Capital City Bank Group (CCBG)

Updated August 27th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$34.17	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$573.1 M
Fair Value Price:	$38.63	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/08/2024[1]
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.5%	**Dividend Payment Date:**	09/25/2024
Dividend Yield:	2.5%	**5 Year Price Target**	$51.69	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Capital City Bank Group is a financial holding company that operates mainly through its wholly-owned subsidiary, Capital City Bank. The company offers a wide range of financial services, including traditional banking products such as deposit accounts, credit services, mortgage banking, and asset management. Also, the company offers trust services, merchant services, bank cards, and securities brokerage. It has also ventured into financial advisory services, such as life insurance sales, risk management, and asset protection services. Finally, the bank's operations are geographically diversified across Florida, Georgia, and Alabama, with a substantial footprint of 63 banking offices and 103 ATMs/ITMs. Capital City Bank generated interest income of $181.1 million last year and is based in Tallahassee, Florida.

On July 23rd, 2024, Capital City reported its Q2 2024 results for the period ending June 30th, 2024. The company posted a tax-equivalent net interest income of $39.3 million, up 2.3% from Q1 2024 but down 2.2% from Q2 2023. Its net interest margin remained elevated at 4.02%, a slight increase from Q1 2024 but down from 4.05% last year. Provision for credit losses rose to $1.2 million, while noninterest income rose to $19.6 million. Noninterest expense was flat at $40.4 million.

Earnings per share (EPS) were $0.83 flat compared to the previous year. We believe the company is set to achieve EPS of $3.09 this year, more or less flat compared to FY2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.53	$0.53	$0.69	$0.64	$1.54	$1.84	$1.88	$1.98	$1.97	$3.08	***$3.09***	***$4.14***
DPS	$0.09	$0.13	$0.17	$0.24	$0.32	$0.48	$0.57	$0.62	$0.66	$0.76	***$0.84***	***$1.12***
Shares[2]	18.4	17.3	17.0	17.0	17.0	16.8	16.8	16.9	17.0	17.0	***17.0***	***17.0***

Over the past decade, Capital City Bank has achieved significant growth, with its EPS rising from $0.53 in 2014 to $3.08 in 2023 (a CAGR of 21.6%), and DPS growing from $0.09 to $0.76 over the same period (a CAGR of 26.8%). This growth has been driven by a combination of robust organic expansion and strategic acquisitions.

Organically, Capital City has historically achieved strong reinvestment yields through organic growth, driven by excellent interest income, an expanding loan portfolio, and an industry-leading Net Interest Margin (NIM). The NIM was at 2.83% in 2021, 3.14% in 2022, and 4.05% in 2023. While the rise in NIM has been aided by higher interest rates, it also reflects the bank's outperformance. Evidently, the average NIM across the U.S. banking sector in 2023 was about 3.3%.

Further, the company has pursued several key acquisitions to expand its footprint, which is a common strategy regional banks follow. In 2015, the company acquired Southern Bank of Georgia, which strengthened its presence in the Albany, Georgia market and expanded its deposit base. This was followed by the purchase of Gateway Capital Mortgage in 2016, which further expanded the bank's mortgage banking operations.

The most significant recent acquisition was that of Capital City Home Loans in 2018, which significantly bolstered the company's mortgage banking business across the Southeastern United States, adding 29 mortgage offices to its network. These acquisitions have been accretive to EPS, which highlights management's capital allocation capabilities.

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[1] Estimated dated based on past dividend dates.

[2] Share count is in millions.

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Looking ahead, we remain optimistic about the company's growth prospects. However, considering that we are starting from a high EPS base in 2024, driven by a particularly favorable interest rate environment, we have prudently applied a below-average growth rate of 6% in our estimates. This rate has also been applied to the dividend forecast.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.0	28.3	22.2	27.8	14.9	13.6	12.6	12.3	14.5	10.2	***11.1***	***12.5***
Avg. Yld.	0.7%	0.9%	1.1%	1.3%	1.4%	1.9%	2.4%	2.5%	2.3%	2.4%	***2.5%***	***2.2%***

In recent years, Capital City Bank has consistently traded at a price-to-earnings (P/E) ratio in the low teens, aligning with the typical range for regional banks, albeit with a slight premium. Currently, the stock is trading at just over 11 times our projected EPS for the year—a multiple we believe undervalues the stock. Given Capital City Bank's sustained record of outperforming the industry in net interest margin (NIM) and its strong operational execution, we believe a P/E ratio of 12.5 times earnings is more appropriate. The stock's yield is currently close to 2.5%, and we anticipate it will remain at similar levels in the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	17%	25%	25%	38%	21%	26%	30%	31%	34%	25%	***27%***	***27%***

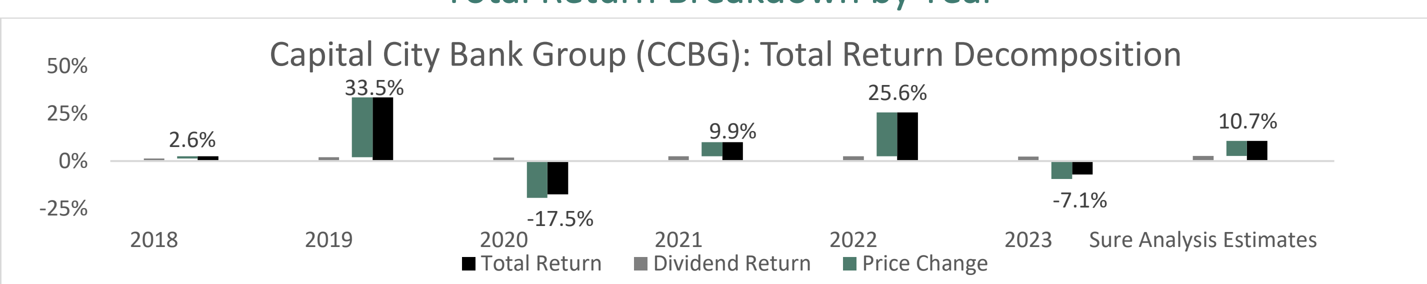
Capital City Bank Group holds a competitive advantage via its strong community ties and deep local market knowledge in Florida, Georgia, and Alabama, where it has built long-standing customer loyalty. Further, its diversified offerings—including traditional banking, mortgage lending, and financial advisory—provide multiple revenue streams, which have bolstered the bank's resilience. This was evident during challenging periods such as the COVID-19 pandemic, when its interest income remained robust despite the industry facing credit quality concerns while also offering loan deferrals and forbearances.

Still, Capital City's smaller scale compared to national and larger regional banks limits its ability to leverage economies of scale, making it more vulnerable in periods of economic stress. During the Great Financial Crisis of 2008, Capital City, like many smaller banks, faced significant challenges, including higher loan losses and constrained capital-raising capabilities, which exposed its vulnerability to severe economic downturns. The company's interest income plunged at the time and dividend cuts followed. Notably, even though the company has been growing swiftly over the past decade, it wasn't until last year (FY2023) that its interest income exceeded its 2007 levels. This shows how severe 2008-2010 was for the bank.

Final Thoughts & Recommendation

Capital City's strong community presence, diversified services, and robust footprint in the areas it serves, positions it as a solid choice for investors seeking exposure to a well-managed regional bank with a track record of consistent earnings and dividend growth. We forecast annualized returns of 10.7% through 2029, driven by our growth estimates, the current yield, and the possibility of a valuation tailwind. Consequently, we rate the stock a buy.

Total Return Breakdown by Year



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Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	121	130	125	128	138	151	207	204	194	224
SG&A Exp.	67	65	69	68	69	71	101	111	96	100
D&A Exp.	7	7	7	7	6	6	7	8	8	8
Net Profit	9	9	12	11	26	31	32	33	33	52
Net Margin	7.6%	7.0%	9.4%	8.5%	19.0%	20.5%	15.3%	16.4%	17.3%	23.4%
Free Cash Flow	20	29	18	35	33	50	(58)	117	86	48
Income Tax	2	4	6	12	3	10	10	10	8	13

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,627	2,798	2,845	2,899	2,959	3,089	3,798	4,264	4,519	4,304
Cash & Equivalents	55	51	48	58	62	60	68	65	72	83
Goodwill & Int. Ass.	85	85	85	85	85	85	89	93	93	93
Total Liabilities	2,355	2,524	2,570	2,615	2,657	2,762	3,455	3,869	4,123	3,856
Long-Term Debt	143	152	81	74	75	66	136	88	104	62
Shareholder's Equity	273	274	275	284	303	327	343	395	396	448
LTD/E Ratio	0.53	0.55	0.29	0.26	0.25	0.20	0.40	0.22	0.26	0.14

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.4%	0.3%	0.4%	0.4%	0.9%	1.0%	0.9%	0.8%	0.8%	1.2%
Return on Equity	3.4%	3.3%	4.3%	3.9%	8.9%	9.8%	9.4%	9.1%	8.4%	12.4%
ROIC	2.2%	2.2%	3.0%	3.0%	7.1%	8.0%	7.2%	6.9%	6.8%	10.4%
Shares Out.	18.4	17.3	17.0	17.0	17.0	16.8	16.8	16.9	17.0	17.0
Revenue/Share	6.93	7.53	7.34	7.55	8.09	8.95	12.29	12.07	11.40	13.14
FCF/Share	1.15	1.68	1.07	2.04	1.94	2.97	(3.47)	6.92	5.09	2.80

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