# Bar Harbor Bankshares (BHB)

*Updated July 20th, 2024, by Patrick Neuwirth*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $30 | **5 Year CAGR Estimate:** | 10.1% | **Market Cap:** | $450 M |
| **Fair Value Price:** | $32 | **5 Year Growth Estimate:** | 5.0% | **Ex-Dividend Date[1]:** | 08/15/24 |
| **% Fair Value:** | 93% | **5 Year Valuation Multiple Estimate:** | 1.6% | **Dividend Payment Date[1]:** | 09/13/24 |
| **Dividend Yield:** | 4.0% | **5 Year Price Target** | $41 | **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 $450 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 July 18th, 2024, Bar Harbor released its second quarter 2024 results for the period ending June 30th, 2024. For the quarter, the company reported revenue of $37.4 million. Net income was $10.3 million, or $0.67 per diluted share, compared to $10.8 million, or $0.71 per diluted share, in the same quarter of 2023. This change is attributed to factors such as the increased costs of funds by 65 basis points to 2.64%, despite a rise in asset yields by 41 basis points to 5.18%, and a decrease in net interest margin by 13 basis points in a competitive economic environment. The company's total assets grew to $4.03 billion, supported by a significant increase in commercial loans and higher cash balances. Commercial loans grew by 14% annually, driven primarily by increases in commercial real estate and industrial loans. The net interest margin decreased to 3.09% from 3.22% year-over-year, impacted by the higher costs of funds even though the yield on loans increased. Non-interest income increased slightly to $9.6 million from $9.0 million, with trust and wealth management fee income showing a notable growth of 14%. Non-interest expenses rose to $24.0 million, driven mainly by increases in salaries, benefits, and other operating expenses. The bank continued to demonstrate strong credit quality, with the non-accruing loans to total loans ratio decreasing to 0.20% from 0.23% at the end of the previous quarter and showing improvement from 0.22% year-over-year. The provision for credit losses decreased to $585,000, down from $750,000 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*** |
| Shares[2] | 9 | 9 | 10 | 15 | 16 | 16 | 15 | 15 | 15 | 15 | ***15*** | ***15*** |

[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.*

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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 | ***11.1*** | ***12.0*** |
| Avg. Yld. | 1.9% | 3.0% | 2.0% | 2.6% | 2.8% | 3.5% | 4.2% | 3.3% | 3.3% | 4.0% | ***4.0%*** | ***3.9%*** |

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 11.1. We are using 12 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.0% 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%*** |

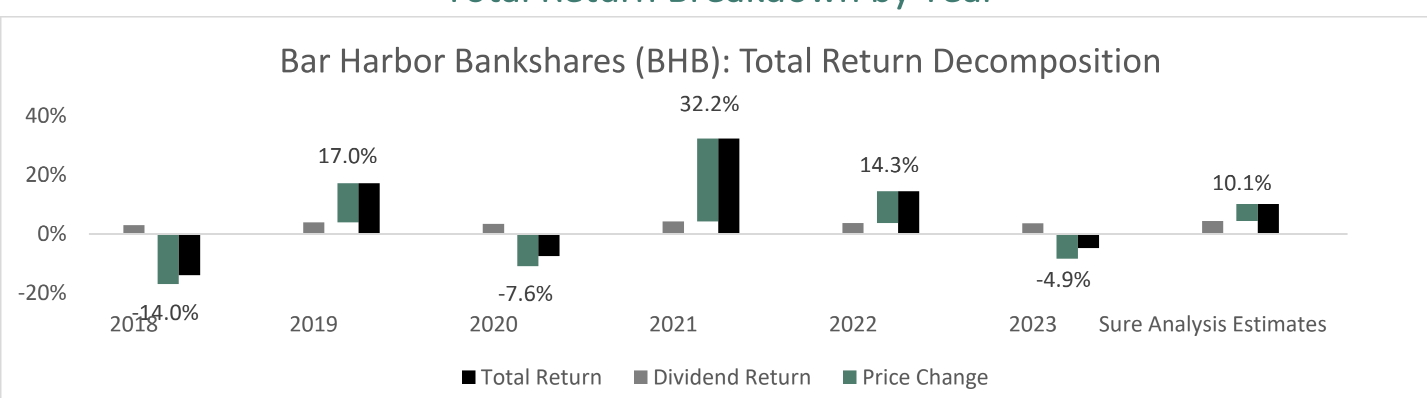
During the past five years, the company's dividend payout ratio has averaged around 41%. Bar Harbor's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at the same pace and keep the payout ratio around the same levels which 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 10.1% per year for the next five years based on a 5% earnings-per-share growth, a 4.0% 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.*