German American Bancorp, Inc. (GABC)

Published August 12th, 2024, by Kody Kester

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	10.6%	**Market Cap:**	$1.1B
Fair Value Price:	$39	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	11/08/24
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	11/19/24
Dividend Yield:	2.9%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

In 1910, German American Bancorp, Inc. began in Jasper, Indiana, a community with a rich history of German American heritage (thus the company name). That serves as the holding company for its German American Bank subsidiary. The community bank operates 74 banking offices in 20 contiguous counties in Southern Indiana and 14 counties in Kentucky. As of June 30, GABC had $6.2 billion in assets.

The community bank provides a variety of services to customers across the following two subsidiaries:

1. German American Bank: This subsidiary offers deposit products like savings and checking accounts, certificates of deposit, and money market accounts. It also provides loan products to customers, such as residential mortgage loans, agricultural loans, and commercial loans.
2. German American Investment Services, Inc.: The subsidiary provides customers with investment advisory, trust, brokerage, and retirement planning services.

As part of its growth strategy, GABC occasionally executes bolt-on acquisitions. On July 29th, GABC shared that it was going to be acquiring Heartland Bancorp (HLAN). As of June 30, this bank had 20 full-service banking offices and $1.9 billion in total assets. Shareholders of HLAN will receive 3.9 shares of GABC for each share they own. This acquisition will expand GABC's operations in existing markets and help the company gain access to Columbus and Cincinnati, Ohio. These are two of the fastest-growing markets in the Midwest. The deal is anticipated to close in the first quarter of 2025.

On July 29th, GABC also released its financial results for the second quarter ended June 30. Of note, GABC sold its German American Insurance, Inc. subsidiary in the second quarter for $40 million in cash - a gain on sale of $27.5 million after-tax. This subsidiary offered a range of insurance services to customers, including dental, disability, auto, homeowners, and life insurance.

The company's net interest income decreased by 4.7% year-over-year to $47.5 million during the second quarter. This was because of a 29-basis point decline in the net interest margin to 3.34% for the quarter. GABC's diluted EPS fell by 8% over the year-ago period to $0.69 in the quarter. This was $0.07 ahead of 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	$1.43	$1.51	$1.57	$1.67	$1.99	$2.29	$2.34	$3.17	$2.78	$2.91	***$2.76***	***$3.87***
DPS	$0.43	$0.45	$0.48	$0.52	$0.60	$0.68	$0.76	$0.84	$0.92	$1.00	***$1.08***	***$1.51***
Shares[2]	19.8	19.9	22.9	22.9	25.0	26.7	26.5	26.6	29.5	29.6	***29.7***	***40.8***

GABC has historically grown diluted EPS at a high-single-digit rate annually. We believe that earnings growth will return to this level. For one, GABC's net interest margin is stabilizing (net interest margin was down just one basis point sequentially). As it incorporates HLAN into the mix, this will be another growth catalyst in the next few years. The share

[1] Estimate
[2] Share count is 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.

count will soon rise by nearly 8 million with the deal for HLAN. Including share issuances for more modest acquisitions, we think the share count will be nearly 41 million by 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	13.7	14.7	22.3	21.2	14.0	15.4	14.1	12.3	13.4	11.1	***13.3***	***14.0***
Avg. Yld.	2.2%	2.0%	1.4%	1.5%	2.2%	1.9%	2.3%	2.2%	2.5%	3.1%	***2.9%***	***2.8%***

GABC's P/E ratio has ranged from the low-double-digits to the low 20s in the past 10 years. That produced a 10-year average P/E ratio of 15.2. Including a small margin of safety into our assumptions, we see a valuation multiple around 14 as a reasonable fair value estimate. That would be a slight undervaluation from the current P/E ratio of 13.3.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	30%	31%	31%	30%	30%	32%	26%	33%	34%	***39%***	***39%***

GABC stands out from its peers with its 114-year operating history. This extensive corporate history has allowed it to build deep and meaningful relationships with existing customers. Thanks to this reputation, prospective customers are also more likely to become customers.

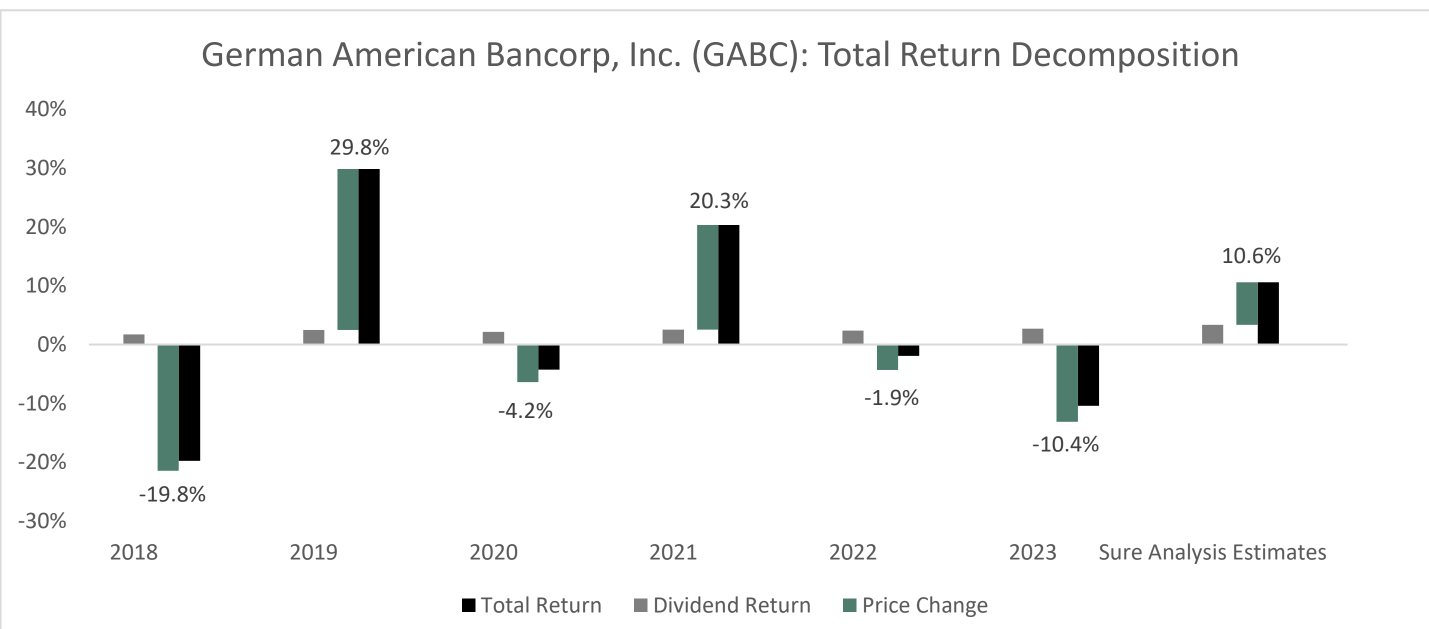
GABC's asset quality is also top-notch. As of June 30, the company's nonperforming assets were 0.11% of its portfolio. That is about one-third of the 0.3% peer median. GABC's Common Tier 1 or CET1 ratio was 14.5% as of June 30, which is about three times the Federal Reserve Board's minimum of 4.5%.

Along with a payout ratio that has historically been in the 30% range, this makes the dividend relatively secure for a community bank. That's why we believe that the dividend can grow in line with earnings in the years ahead.

Final Thoughts & Recommendation

GABC's 2.9% dividend yield, 7.0% annual diluted EPS growth potential, and 1% annual valuation multiple upside position it for 10.6% annual total returns through 2029. This is why we're initiating coverage with 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	98	103	127	132	152	191	210	220	260	251
SG&A Exp.	36	40	48	51	56	69	72	74	90	91
D&A Exp.	5	4	4	5	6	9	9	9	10	10
Net Profit	28	30	35	41	47	59	62	84	82	86
Net Margin	28.8%	29.2%	27.7%	30.9%	30.7%	31.1%	29.7%	38.2%	31.5%	34.3%
Free Cash Flow	33	30	37	44	47	56	85	96	102	101
Income Tax	12	12	14	12	10	12	13	19	17	18

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,237	2,374	2,956	3,144	3,929	4,398	4,978	5,609	6,156	6,152
Cash & Equivalents	34	36	48	47	65	62	59	48	76	79
Goodwill & Int. Ass.	23	22	57	56	114	134	131	128	190	187
Total Liabilities	2,008	2,121	2,626	2,780	3,470	3,824	4,353	4,940	5,598	5,489
Long-Term Debt	150	196	208	230	318	303	138	81	125	125
Shareholder's Equity	229	252	330	365	459	574	625	668	558	664
LTD/E Ratio	0.65	0.78	0.63	0.63	0.69	0.53	0.22	0.12	0.22	0.19

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.3%	1.3%	1.3%	1.3%	1.4%	1.3%	1.6%	1.4%	1.4%
Return on Equity	13.2%	12.5%	12.1%	11.7%	11.3%	11.5%	10.4%	13.0%	13.3%	14.1%
ROIC	8.1%	7.3%	7.1%	7.2%	6.8%	7.2%	7.6%	11.1%	11.4%	11.7%
Shares Out.	19.8	19.9	22.9	22.9	25.0	26.7	26.5	26.6	29.5	29.6
Revenue/Share	4.95	5.18	5.67	5.75	6.49	7.39	7.90	8.30	8.81	8.48
FCF/Share	1.68	1.49	1.64	1.91	2.02	2.16	3.22	3.62	3.47	3.43

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