



Premier Financial Corp. (PFC)

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Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	13.2%	Market Cap:	\$702 M
Fair Value Price:	\$24	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:¹	8/1/24
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	8/9/24
Dividend Yield:	6.2%	5 Year Price Target	\$30	Years Of Dividend Growth:	12
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Premier Financial, which is headquartered in Defiance, Ohio, is the holding company for Premier Bank, a community banking and financial services company that was founded in 1920. Premier Bank is a regional bank with 73 branches and 9 loan production offices throughout northern Ohio, southeast Michigan, northeast Indiana and western Pennsylvania. Premier Financial has a market capitalization of \$702 million.

In 2022, Premier Financial was ranked 28th in S&P Global Market Intelligence's Top 50 Community Banks. Just like most regional banks, Premier Financial generates most of its earnings from net interest income and hence it is highly sensitive to the underlying interest rates. In other words, its earnings are largely determined from the difference between loan rates and deposit costs. In the last 12 months, net interest income has comprised 70% of the total revenue of the bank.

In late April, Premier Financial reported (4/23/24) financial results for the first quarter of fiscal 2024. Deposits grew 2% during the first quarter but loans decreased -3%. Net interest margin contracted from 2.90% in last year's quarter to 2.50% due to increased deposit costs amid heated competition among banks. As a result, net interest income decreased -12%. Nevertheless, thanks to an increase in non-interest income and a decrease in non-interest expense, earnings-per-share declined just -2%, from \$0.51 to \$0.50, and exceeded the analysts' consensus by \$0.03. Management emphasized the great pressure that 16-year high interest rates exert on the net interest margin of the bank. As this headwind is unlikely to subside meaningfully this year, we expect a -16% decrease in earnings-per-share this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.22	\$1.41	\$1.60	\$1.61	\$2.26	\$2.48	\$1.75	\$3.39	\$2.85	\$2.44	\$2.05	\$2.62
DPS	\$0.31	\$0.39	\$0.44	\$0.50	\$0.64	\$0.79	\$0.88	\$1.05	\$1.20	\$1.24	\$1.24	\$1.48
Shares²	19.9	18.7	18.1	20.1	20.5	19.9	35.9	37.2	35.8	35.8	35.8	36.0

Premier Financial consistently grew its earnings over the last decade, until 2022, when interest rates began to surge amid high inflation. If the bank meets our forecast for earnings-per-share of \$2.05 this year, it will have grown its earnings-per-share by 5.3% per year on average over the last decade. Just like most banks, Premier Financial is facing pressure on its net interest margin due to rising deposit costs, which have resulted from 16-year high interest rates. On the bright side, the Fed expects to reduce interest rates from 5.25%-5.5% to 2.75%-3.0% after 2026. As a result, the net interest margin of Premier Financial is likely to expand in the upcoming years. Given the somewhat low comparison base this year, we expect 5.0% average annual growth of earnings-per-share until 2029, in line with the historical growth rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.5	12.8	13.0	16.0	13.0	11.7	11.3	8.9	9.9	8.1	9.8	11.6
Avg. Yld.	2.2%	2.2%	2.1%	1.9%	2.2%	2.7%	4.5%	3.5%	4.3%	6.3%	6.2%	4.9%

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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Premier Financial has traded at an average price-to-earnings ratio of 11.6 over the last decade. We assume this valuation level as fair for this stock. Premier Financial is currently trading at a price-to-earnings ratio of 9.8. If it trades at its fair valuation level in five years, it will enjoy a 3.5% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	28%	28%	31%	28%	32%	50%	31%	42%	51%	60%	57%

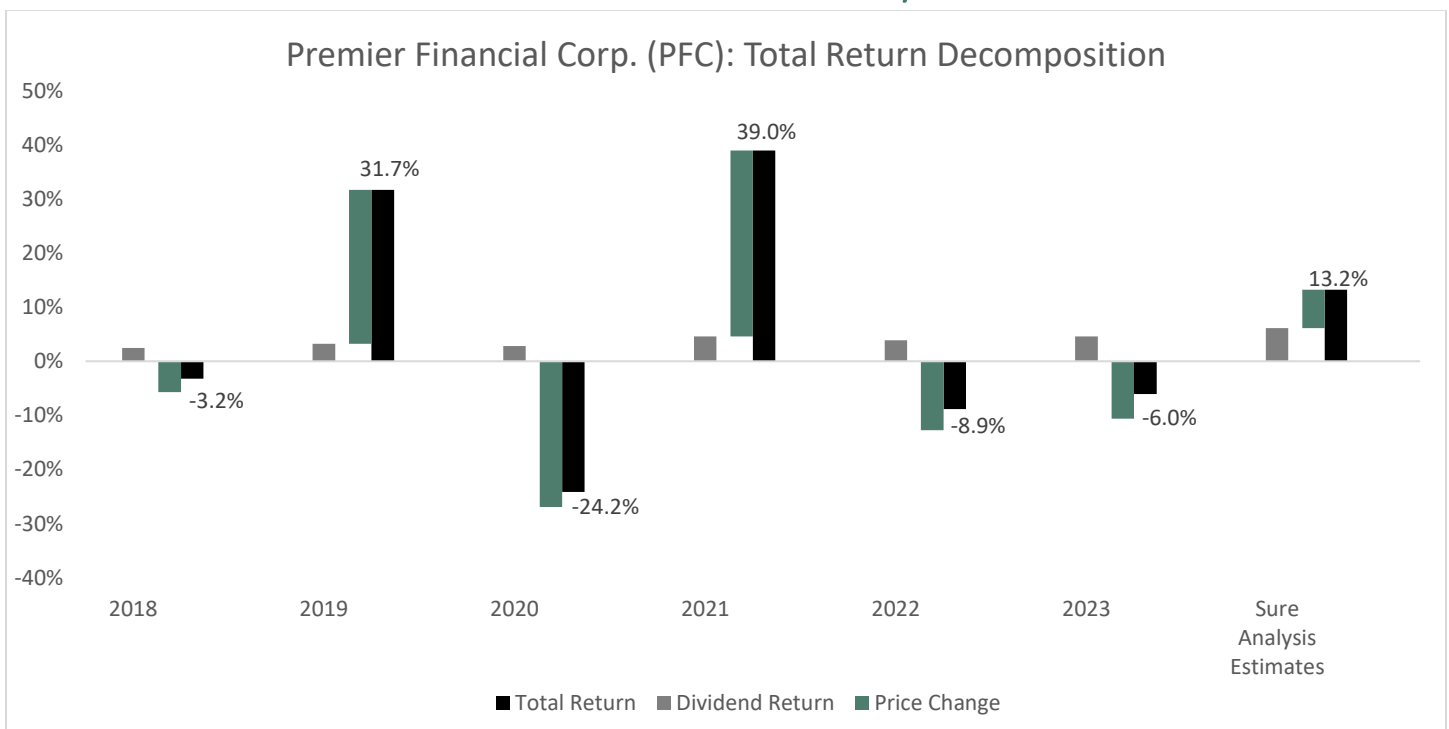
Premier Financial has raised its dividend for 12 consecutive years. It is also offering a nearly 10-year high dividend yield of 6.2%, which is much higher than the 3.6% median dividend yield of the financial sector. However, the bank is facing pressure due to the impact of high interest rates on its deposit costs. As a result, payout ratio has climbed to a decade-high of 60%. Nevertheless, as the Fed expects to significantly reduce interest rates in the upcoming years, the worse seems to be behind the bank in reference to interest rates. Overall, the dividend appears safe in the absence of a severe downturn.

Premier Financial has a healthy tier 1 capital ratio of 12.5% and has posted decent net loan charge-offs of 0.27% so far this year. However, the bank is far from resilient to downturns. It incurred a -29% decrease in earnings-per-share in 2020 due to the pandemic and a -28% decrease in earnings-per-share between 2021 and 2023 due to the surge of interest rates. We also note its pronounced underperformance vs. the S&P 500 over the last five years (-31% vs. +86%). Overall, Premier Financial is offering an attractive dividend but it is vulnerable to unexpected downturns.

Final Thoughts & Recommendation

Premier Financial has been severely hurt by the impact of high interest rates on its net interest margin but the worse is probably behind the bank. The company is likely to begin to recover next year from this downturn. We expect the stock to offer a 13.2% average annual return over the next five years thanks to 5.0% growth of earnings-per-share, its 6.2% dividend and a 3.5% valuation tailwind. The stock receives 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	95	99	105	129	140	151	259	284	295	301
SG&A Exp.	46	48	51	62	66	69	97	95	103	100
D&A Exp.	5	6	6	6	6	7	28	15	14	15
Net Profit	19	20	22	25	39	40	35	104	92	105
Net Margin	19.6%	19.9%	20.5%	19.5%	27.9%	26.5%	13.5%	36.7%	31.3%	34.8%
Free Cash Flow	25	29	25	33	49	37	(61)	162	175	70
Income Tax	9	11	13	16	11	11	16	30	24	28

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,179	2,298	2,478	2,993	3,182	3,469	7,212	7,481	8,455	8,626
Cash & Equivalents	42	39	53	59	56	46	159	162	128	115
Goodwill & Int. Ass.	73	73	73	114	113	114	361	362	358	326
Total Liabilities	1,899	2,017	2,185	2,620	2,782	3,043	6,229	6,458	7,568	7,650
Long-Term Debt	58	96	140	120	121	121	85	85	513	365
Shareholder's Equity	280	280	293	373	400	426	982	1,023	888	976
LTD/E Ratio	0.21	0.34	0.48	0.32	0.30	0.28	0.09	0.08	0.58	0.37

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	0.9%	0.9%	0.9%	1.3%	1.2%	0.7%	1.4%	1.2%	1.2%
Return on Equity	6.8%	7.0%	7.5%	7.6%	10.1%	9.7%	5.0%	10.4%	9.7%	11.2%
ROIC	5.6%	5.5%	5.3%	5.5%	7.7%	7.5%	4.3%	9.6%	7.4%	7.6%
Shares Out.	19.9	18.7	18.1	20.1	20.5	19.9	35.9	37.2	35.8	35.8
Revenue/Share	4.78	5.27	5.83	6.45	6.85	7.56	7.21	7.64	8.23	8.40
FCF/Share	1.26	1.54	1.38	1.63	2.39	1.83	(1.70)	4.36	4.87	1.96

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

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