Apollo Bancorp (APLO)

Updated September 19th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$39	**5 Year CAGR Estimate:**	4.1%	**Market Cap:**	$20.5 M
Fair Value Price:	$33	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	09/27/2024
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	10/01/2024
Dividend Yield:	5.7%	**5 Year Price Target**	$36	**Years Of Dividend Growth:**	15
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Apollo Bancorp, through its subsidiary Apollo Trust Company, operates five branches, all located in Pennsylvania. These branches serve communities primarily within the Kiski Valley, northeast of Pittsburgh. The bank's main office is in Apollo, Pennsylvania, with additional branches in North Apollo, Spring Church, Allegheny Township, and North Washington. Apollo Trust focuses on providing personalized banking services, including residential and commercial loans, deposit accounts, and other financial services, primarily to individuals and businesses within its service area. The company has market cap of just $20.5 million. Last year, it generated a total interest and dividend income of $8.2 million.

On July 17th, 2024, Apollo Bancorp posted its Q2 and half-year 2024 results for the period ending June 30th, 2024. For the first six months of the year, the company posted net interest income of $3.47 million, a decline of 3.5% compared to last year, due to higher interest expenses, which grew by $685,000 to $1.0 million. Non-interest income grew to $673,000, marginally higher from $669,000 last year, powered by higher other income and life insurance earnings. Non-interest expenses fell slightly by 1.9% to $3.20 million, mainly due to lower compensation costs. Earnings per share (EPS) for the period were $1.57, up from $1.55 in the same period last year. For FY2024, we expect EPS of approximately $3.30.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.71	$2.81	$2.82	$3.63	$2.77	$4.02	$3.35	$3.66	$3.68	$3.28	***$3.30***	***$3.64***
DPS	$1.85	$1.89	$1.93	$1.97	$2.01	$2.05	$2.09	$2.13	$2.17	$2.21	***$2.24***	***$2.47***
Shares[1]	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	***0.5***	***0.5***

Apollo Bancorp's EPS track record over the past decade reflects somewhat steady, yet slow growth. From 2014 to 2016, the bank experienced stable yet modest EPS growth, maintaining EPS in the low $2.70s to $2.80s. This period coincided with a low-interest-rate environment post the 2008 financial crisis, which, while stabilizing the economy, squeezed the interest income banks could earn, impacting net interest margins across the industry. Apollo Bancorp, which focuses on traditional banking services, saw steady loan demand but was limited by these industry-wide conditions.

In 2017, EPS rose to $3.63, driven by rising interest rates initiated by the Federal Reserve and improving macroeconomic conditions. The higher interest rates boosted the bank's loan interest income, notably improving profitability. However, 2018 witnessed a dip back to $2.77, reflecting challenges such as higher operating expenses and higher loan provisions due to credit quality concerns, common during a volatile economic cycle.

By 2019, Apollo Bancorp experienced a record EPS of $4.02. This growth was driven by strong loan demand, particularly in the real estate sector, as Apollo capitalized on economic growth. Loan portfolio expansion and solid underwriting also played critical roles in improving profitability, resulting in better margins and asset quality. Still, the COVID-19 pandemic in 2020 brought a reversal, with EPS dropping to $3.35. The economic uncertainty caused by the pandemic led to lower loan growth and higher provisions for potential credit losses, reflecting conservative risk management.

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[1] Share count is in millions.

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As the economy began recovering in 2021, Apollo Bancorp's EPS rebounded to $3.66 and remained stable at $3.68 in 2022. The recovery was aided by economic stimulus measures and an increase in borrowing activity, alongside rising interest rates, which contributed to higher net interest margins. Moreover, Apollo Bancorp benefited from lower credit losses during this period, supporting its profitability.

Looking ahead, we expect EPS growth to remain modest at around 2%, driven by Apollo's concentrated regional focus and its conservative capital management, which limit significant growth opportunities.

Apollo has raised its dividend for 15 consecutive years, with incremental increases of $0.01 per quarter, or $0.04 annually, over the past decade. While this steady growth is commendable, it has led to a gradual deceleration in the rate of dividend increases. We expect this pattern to persist, projecting a 2% annual dividend growth rate through 2029, aligning with our EPS growth forecast.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.9	14.2	14.9	12.1	16.6	10.7	12.5	11.5	13.6	11.3	***12.0***	***10.0***
Avg. Yld.	4.3%	4.7%	4.6%	4.5%	4.4%	4.8%	5.0%	5.1%	4.3%	6.0%	***5.7%***	***6.8%***

In recent years, Apollo Bancorp has consistently traded at a price-to-earnings (P/E) ratio in the low teens. The stock is now trading at a P/E of 12x based on our expected EPS for the year. We believe that this multiple overvalued the stock given the lack of notable growth prospects ahead. We have applied a fair multiple of 10x in our estimates, instead. The dividend yield, at a substantial 5.7%, is well-above Apollo's historical average and should provide a solid income stream.

Safety, Quality, Competitive Advantage, & Recession Resiliency

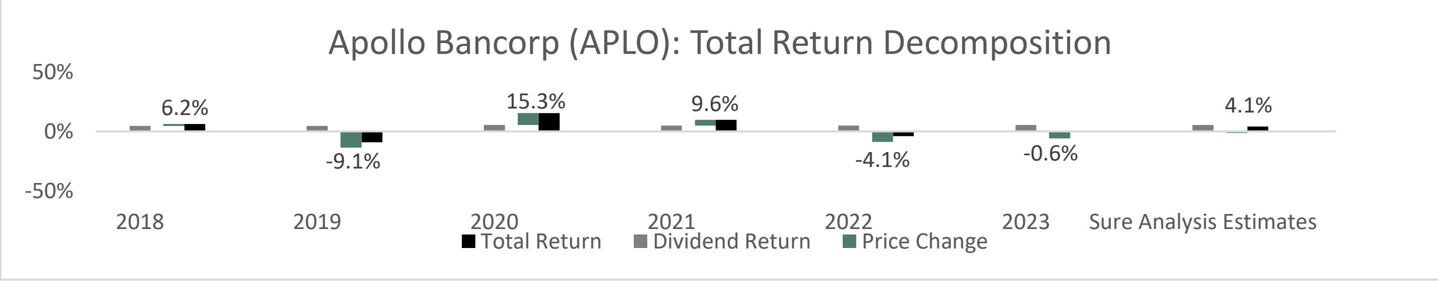
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	68%	67%	68%	54%	73%	51%	62%	58%	59%	67%	***68%***	***68%***

Apollo Bancorp's competitive advantage lies in its strong local ties and prudent capital management, which helped the bank, remain resilient during the COVID-19 pandemic. Its strong capital ratios, including a Tier 1 capital ratio of 12.47% and a total capital ratio of 13.91% as of the end of last year, illustrate its ability to weather economic downturns. These ratios provide a significant buffer against potential losses, reinforcing the bank's capacity to maintain stability during economic downturns. However, its highly concentrated regional focus and conservative growth approach limit its expansion opportunities, making it less competitive against larger institutions operating in broader markets. Note that the stock is highly illiquid, with a few hundred shares being exchanged daily, on average.

Final Thoughts & Recommendation

Apollo Bancorp features a solid dividend growth track record backed by relatively stable earnings resulting from a fairly conservative capital management strategy. Despite the notable dividend yield, due to rather soft growth prospects and potential valuation headwinds, we see annualized total returns of just 4.1% through 2029. We rate the stock a hold.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue						8	7	8	8	8
SG&A Exp.						0	0	0	0	0
D&A Exp.						0	0	0	0	0
Net Profit						2	2	2	2	2
Net Margin						26.1%	23.3%	24.4%	23.1%	20.1%
Free Cash Flow						2	2	2	2	2
Income Tax						0	0	0	0	0

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets						161	167	182	183	198
Goodwill & Int. Ass.						4	2	12	6	3
Total Liabilities						140	144	159	161	175
Long-Term Debt						14	4	-	2	27
Shareholder's Equity						21	22	23	22	23
LTD/E Ratio						0.67	0.16	-	0.07	1.17

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets							1.1%	1.1%	1.0%	0.9%
Return on Equity							8.0%	8.4%	8.5%	7.5%
ROIC							5.7%	7.8%	8.2%	4.6%
Shares Out.						0.5	0.5	0.5	0.5	0.5
Revenue/Share						15.38	14.40	14.99	15.91	16.34
FCF/Share						3.93	3.29	4.78	4.59	3.80

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