



Norwood Financial Corp. (NWFL)

Updated August 18th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	9.4%	Market Cap:	\$213 M
Fair Value Price:	\$26	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	10/15/24
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date¹:	11/01/24
Dividend Yield:	4.6%	5 Year Price Target	\$34	Years Of Dividend Growth:	32
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Norwood Financial Corp. (NWFL) is a bank holding company that operates through its subsidiary, Wayne Bank. The company is an independent community bank with over 14 offices in Northeastern Pennsylvania and approximately 16 offices in Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York. It offers a range of personal and business credit services, trust and investment products, and real estate settlement services to the consumers, businesses, non-profit organizations and municipalities in each of the communities that the company serves. It operates a Wealth Management/Trust Department, which provides estate planning, investment management and financial planning to customers. As of June 30th, 2024, Norwood Financial Corp. had total assets of \$2.235 billion, loans outstanding of \$1.623 billion, and total deposits were \$1.811 billion. The company was founded in 1870 and has 260 employees.

On July 26th, 2024, Norwood Financial Corp. released its second quarter results for the period ending June 30th, 2024. For the quarter, the company reported earnings of \$4.21 million, which represented a 35.2% decrease compared to \$6.50 million earned in the same period of 2023. Reported quarterly earnings per diluted share for the same periods were \$0.52 and \$0.81, reflecting a decline of 35.8%. The decrease in earnings was due to a \$717,000 decrease in net interest income and a \$2.10 million increase in the provision for credit losses, partially offset by a \$424,000 increase in other income. Other expenses increased by \$506,000 primarily due to higher professional fees, data processing costs, and FDIC insurance.

Net interest income on a fully taxable equivalent (FTE) basis was \$15.1 million during the quarter, a decline from \$15.8 million in the same period of 2023. The FTE-yield on interest-earning assets for the second quarter of 2024 increased by 57 basis points compared to the corresponding period in 2023. However, this increase was outpaced by the rise in the cost of funds, which grew by 108 basis points over the same period. This disparity between the yield on assets and the cost of funds significantly impacted the net interest margin. Consequently, the annualized net interest spread (FTE) for the second quarter of 2024 was 2.05%, down from 2.87% in the second quarter of 2023. The annualized return on average assets was 0.75%, and the return on average tangible equity was 11.26%, both of which have decreased from the previous year's figures of 1.13% and 13.61% respectively. Norwood Financial Corp's outlook for 2024 reflects continued growth in core business lines with a 4.9% annualized increase in loans and a 7.3% annualized increase in customer deposits (excluding municipal outflows), alongside a robust capital base well above regulatory "Well-Capitalized" targets.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.40	\$1.07	\$1.15	\$1.31	\$2.17	\$2.25	\$2.09	\$3.04	\$3.58	\$2.07	\$2.20	\$2.81
DPS	\$0.80	\$0.83	\$0.83	\$0.86	\$0.88	\$0.96	\$1.00	\$1.04	\$1.12	\$1.16	\$1.20	\$1.53
Shares²	6	6	6	6	6	6	8	8	8	8	8	8

The company has grown earnings by 4.4% per year since 2014 and -0.4% over the past five years. We expect earnings to increase by 5% per year for the next five years. The company has been able to increase its dividend for 32 consecutive

¹ Estimated date

² In millions.

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years. Over the last five years, the average annual dividend growth rate is 4.6%. In December 2023, the company increased its quarterly dividend by 3.4% from \$0.29 to \$0.30 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.7	18.1	16.6	21.0	15.6	14.5	13.1	8.5	8.9	10.8	11.8	12.0
Avg. Yld.	1.9%	4.3%	4.4%	3.2%	2.7%	3.0%	3.7%	4.1%	3.7%	4.1%	4.6%	4.5%

During the past decade shares of Norwood Financial Corp. have traded with an average price-to-earnings ratio of 14.1 and today, it stands at 11.8. We are using 12 times earnings as a fair value baseline, implying the potential for a small valuation tailwind. The company's dividend yield is currently 4.6%, which is above the average yield over the past decade of 3.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	57%	78%	72%	66%	41%	43%	48%	34%	31%	56%	55%	55%

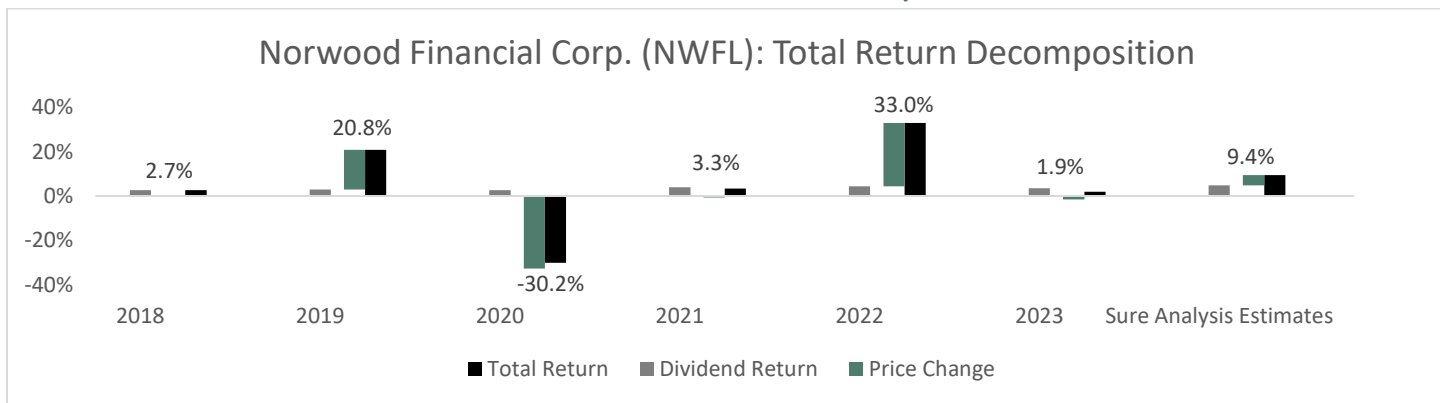
During the past five years, the company's dividend payout ratio has averaged around 40%. Norwood Financial Corp's dividend is comfortably covered by earnings at the moment. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Norwood Financial has demonstrated a strong financial performance for the last few years (operating net income and EPS growth) combined with a sound asset quality track record and has a business model focused on community banking. As a result, the company has an impressive track record of 32 consecutive years of dividend increases. Wayne Bank's business model is primarily built upon lending money to local businesses and residents within the local communities the bank serves. The funding of those loans is done by gathering local deposits through their community offices. In some counties, the company has a strong position and large market share with respect to deposits. The bank had the third largest share of FDIC-insured deposits in Wayne County with approximately 22.3% and the second largest share in Pike County with 18.1%. In addition, the bank operates a Wealth Management/Trust Department which provides estate planning, investment management, and financial planning to customers for which it is generally compensated based on a percentage of assets under management. This provides some diversification for the bank's revenue streams.

Final Thoughts & Recommendation

Norwood Financial is an old and well-established community bank active in several northeastern counties in the U.S. with a solid earnings track record and a 4.6% dividend yield. Norwood Financial Corp faced a challenging year with decreased profitability, impacted by rising interest rates and credit losses, yet showed resilience through asset and deposit growth. We estimate total return potential of 9.4% per year for the next five years based on a 5% earnings-per-share growth, the yield, and a valuation tailwind. The shares earn a hold 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	30	29	34	42	44	45	58	74	78	70
SG&A Exp.	11	11	14	16	17	18	21	25	23	25
D&A Exp.	1	1	1	1	1	1	1	2	1.6	1.5
Net Profit	8	6	7	8	14	14	15	25	29	17
Net Margin	25.8%	20.2%	19.9%	19.6%	31.1%	31.3%	25.9%	33.8%	37.2%	24.3%
Free Cash Flow	10	10	11	14	16	17	13	28	28.6	28.4
Income Tax	3	2	2	7	3	3	3	6	7.2	4.4

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	712	751	1,111	1,133	1,185	1,231	1,852	2,069	2,047	2,201
Cash & Equivalents	12	10	17	17	18	15	112	207	31.9	66
Goodwill & Int.	10	10	12	12	12	12	30	30	30	29.5
Total Liabilities	613	650	1,000	1,017	1,062	1,093	1,657	1,863	1,880	2,020
Long-Term Debt	22	61	32	54	68	88	42	30	82	144
Total Equity	99	101	111	116	122	137	195	205	167	181
LTD/E Ratio	0.22	0.60	0.29	0.47	0.56	0.64	0.22	0.15	0.49	0.80

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.1%	0.8%	0.7%	0.7%	1.2%	1.2%	1.0%	1.3%	1.4%	0.8%
Return on Equity	8.0%	5.9%	6.3%	7.2%	11.5%	10.9%	9.1%	12.5%	15.7%	9.6%
ROIC	6.1%	4.2%	4.4%	5.2%	7.6%	6.8%	6.5%	10.5%	12.1%	5.8%
Shares Out.	6	6	6	6	6	6	8	8	8	8
Revenue/Share	5.41	5.28	5.79	6.67	6.98	7.17	8.06	8.98	9.58	8.68
FCF/Share	1.88	1.84	1.86	2.30	2.61	2.66	1.80	3.41	3.50	3.52

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

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