



Timberland Bancorp, Inc. (TSBK)

Updated July 26th, 2024, by Ian Bezek

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	11.8%	Market Cap:	\$252M
Fair Value Price:	\$34	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/09/24
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	08/23/24
Dividend Yield:	3.0%	5 Year Price Target	\$50	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Timberland Bancorp is a Hoquiam, Washington-based regional bank. The bank was founded in 1915 to help provide financial services to the lumber towns in western Washington state. In 1998, Timberland converted its share structure from a mutual savings bank to a traditional chartered stock bank, and it offered shares to the public. The bank has had a generally successful run in the public markets. It survived the 2008 financial crisis, and has delivered strong total returns since that point.

Timberland has enjoyed strong growth in recent years, both from growth in its core market along with the bank's expansion in business and merchant services. Timberland operates 23 bank branches today, all in Washington, serving both rural areas and some communities in the greater Seattle metropolitan area. Timberland has a lending book weighted toward commercial credits, with more than half its loans being in either commercial real estate or construction lending.

Timberland shares fell to a low valuation in recent years amid the jitters in the regional banking sector generally and specific worries around the commercial real estate market. However, Timberland has defied the critics, with its earnings holding up despite the unsettled macroeconomic environment.

On July 23rd, 2024, Timberland reported its fiscal third quarter 2024 earnings. Earnings per share of 74 cents slipped slightly from 77 cents in the same period of 2023, but rose sequentially from Q2. Timberland reported a strong uptick in loan volumes, deposits, and net interest margin. This indicates that Timberland has navigated the recent deposit flight worries successfully. The outlook for commercial real estate remains unsettled, but with the Federal Reserve seemingly set to cut interest rates soon, that could alleviate some concerns. After a modest dip in earnings this year, we expect Timberland to return to positive earnings per share growth in fiscal year 2025.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.80	\$1.17	\$1.43	\$1.92	\$2.22	\$2.84	\$2.88	\$3.27	\$2.82	\$3.29	\$3.10	\$4.55
DPS	\$0.16	\$0.24	\$0.32	\$0.42	\$0.50	\$0.58	\$0.75	\$0.83	\$0.87	\$0.91	\$0.96	\$1.35
Shares	7	7	7	7	7	7	8	8	8	8	8	8

Timberland has been a surprisingly strong growth story within the regional banking space, with its earnings growing at 17% annualized since 2014 and the dividend increasing at a rapid 21% annualized pace over the same period. Future growth is unlikely to be quite this strong. Timberland benefitted from significant business opportunities within its geographical region, a strong construction market, and favorable developments in interest rates.

Since the pandemic, Timberland's growth rates has decelerated significantly, with earnings growing at just 1.8% annualized over the past five years. We believe the company's true long-term potential lies in the middle of that range and forecast 8% growth going forward. While the company's dividend payout ratio has crept up slightly in recent years, there is still plenty of room for healthy dividend increases; we forecast a 7% annualized increase going forward. Barring any mergers or acquisitions, we do not expect Timberland's outstanding share count to meaningfully change in the near future.

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	12.7	9.2	10.8	16.2	13.8	9.5	6.2	8.7	9.6	8.1	10.3	11.0
Avg. Yld.	1.3%	2.0%	2.0%	1.5%	1.4%	2.1%	3.7%	2.9%	3.0%	3.3%	3.0%	2.7%

Despite Timberland's impressive growth story, the market has not assigned the bank much of a valuation premium. Shares have averaged a 10.5 P/E ratio since 2014, and only an 8.4 P/E ratio over the past five years. We believe the market's sentiment has been overly negative and that well-run regional banks like Timberland can support slightly higher valuation ratios. The bank's current 3.0% dividend yield is well above its 2.3% average yield over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

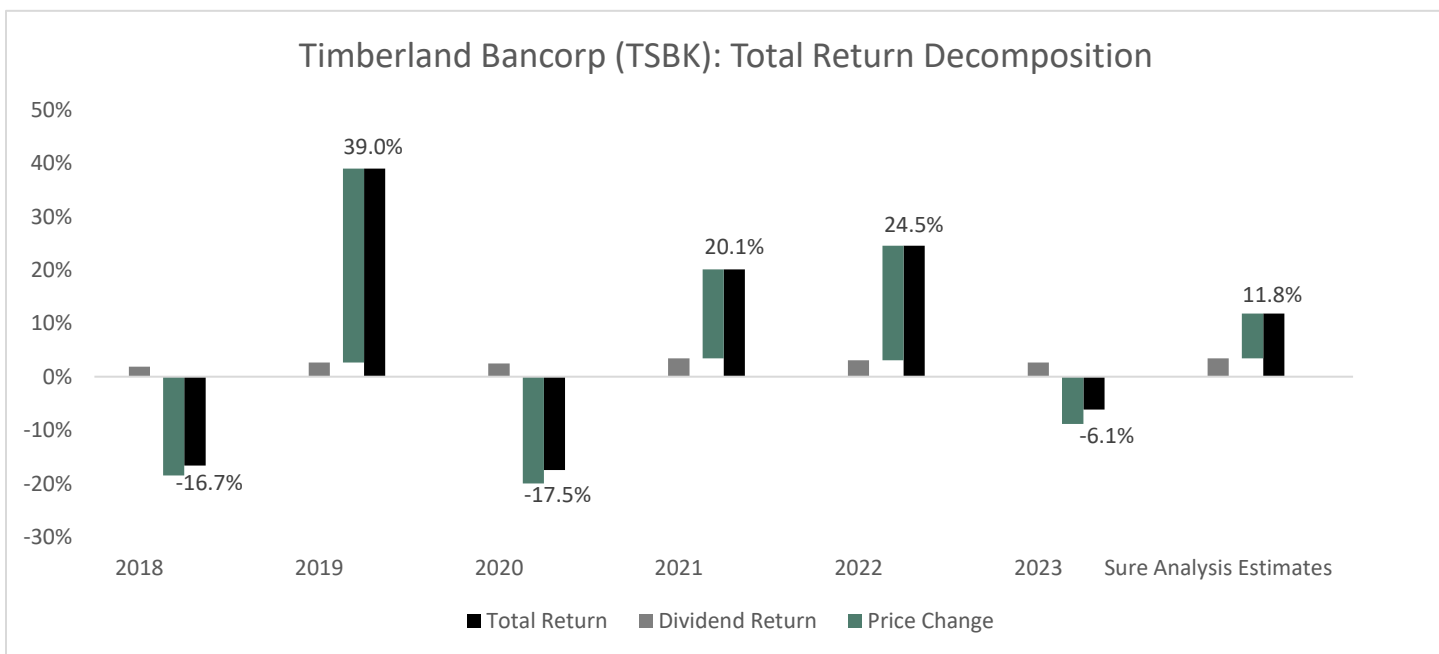
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	21%	22%	22%	23%	20%	26%	25%	31%	28%	31%	30%

Timberland is a regional bank tied almost entirely to the health of the state of Washington's economy. This risk appeared in 2008, when Timberland shares lost the majority of their value. However, most regional Pacific banks struggled during this period, and Timberland fared better than many of its peers. The bank also faces significant risk from its outsized exposure to commercial real estate and construction lending. These loans can offer higher yields and growth opportunities, but could lead to greater credit risk during a prolonged recession. The bank's payout ratio has increased from 20% to 31% over the past decade, but the dividend remains well-supported from earnings.

Final Thoughts & Recommendation

Timberland shares had been deeply undervalued for much of the past year. Over the past quarter, the stock has rallied from \$25 to \$32 as investors are starting to appreciate the improving outlook for the regional banking sector. Even so, Timberland shares are still trading slightly below fair value and offer a favorable return profile based on the starting 3% dividend yield and the bank's earnings growth rate. We forecast 11.8% annualized returns going forward, which makes shares a buy today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	32	34	39	45	49	62	65	66	65	76
SG&A Exp.	17	17	17	18	19	24	22	20	22	25
D&A Exp.	2	2	2	2	2	3	3	3	3	3
Net Profit	6	8	10	14	17	24	24	28	24	27
Net Margin	18.2%	24.0%	26.0%	31.6%	34.3%	38.6%	37.3%	42.1%	36.5%	35.9%
Free Cash Flow	7	7	11	10	19	16	32	29	26	30
Income Tax	3	4	5	7	6	6	6	7	6	7

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	746	816	891	952	1,018	1,247	1,566	1,792	1,861	1,840
Cash & Equivalents	108	141	162	191	212	221	380	609	340	144
Acc. Receivable	2	2	2	3	3	4	4	4	4	6
Goodwill & Int.	7	7	7	7	8	20	20	20	19	18
Total Liabilities	663	727	795	841	894	1,076	1,378	1,585	1,642	1,607
Accounts Payable	2	2	2	2	3	5	4	4	5	6
Long-Term Debt	45	45	30	-	-	-	10	5	-	35
Total Equity	83	89	97	111	125	171	188	207	219	233
LTD/E Ratio	0.54	0.50	0.31	-	-	-	0.05	0.02	-	0.15

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	1.1%	1.2%	1.5%	1.7%	2.1%	1.7%	1.6%	1.3%	1.5%
Return on Equity	6.8%	9.6%	10.9%	13.6%	14.2%	16.2%	13.5%	14.0%	11.1%	12.0%
ROIC	4.5%	6.3%	7.8%	11.9%	14.2%	16.2%	13.2%	13.5%	11.0%	11.1%
Shares Out.	7	7	7	7	7	7	8	8	8	8
Revenue/Share	4.58	4.88	5.50	6.07	5.76	7.34	7.73	7.76	7.71	9.17
FCF/Share	1.05	0.98	1.55	1.40	2.27	1.88	3.78	3.40	3.05	3.62

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

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