Civista Bancshares (CIVB)

Published May 27th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$15	**5 Year CAGR Estimate:**	9.8%	**Market Cap:**	$231 M
Fair Value Price:	$18	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date[1]:**	8/5/24
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	8/20/24
Dividend Yield:	4.3%	**5 Year Price Target**	$20	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Civista Bancshares is a financial services holding company that is headquartered in Sandusky, Ohio. Its primary subsidiary, Civista Bancshares, was founded in 1884 and provides banking, commercial lending, mortgage, wealth management, and commercial equipment leasing services. It has 43 branches across Ohio, Southeastern Indiana and Northern Kentucky and has a market capitalization of $231 million. Civista Bancshares is the 10th largest publicly traded commercial bank headquartered in Ohio.

Civista Bancshares has some attractive characteristics. It gathers low-cost deposits and generates loans in attractive markets, including the 5 largest metropolitan areas in Ohio. It also has an experienced management team, with an average banking experience of 31 years. However, the bank has been under pressure since early 2022 due to the surge of interest rates to a 16-year high. This surge caused large unrealized losses in the fixed-income portfolio of the bank and thus it caused the tangible book value per share to plunge -30%, from $18.11 in 2021 to $12.61 in 2022. This helps explain the vast underperformance of the stock vs. the S&P 500 over the last five years (-35% vs. +87%).

In late April, Civista Bancshares reported (4/30/24) results for the first quarter of 2024. Net interest income dipped -13% over the prior year's quarter, as net interest margin shrank from 3.99% to 3.22% due to higher costs of deposits amid heating competition among banks. In addition, non-interest income dipped due to the exit of the bank from the tax refund business. As a result, earnings-per-share plunged -50%, from $0.82 to $0.41, and missed the analysts' consensus by $0.05. We expect an approximate -36% decrease in earnings-per-share this year due to the above headwinds.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.85	$1.17	$1.57	$1.28	$1.02	$2.01	$2.00	$2.63	$2.60	$2.73	***$1.75***	***$2.03***
DPS	$0.19	$0.20	$0.22	$0.25	$0.32	$0.42	$0.44	$0.52	$0.56	$0.61	***$0.64***	***$0.80***
Shares[2]	7.7	7.8	8.0	9.9	12.0	15.6	16.1	15.3	15.0	15.2	***15.7***	***16.0***

Civista Bancshares has acquired six smaller banks since 2007. As a result, it has grown its loans by 12% per year on average and its deposits by 15% per year on average since 2018. The bank has also grown its earnings-per-share by 8.2% per year on average over the last seven years. However, it is currently going through a downturn due to the surge of interest rates, which has compressed the net interest margin of the bank via higher deposit costs. We expect interest rates to moderate in the upcoming years, roughly in line with the guidance of the Fed. Therefore, we expect Civista Bancshares to partly recover and grow its earnings-per-share by 3% per year on average over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.7	9.1	8.5	16.7	22.5	10.7	8.0	8.7	8.7	6.4	***8.6***	***10.0***
Avg. Yld.	2.1%	1.9%	1.7%	1.2%	1.4%	2.0%	2.8%	2.3%	2.5%	3.5%	***4.3%***	***3.9%***

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[1] Estimated date.

[2] In millions.

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Excluding 2018, in which a temporary plunge in earnings caused an abnormally high price-to-earnings ratio, Civista Bancshares has traded at an average price-to-earnings ratio of 10.0 over the last decade. Given the risk related to the small market cap of the bank, we view this as a fair valuation level. The stock is currently trading at a price-to-earnings ratio of 8.6, primarily due to the impact of 16-year high interest rates on its net interest margin and the present value of future earnings. We expect the stock to revert to its average valuation level over the next five years. In such a case, the stock will enjoy a 3.1% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	22%	17%	14%	20%	31%	21%	22%	20%	22%	22%	***37%***	***39%***

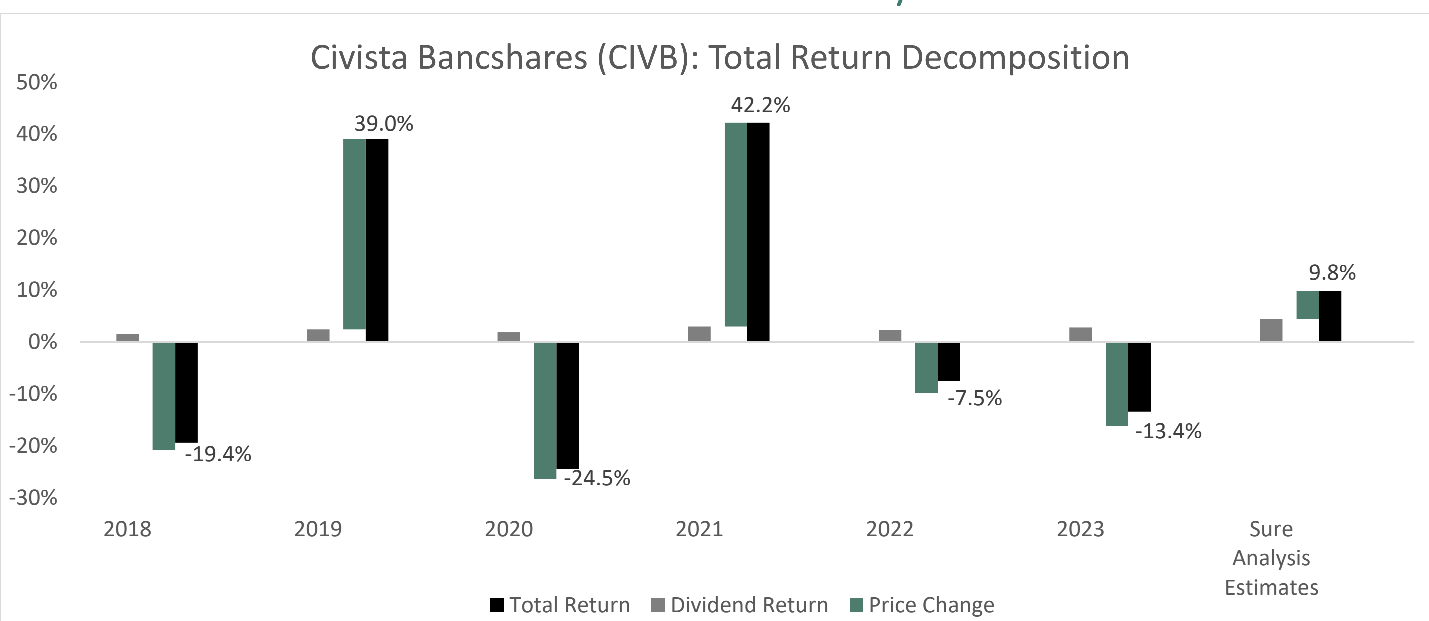
Civista Bancshares has an experienced management, with an average tenure of 31 years, and enjoys lower-cost deposits than the average bank. It has grown its dividend for 11 consecutive years and is offering a 4.3% yield, which is higher than the 3.5% median dividend yield of the financial sector. In addition, Civista Bancshares has grown its dividend by 11% per year on average over the last five years and has a healthy payout ratio of 37%, which provides room for meaningful dividend hikes in the upcoming years.

On the other hand, the bank is highly sensitive to the path of interest rates. The -30% plunge in tangible book value per share in 2022 due to the surge of interest rates is a testament to the high sensitivity of the bank to downturns of the financial sector. While we believe that the worse is behind the bank regarding the surge of interest rates, investors should be aware of the vulnerability of the bank to downturns.

Final Thoughts & Recommendation

Civista Bancshares has vastly underperformed the S&P 500 over the last five years due to the impact of 16-year high interest rates on the net interest margin of the bank and its valuation, as high interest rates reduce the present value of future earnings. However, we expect interest rates to deflate in the upcoming years. In such a case, the bank could offer a 9.8% average annual return over the next five years thanks to 3.0% earnings-per-share growth, its 4.3% dividend and a 3.1% annualized valuation tailwind. The stock receives a hold rating but it is on the verge of earning 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	55	61	66	70	83	106	116	125	137	160
SG&A Exp.	26	27	28	33	47	44	44	47	53	61
D&A Exp.	2	2	2	2	2	3	3	3	6	12
Net Profit	10	13	17	16	14	34	32	41	39	43
Net Margin	17.3%	20.9%	26.2%	22.7%	17.0%	32.1%	27.7%	32.6%	28.8%	26.8%
Free Cash Flow	14	13	15	20	18	36	31	39	19	59
Income Tax	3	5	7	6	3	6	5	8	8	8

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,213	1,315	1,377	1,526	2,139	2,310	2,769	3,013	3,639	3,861
Cash & Equivalents	30	36	37	41	43	49	128	255	45	62
Goodwill & Int. Ass.	24	30	29	28	86	85	85	84	136	135
Total Liabilities	1,097	1,190	1,240	1,341	1,840	1,979	2,419	2,658	3,305	3,489
Long-Term Debt	95	101	78	101	223	256	154	179	618	454
Shareholder's Equity	93	103	119	167	290	330	350	355	335	372
LTD/E Ratio	0.82	0.80	0.57	0.55	0.75	0.78	0.44	0.50	1.85	1.22

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	1.0%	1.3%	1.1%	0.8%	1.5%	1.3%	1.4%	1.2%	1.1%
Return on Equity	7.8%	10.6%	13.1%	9.9%	5.9%	10.8%	9.5%	11.5%	11.4%	12.2%
ROIC	4.7%	5.8%	7.8%	6.3%	3.5%	6.1%	5.9%	7.8%	5.3%	4.8%
Shares Out.	7.7	7.8	8.0	9.9	12.0	15.6	16.1	15.3	15.0	15.2
Revenue/Share	5.04	5.59	6.01	5.67	6.00	6.27	7.22	8.12	9.15	10.57
FCF/Share	1.32	1.20	1.39	1.60	1.31	2.11	1.91	2.53	1.25	3.91

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