First Financial Bankshares, Inc. (FFIN)

Updated May 23rd, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$4.4 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	06/14/2024
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Dividend Payment Date:**	07/01/2024
Dividend Yield:	2.4%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	14
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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 April 18th, 2024, the company announced results for the first quarter of 2024. FFIN reported non-GAAP EPS of $0.37, beating the market's estimates by $0.02, and revenues of $129.63 million were up 4.3% year-over-year.

Among other key earning metrics, net interest income increased by $3.96 million, and credit loss provisions dropped by $1.97 million. Trust fees increased by $1.53 million. However, the benefits of this growth were partially neutralized by an increase in salaries and employee benefit expenses of $5.22 million.

The CEO highlighted the bank's organic growth in loans and deposits and the strategic management of its bond portfolio. These measures were designed to increase liquidity and support future growth, a testament to our forward-thinking approach. The CEO also reassured shareholders and potential investors that the bank appears to be in sound financial shape, boasting strong regulatory capital ratios and a well-diversified base of deposits. The net interest margin remained flat on the quarter at 3.34%, with noninterest income up slightly, indicating our ability to maintain a stable income stream. Despite a slight increase in the nonperforming asset-to-lending ratio to 0.51%, the bank continues to maintain a good credit profile, a testament to our prudent lending practices.

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	***$1.47***	***$2.06***
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 of $1.47 in 2024 and 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 $2.06 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 consistently increased dividend distributions to shareholders for the past 14 years, and we expect it to continue this track.

[1] 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.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.5	19.9	21.8	23.6	24.4	26.1	21.4	29.8	25.3	21.1	***20.4***	***20.0***
Avg. Yld.	1.9%	2.0%	2.0%	1.8%	1.5%	1.5%	1.7%	1.2%	1.6%	2.4%	***2.4%***	***2.8%***

First Financial Bankshares is trading at a forward P/E of 20.4, lower than its long-term average P/E of around 23.5. Considering the banking sector's fears, the lower multiple is justifiable. Even though our FFIN thesis remains intact, we believe that a P/E multiple of 20.0 fairly reflects the bank's risk/reward profile, suggesting a target price of $41 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

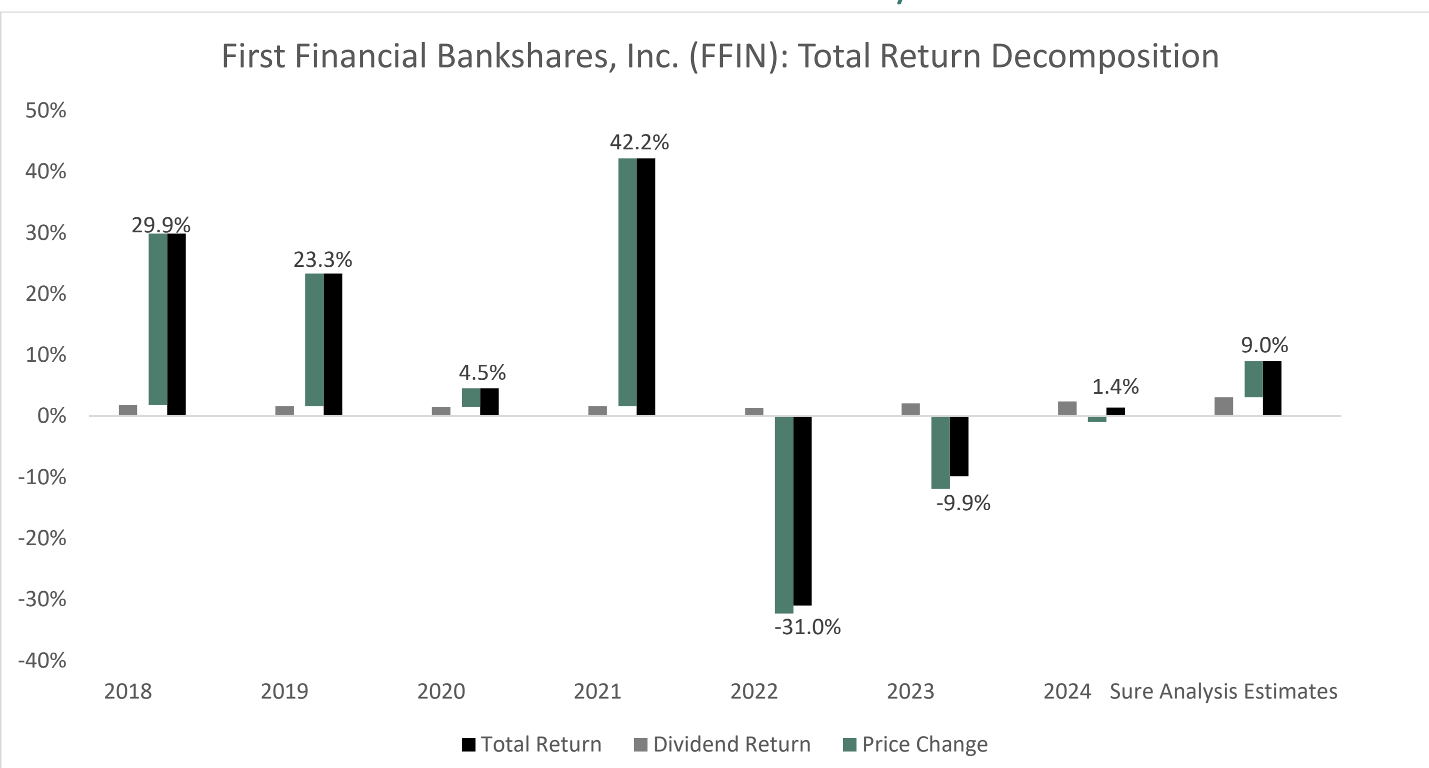
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	40%	40%	44%	42%	37%	39%	36%	36%	40%	51%	***49%***	***56%***

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 concerns in the banking sector, the stock has gained 19% since our last report. Thus, we reaffirm our hold rating, premised upon the 9.0% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 2.4% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	253	284	304	319	364	387	478	500	520	478
SG&A Exp.	81	88	99	103	114	122	141	151	143	145
D&A Exp.	9	11	12	13	13	12	13	13	13	13
Net Profit	90	100	105	120	151	165	202	228	234	199
Net Margin	35.4%	35.4%	34.5%	37.7%	41.3%	42.6%	42.3%	45.6%	45.1%	41.6%
Free Cash Flow	114	92	140	176	169	194	194	334	308	268
Income Tax	29	31	31	27	28	33	40	44	46	44

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,848	6,665	6,810	7,255	7,732	8,262	10,905	13,102	12,974	13,110
Cash & Equivalents	262	273	255	374	250	279	729	529	331	537
Goodwill & Int.	97	144	144	141	175	174	318	317	316	315
Total Liabilities	5,167	5,860	5,972	6,332	6,679	7,035	9,226	11,343	11,708	11,610
Long-Term Debt	1	299	75	-	55	-	-	21	21	21
Total Equity	682	805	838	923	1,053	1,227	1,678	1,759	1,266	1,499
LTD/E Ratio	0.00	0.37	0.09	-	0.05	-	-	0.01	0.02	0.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.6%	1.6%	1.6%	1.7%	2.0%	2.1%	2.1%	1.9%	1.8%	1.5%
Return on Equity	14.1%	13.5%	12.8%	13.7%	15.2%	14.5%	13.9%	13.2%	15.5%	14.4%
ROIC	10.3%	11.2%	10.4%	13.1%	14.8%	14.1%	13.9%	13.2%	15.3%	14.2%
Shares Out.	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2	143
Revenue/Share	1.97	2.18	2.30	2.41	2.68	2.84	3.35	3.49	3.63	3.34
FCF/Share	0.89	0.70	1.06	1.33	1.24	1.42	1.36	2.33	2.15	1.87

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