TriCo Bancshares (TCBK)

Updated July 26th, 2024, by Kody Kester

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$1.6B
Fair Value Price:	$47	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	09/06/24
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	09/20/24
Dividend Yield:	2.8%	**5 Year Price Target**	$62	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Since its founding in 1975, TriCo Bancshares has blossomed into a major community bank in California. The company operates as the holding company for Tri Counties Bank. As of March 31, 2024, TCBK's asset base was $9.9 billion.

The Chico, California-based bank has nearly six dozen bank branch locations throughout the Golden State in 31 counties. These locations are as far north as Yreka (in Siskiyou County bordering Oregon) and as far south as San Diego.

The company provides a wide variety of personal, small business, and commercial banking services to the communities that it serves. These include personal checking and savings accounts, residential and commercial mortgage loans, auto loans, personal loans, agricultural loans, and real estate construction loans. TCBK also offers safe deposit boxes, treasury management services, and brokerage services through an arrangement with Raymond James Financial Services, Inc. Advanced online/mobile banking, ~40,000 surcharge-free ATMs nationwide, and banker support by phone 7 days a week make the bank an appealing option for new and existing customers alike.

It's also worth noting that the bank has a corporate history of being a measured and opportunistic acquirer. In July 2018, the company acquired FNB Bancorp. At the time, this further complemented TCBK's presence in Northern California and added $1.2 billion to its asset base. In March 2022, the company also acquired Valley Republic Bancorp and its $1.4 billion in assets. The rationale for this deal was that it expanded TCBK's lending capabilities and product offerings.

On July 25th, 2024 TCBK shared its financial results for the second quarter ended June 30th, 2024. Net interest income decreased by 7.5% over the year-ago period to $82 million in the quarter. The company's average cost of deposits rose as fewer customers had deposits in non-interest-bearing accounts. This is what pushed the net interest margin lower by 28 basis points to 3.68% over the year-ago period during the quarter. The good news is that this was offset by much lower provisions for credit losses for the quarter. That is what led TCBK's diluted EPS to rise by 16% year-over-year to $0.87 in the quarter. This was $0.09 greater than the analyst consensus during the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.46	$1.90	$1.94	$2.21	$2.54	$3.00	$2.16	$3.94	$3.83	$3.52	***$3.21***	***$4.30***
DPS	$0.44	$0.52	$0.60	$0.66	$0.70	$0.82	$0.88	$1.00	$1.10	$1.20	***$1.32***	***$1.77***
Shares[2]	22.7	22.8	22.9	23.0	30.4	30.5	29.7	29.7	33.3	33.3	***33.0***	***35.7***

Like most community banks, the macro environment has pressured TCBK's diluted EPS in recent years. Fortunately, the company's turnaround appears to already be in progress. TCBK's net interest margin remained steady sequentially versus the Q1 figure of 3.68%. The company's PCLs were also down 90.6% sequentially. That's how TCBK's diluted EPS improved sequentially from $0.83 to $0.87. Given the trajectory of net interest margin and PCLs, management thinks this will continue into the second half of 2024. This is why we're reiterating our expectations of 6% annual diluted EPS growth over the medium term.

[1] Estimate

[2] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	16.7	14.4	17.6	17.2	13.2	13.4	16.3	10.9	13.3	12.2	***15.0***	***14.5***
Avg. Yld.	1.8%	1.9%	1.8%	1.7%	2.1%	2.0%	2.5%	2.3%	2.2%	2.8%	***2.8%***	***2.8%***

Since our last update, TCBK's P/E ratio has climbed from just below 14 to 15 now. For context, the bank's valuation multiple has widely varied in the past 10 years, from the low- double-digits to the high teens. The company's P/E ratio has averaged 14.5 since 2014. Looking ahead, we still believe that this remains a sensible estimate of the company's fair value. That's because, adjusting for the current operating environment, TCBK's growth prospects should hold up versus past years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	27%	31%	30%	28%	27%	41%	25%	29%	34%	***41%***	***41%***

As alluded to earlier, TCBK's sheer number of surcharge-free ATMs that are within its network and its top-notch mobile app are factors that help it competitively. So, the bank not only stands out among community bank peers but can even give regional and national banks a run for their money.

Like its peers, TCBK experienced difficulties during the Great Recession. The company's diluted EPS plunged from $1.64 in 2006 and bottomed out in 2010 at $0.37. It wasn't until 2013 that diluted EPS advanced beyond pre-Great Recession levels. That prompted the company to cut its payout by 30.8% from $0.52 in 2009 to $0.36 in 2011 and 2012.

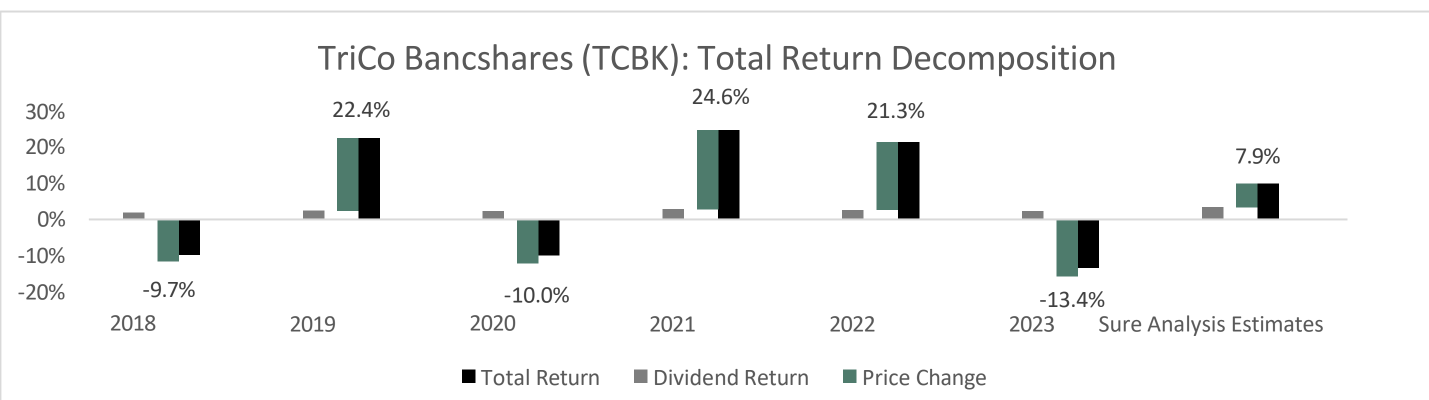
Since that time, though, TCBK has consistently grown its payout. The company is far from immune to the risk of another dividend cut. However, it is in a better position to weather an economic downturn in the future. This is because the payout ratio will be around 41% in 2024.

Considering that this year is expected to be a trough year for diluted EPS, this provides TCBK with a sizable buffer to protect against an unexpected deterioration in earnings. As of June 30, the company also maintained $4.2 billion in liquidity. This comfortably covered estimated uninsured deposits, with a coverage ratio of 170%.

Final Thoughts & Recommendation

TCBK's 2.8% dividend yield, 6% annual diluted EPS growth potential, and 0.7% annual valuation multiple contraction could deliver 7.9% annual total returns over the next five years. TCBK's rally in recent days has pushed its valuation multiple to a less compelling level. So, we're maintaining our hold rating currently.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	148	197	208	220	260	305	308	329	403	411
SG&A Exp.	62	78	85	87	99	112	115	109	134	139
D&A Exp.	6	7	8	8	11	17	18	17	18	19
Net Profit	26	44	45	41	68	92	65	118	125	117
Net Margin	17.6%	22.2%	21.6%	18.4%	26.3%	30.1%	21.1%	35.7%	31.2%	28.6%
Free Cash Flow	23	49	37	40	84	99	112	129	159	134
Income Tax	19	29	28	37	25	35	23	46	48	44

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,916	4,221	4,518	4,761	6,352	6,471	7,640	8,615	9,931	9,910
Cash & Equivalents	611	303	306	205	228	277	670	768	107	99
Accounts Receivable	9	11	12	14	19	19	20	19	32	37
Goodwill & Int. Ass.	79	78	80	76	250	244	239	233	321	315
Total Liabilities	3,498	3,769	4,041	4,256	5,525	5,565	6,714	7,615	8,885	8,750
Accounts Payable	1	1	1	1	2	2	1	1	1	8
Long-Term Debt	66	69	74	179	73	76	85	108	366	734
Shareholder's Equity	418	452	477	506	827	907	925	1,000	1,046	1,160
LTD/E Ratio	0.16	0.15	0.16	0.35	0.09	0.08	0.09	0.11	0.35	0.63

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	1.1%	1.0%	0.9%	1.2%	1.4%	0.9%	1.4%	1.4%	1.2%
Return on Equity	7.8%	10.1%	9.6%	8.2%	10.2%	10.6%	7.1%	12.2%	12.3%	10.6%
ROIC	6.7%	8.7%	8.4%	6.6%	8.6%	9.8%	6.5%	11.1%	10.0%	7.1%
Shares Out.	22.7	22.8	22.9	23.0	30.4	30.5	29.7	29.7	33.3	33.3
Revenue/Share	8.26	8.57	8.99	9.46	9.66	9.97	10.25	11.02	12.30	12.33
FCF/Share	1.27	2.14	1.62	1.73	3.11	3.21	3.73	4.32	4.87	4.02

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