs and higher provisions for credit losses due to rising interest rates, impacting the net interest margin and overall profitability. Additionally, a significant decline in mortgage loan originations and rising operational costs further strained earnings. C&F Financial Corporation demonstrated robust growth in its community banking segment, with loans increasing by $67.7 million (21.3% annualized) and $143.3 million (12.0%) compared to the end of 2023 and the year-ago quarter, respectively. Deposits grew by $21.8 million (4.2% annualized) and $92.1 million (4.6%) over the same periods. The consumer finance segment showed modest growth with loans up by $7.6 million (6.5% annualized). The consolidated net interest margin declined to 4.09% from 4.52% a year earlier. The consumer finance segment faced increased credit losses, recording a $3.0 million provision for credit losses, and net charge-offs rose to an annualized rate of 2.54%. The mortgage banking segment saw a significant decline in loan originations, dropping 18.5% to $94.3 million due to decreased refinancing and home purchase activity. As of March 31st, 2024, C&F Financial Corporation maintained strong capital adequacy, with a Common Equity Tier 1 (CET1) capital ratio of 12.6%, exceeding regulatory requirements and affirming its solid financial resilience alongside a capital conservation buffer of an additional 2.5% of risk-weighted assets. Despite the pressures on net interest margins due to rising deposit costs and the higher interest rate environment, the company remains optimistic about its strategic opportunities for the rest of 2024 and beyond.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.59	$3.68	$3.89	$1.88	$5.15	$5.47	$6.06	$7.95	$8.29	$6.92	***$6.00***	***$8.03***
DPS	$1.19	$1.22	$1.29	$1.33	$1.41	$1.49	$1.52	$1.58	$1.64	$1.76	***$1.76***	***$2.36***
Shares[2]	3	3	3	4	4	3	4	4	3	3	***3***	***3***

The company has grown earnings by 8% per year since 2014 and 1.9% over the past five years. The drop in earnings for C&F Financial Corporation in 2017 can be attributed to the effect of the Tax Cuts and Jobs Act, which permanently

[1] Estimated date
[2] In millions.

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.

lowered the federal corporate income tax rate to 21% from the previous maximum rate of 35%. In the case of C&F Financial Corporation, this resulted in a $6.6 million reduction in the value of its net deferred tax asset and a corresponding incremental income tax expense of $6.6 million. This significantly impacted the corporation's earnings for that year and especially the fourth quarter of 2017. We expect earnings to increase by 6% per year for the next five years. The company has been able to increase its yearly dividend payout for 13 consecutive years.

Over the last five years, the average annual dividend growth rate is 4.5%. In February 2023, the company increased its quarterly dividend by 4.8% from $0.42 to $0.44 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.9	9.9	10.8	26.9	11.0	9.4	6.0	6.1	6.2	7.5	***6.5***	***7.0***
Avg. Yld.	1.9%	3.3%	3.1%	2.6%	2.5%	2.9%	4.2%	3.3%	3.2%	3.0%	***4.5%***	***4.2%***

During the past decade shares of C&F Financial Corporation have traded with an average price-to-earnings ratio of about 10.4 times earnings and today, it stands at 6.5. We are using 7.0 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.5%, which is above the average yield over the past decade of 3.1%. During the reporting quarter, C&F Financial Corporation repurchased 9,654 shares for $0.5 million.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	33%	33%	71%	27%	27%	25%	20%	20%	25%	**29%**	**29%**

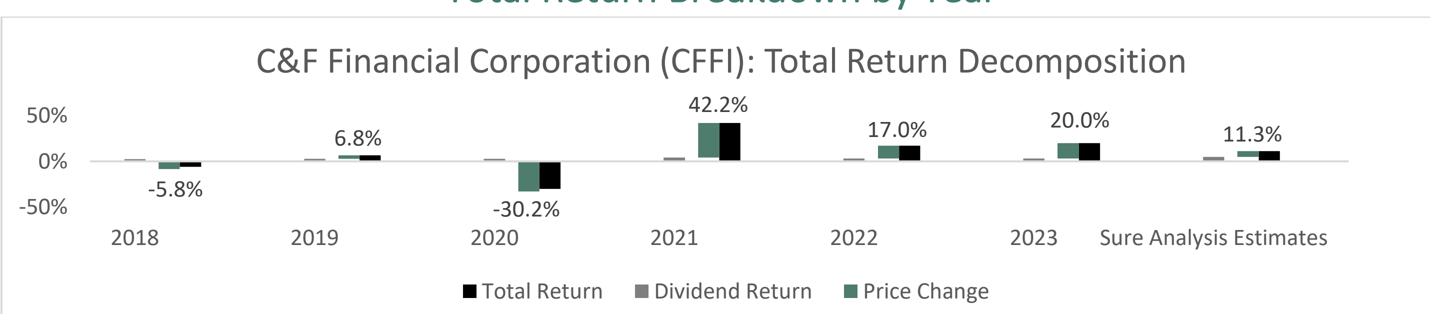
During the past five years, the company's dividend payout ratio has averaged around 24%. C&F Financial Corporation's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe. Management is targeting a 20% to 30% dividend payout ratio.

C&F Financial Corporation is a typical regional bank with a well-diversified revenue and income business model. The company operates in three distinct segments: mortgage banking, consumer finance, and community banking. By having a presence in these different segments, C&F Financial Corporation can mitigate risks associated with changes in the economy. For example, when interest rates rise and impact loan originations and borrowing costs in the mortgage banking and consumer finance segments, the community banking segment can help offset the negative effects by generating higher earnings.

Final Thoughts & Recommendation

C&F Financial Corporation is a well-established regional bank with a positive earnings track record and a dividend yield of 3.0%. We estimate total return potential of 11.3% per year for the next five years based on a 6% earnings-per-share growth, the dividend yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

C&F Financial Corporation (CFFI)

Updated April 28th, 2024, by Patrick Neuwirth

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	97	99	107	107	106	110	135	131	120	126
SG&A Exp.	44	47	53	47	46	52	62	63	52	61
D&A Exp.	3	3	3	3	4	4	4	5	4	4
Net Profit	12	13	13	7	18	19	22	29	29	24
Net Margin	12.7%	12.6%	12.6%	6.1%	16.9%	17.1%	16.4%	21.8%	24.2%	19.0%
Free Cash Flow	32	14	24	22	44	(17)	(91)	153	87	37
Income Tax	5	5	4	11	5	5	7	9	8	5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,338	1,405	1,452	1,509	1,521	1,657	2,086	2,265	2,332	2,438
Cash & Equivalents	168	153	103	119	115	165	87	268	27	75
Acc. Receivable	6	7	7	8	7	7	8	7	9	10
Goodwill & Int.	17	16	17	16	16	15	27	27	27	27
Total Liabilities	1,215	1,274	1,313	1,367	1,369	1,492	1,892	2,053	2,136	2,221
Accounts Payable	1	1	1	1	1	1	1	1	1	3
Long-Term Debt	167	177	165	168	160	161	76	90	92	110
Total Equity	124	131	139	142	152	165	194	210	196	217
LTD/E Ratio	1.35	1.35	1.18	1.18	1.05	0.98	0.39	0.43	0.47	0.51

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	0.9%	0.9%	0.4%	1.2%	1.2%	1.2%	1.3%	1.3%	1.0%
Return on Equity	10.4%	9.8%	10.0%	4.7%	12.3%	11.9%	12.3%	14.2%	14.4%	11.4%
ROIC	4.3%	4.2%	4.4%	2.1%	5.8%	5.9%	7.4%	10.0%	9.9%	7.7%
Shares Out.	3	3	3	4	4	3	4	4	3	3
Revenue/Share	28.34	29.12	30.82	30.75	30.40	31.94	36.97	36.46	34.19	37.01
FCF/Share	9.42	3.98	7.02	6.19	12.62	(5.02)	(24.83)	42.34	24.78	10.95

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