Lakeland Financial Corporation (LKFN)

Published August 27th, 2024, by Kody Kester

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	7.8%	**Market Cap:**	$1.7B
Fair Value Price:	$63	**5 Year Growth Estimate:**	6.4%	**Ex-Dividend Date[1]:**	10/24/24
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	11/04/24
Dividend Yield:	2.9%	**5 Year Price Target**	$86	**Years Of Dividend Growth:**	11
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 1872, Lakeland Financial Corporation is a community bank headquartered in Warsaw, Indiana. LKFN is the holding company for its wholly-owned subsidiary, Lake City Bank. Via its 54 branch offices, the company serves Northern Indiana and Central Indiana, in the Indianapolis area. LKFN earns the distinction of being the third oldest financial institution headquartered in Indiana. As of June 30, it had $6.6 billion in banking assets and $3.4 billion in trust, and retirement and investment brokerage assets. That makes it the seventh biggest bank holding company headquartered in Indiana.

LKFN provides a variety of products and services to its commercial and consumer customers. Savings products include savings accounts, checking accounts, and money market accounts. On the loan side, the company offers consumer mortgage loans, construction loans, and agricultural loans. LKFN also provides customers with treasury management, wealth advisory, trust, and retail brokerage services.

Rather than emphasizing acquisitions to grow, the bank focuses on execution to drive organic business growth. Approximately two-thirds of the company's 15 counties in which it has branch offices are classified as either growth or high-growth counties economically. Growth in the existing book of business and gradual openings of additional branch offices have led to record net income in 32 out of the past 35 years.

On July 25th, LKFN shared its financial results for the second quarter ended June 30. The company's net interest income declined by 0.5% year-over-year to $48.3 million in the quarter. An uptick in total interest income was offset by greater interest on deposits. This led LKFN's net interest margin to contract by 11 basis points to 3.17% during the quarter. Noninterest income surged 77.7% higher over the year-ago period to $20.4 million for the quarter. That was fueled mostly by a $9 million net gain on its Visa shares. The company's diluted EPS climbed 52.6% year-over-year to $0.87 in the quarter. For perspective, that was $0.02 better 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	$1.74	$1.83	$2.05	$2.40	$3.13	$3.38	$3.30	$3.74	$4.04	$3.65	***$3.54***	***$4.83***
DPS	$0.55	$0.63	$0.73	$0.85	$1.00	$1.16	$1.20	$1.36	$1.60	$1.84	***$1.92***	***$2.45***
Shares[2]	24.7	24.8	24.9	25.0	25.1	25.4	25.2	25.3	25.4	25.4	***25.5***	***26.0***

LKFN is already showing the early signs of a rebound in its business. The company's net interest margin improved sequentially by 2 basis points in the second quarter. The Federal Reserve is expected to begin easing interest rates in the coming weeks and months. That should provide more operating momentum for the business. Combined with the organic growth of its markets, this is why we are projecting 6.4% annual diluted EPS growth through 2029. In that time, the share count should only grow modestly. This is because LKFN doesn't rely on share issuances as part of its growth strategy.

[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.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	16.4	17.0	23.1	20.2	12.9	14.4	16.2	21.4	18.1	17.8	***18.9***	***17.8***
Avg. Yld.	1.9%	2.0%	1.5%	1.8%	2.5%	2.4%	2.2%	1.7%	2.2%	2.8%	***2.9%***	***2.9%***

LKFN's P/E ratio has ranged from the low double-digits to the mid-20s in the past decade. This works out to a 10-year average P/E ratio of 17.8. Moving forward, we believe this is a reasonable fair value estimate. That's because LKFN's growth prospects appear to be intact compared to recent years. The current valuation multiple of 18.9 is just above our fair value estimate, so now doesn't appear to be an opportune entry point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	34%	36%	35%	32%	34%	36%	36%	40%	50%	***54%***	***51%***

In its 150-plus years of operations, LKFN has built meaningful relationships with many of its customers. Along with its extensive product offerings, this helps it to retain existing customers. This reputation also allows it to attract new customers.

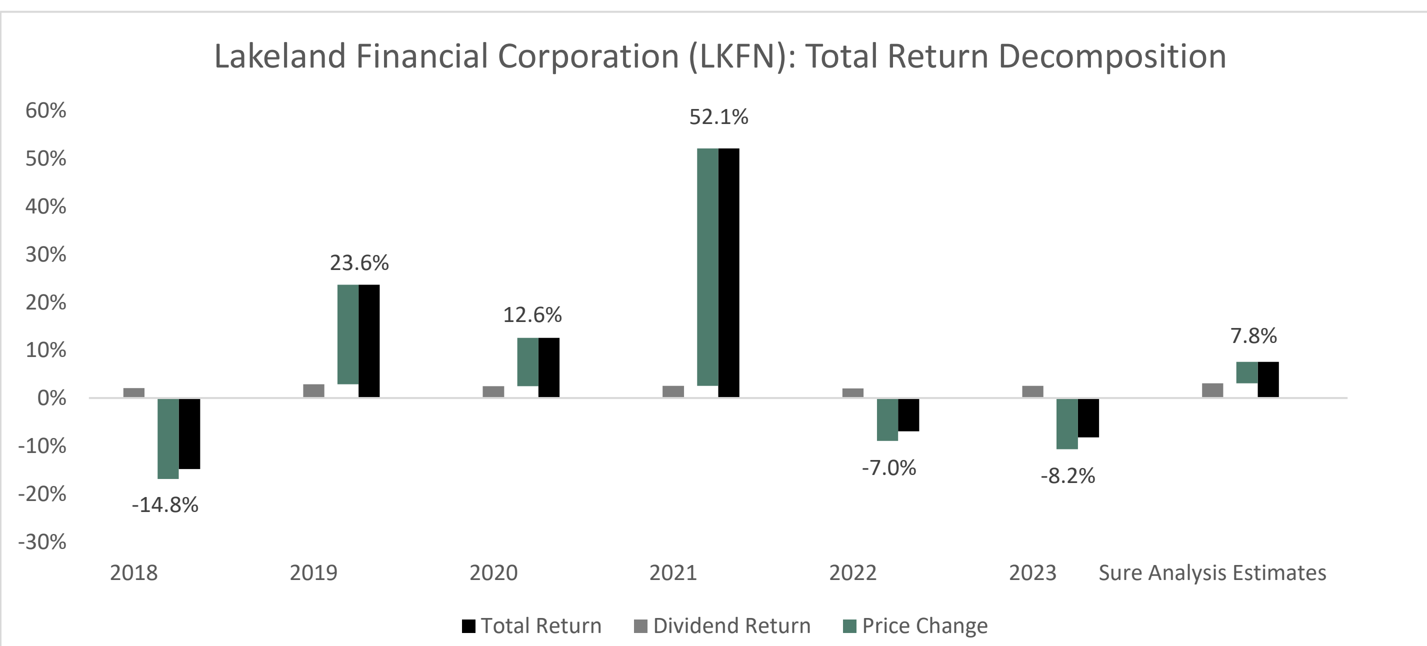
In the second quarter, an industrial company in Northern Indiana was placed on nonperforming status. This caused LKFN's nonperforming assets ratio to rise almost four-fold to 0.88% during the quarter. Fortunately, the company's Common Equity Tier 1 (CET1) ratio improved modestly to 14.29% for the quarter.

LKFN's payout ratio is going to be in the 50% range in 2024. Since this year is shaping up to be a trough year for earnings, that's an okay payout ratio.

Final Thoughts & Recommendation

LKFN's 2.9% dividend yield, 6.4% annual diluted EPS growth potential, and 1.2% annual valuation multiple downside could generate 7.8% annual total returns through 2029. That's not enough to warrant a buy rating, so we're initiating coverage with a hold rating now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	126	130	143	164	182	190	198	223	245	247
SG&A Exp.	44	44	47	52	54	54	54	60	61	63
D&A Exp.	4	4	5	6	6	6	7	8	7	6
Net Profit	44	46	52	57	80	87	84	96	104	94
Net Margin	34.7%	35.7%	36.4%	35.0%	44.2%	45.9%	42.6%	43.0%	42.4%	38.0%
Free Cash Flow	48	47	52	68	97	92	82	108	165	108
Income Tax	22	23	25	32	19	20	20	22	21	17

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,443	3,766	4,290	4,683	4,875	4,947	5,830	6,557	6,432	6,524
Cash & Equivalents	91	81	167	176	217	99	250	683	130	152
Accounts Receivable	9	9	12	14	16	15	19	18	28	30
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	5
Total Liabilities	3,082	3,373	3,863	4,214	4,354	4,349	5,173	5,852	5,863	5,874
Accounts Payable	3	4	6	6	10	12	6	3	3	21
Long-Term Debt	136	101	211	111	201	170	86	75	275	50
Shareholder's Equity	361	393	427	469	522	598	657	705	569	650
LTD/E Ratio	0.38	0.26	0.49	0.24	0.39	0.28	0.13	0.11	0.48	0.08

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%	1.7%	1.8%	1.6%	1.5%	1.6%	1.4%
Return on Equity	12.8%	12.3%	12.7%	12.8%	16.2%	15.5%	13.4%	14.1%	16.3%	15.4%
ROIC	8.8%	9.4%	9.2%	9.4%	12.3%	11.7%	11.2%	12.6%	12.8%	12.1%
Shares Out.	24.7	24.8	24.9	25.0	25.1	25.4	25.2	25.3	25.4	25.4
Revenue/Share	5.01	5.14	5.62	6.38	7.07	7.36	7.74	8.70	9.52	9.60
FCF/Share	1.90	1.85	2.06	2.64	3.77	3.57	3.19	4.20	6.40	4.20

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