Investar Holding Corp. (ISTR)

Published September 23rd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$198 M
Fair Value Price:	$20	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	9/30/24
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	10/31/24
Dividend Yield:	2.1%	**5 Year Price Target**	$29	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Investar Holding Corporation (ISTR) is a commercially oriented community bank, which was founded in 2006, became public in 2014 and is headquartered in Baton Rouge, Louisiana. It operates 28 offices across Alabama, Louisiana and Texas and provides a wide range of commercial banking products to individuals, professionals and small to medium-sized businesses. Investar Holding has a market capitalization of $198 million.

Investors should note a few special features of Investar Holding, which result primarily from its commercial orientation. The bank has one of the narrowest net interest margins (2.62%) in the entire financial sector. In addition, it has a higher percent of non-performing loans (0.23%) than a typical conservative bank and a more volatile performance, depending on the underlying economic conditions. Just like nearly all regional banks, Investar Holding has been hurt by the surge of interest rates to multi-year highs, which has compressed net interest margin via high deposit costs.

In late July, Investar Holding reported (7/22/24) financial results for the second quarter of fiscal 2024. Loans decreased 0.6% sequentially while deposits edged up 0.1%. Net interest margin expanded from 2.59% to 2.62%, for the first time in more than a year. However, the bounce was modest compared to the bounce reported by most banks. Net interest income remained essentially flat while non-interest expense increased 1%. Earnings-per-share decreased -16%, from $0.43 to $0.36, but exceeded the analysts' consensus by $0.05. The bank has not missed the analysts' estimates for 5 consecutive quarters. Moreover, the Fed just began reducing interest rates and hence we expect the net interest margin of Investar Holding to expand in the upcoming quarters. Nevertheless, we expect earnings-per-share to decline from $1.90 to $1.50 this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.93	$0.97	$1.10	$0.96	$1.39	$1.66	$1.27	$0.76	$2.65	$1.90	***$1.50***	***$2.20***
DPS	$0.01	$0.03	$0.04	$0.10	$0.17	$0.23	$0.25	$0.31	$0.37	$0.40	***$0.42***	***$0.60***
Shares[1]	5.8	7.3	7.1	8.5	9.7	10.0	10.9	10.4	10.0	9.8	***9.9***	***9.8***

Investar Holding has grown its earnings-per-share by 8.3% per year on average over the last decade and by 6.5% per year on average over the last five years. It has also grown its tangible book value per share by 5% per year on average over the last five years. The bank has grown both organically and via acquisitions. Since 2011, it has acquired 7 smaller banks and thus a significant portion of growth has resulted from acquisitions. Going forward, management expects to keep growing both organically and via acquisitions. In addition, the Fed has just begun to reduce interest rates and expects to reduce them further, from 4.75%-5.0% now to 2.75%-3.0% after 2026. As a result, we expect Investar Holding to enjoy a meaningful improvement of its net interest margin in the upcoming years. Given also the low comparison base formed by the earnings this year due to the headwind from multi-year high interest rates, we expect the bank to grow its bottom line by 8.0% per year on average over the next five years. On the other hand, we are concerned over the somewhat volatile business performance, which results from the sensitivity of this bank to the state of the economy.

[1] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.5	16.3	14.5	21.4	18.9	14.6	11.4	24.3	7.8	6.8	***13.3***	***13.0***
Avg. Yld.	0.1%	0.2%	0.3%	0.5%	0.6%	1.0%	1.7%	1.7%	1.8%	3.1%	***2.1%***	***2.1%***

Excluding the years 2017 and 2021, in which depressed earnings resulted in abnormally high price-to-earnings ratios, Investar Holding has traded at an average price-to-earnings ratio of 13.0 over the last decade. We assume this valuation level as fair for this stock. Investar Holding is currently trading at a price-to-earnings ratio of 13.3, which is slightly higher than the historical average of the bank. If the stock trades at its fair valuation level in five years, it will incur a -0.5% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	1%	3%	4%	10%	12%	14%	20%	41%	14%	21%	***28%***	***27%***

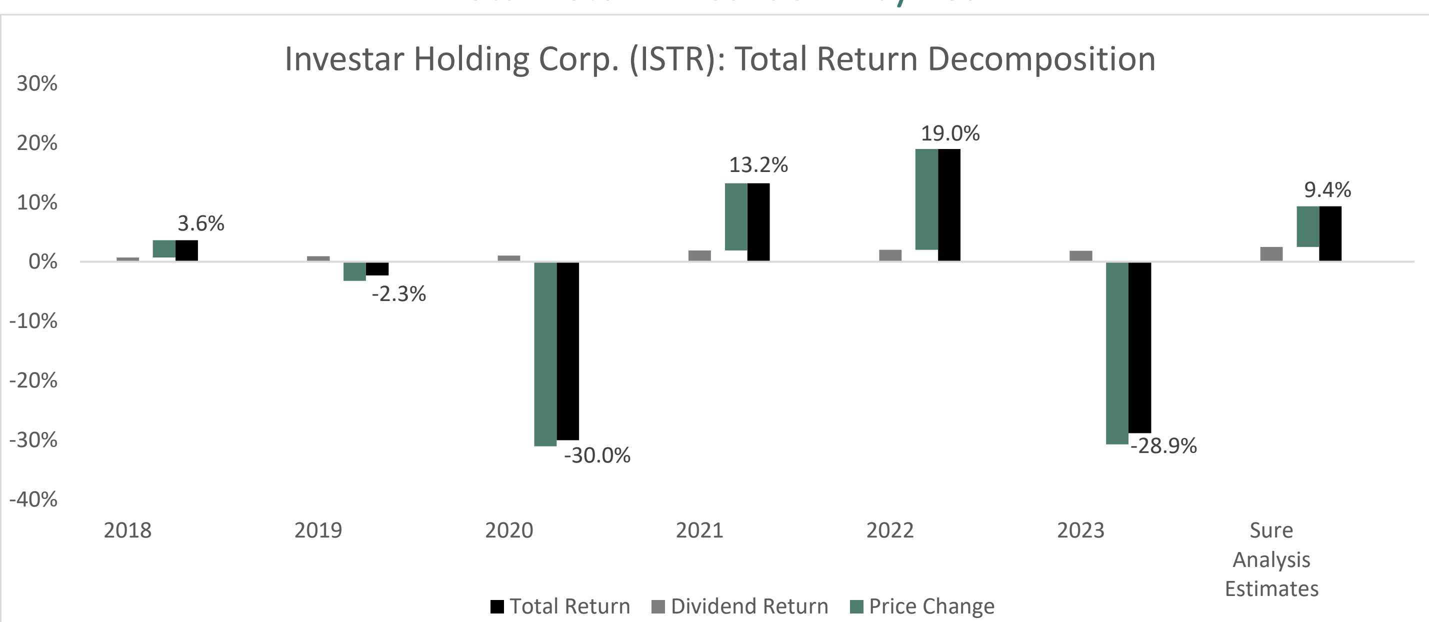
Investar Holding has raised its dividend for 10 consecutive years but it has always offered a lackluster dividend yield. It is currently offering a 2.1% dividend yield, which is much lower than the 3.1% median dividend yield of the financial sector. On the bright side, the bank has a healthy payout ratio of 28% and hence it can keep raising its dividend for years.

On the other hand, due to its commercial orientation, Investar Holding is highly vulnerable to recessions. It incurred a -54% plunge in its earnings-per-share between 2019 and 2021, due to the pandemic, and the stock dived more than 60% from peak to trough during that downturn. Therefore, the stock is suitable only for investors who can stomach high stock price volatility and remain patient during recessions and downturns of the financial sector.

Final Thoughts & Recommendation

Thanks to increased odds of a soft landing of the economy, i.e., a decrease in inflation without a recession, Investar Holding has rallied 66% in the last 12 months. The stock could still offer a 9.4% average annual return over the next five years thanks to 8.0% growth of earnings-per-share and its 2.1% dividend, partly offset by a -0.5% valuation headwind. It thus receives a hold rating but investors should always be aware of its high sensitivity to economic conditions.

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	33	40	39	46	62	71	86	96	108	82
SG&A Exp.	15	17	16	19	26	29	34	36	35	37
D&A Exp.	1	1	1	2	3	3	5	5	4	4
Net Profit	5	7	8	8	14	17	14	8	36	17
Net Margin	16.6%	17.8%	20.2%	17.8%	22.1%	23.7%	16.2%	8.3%	32.9%	20.2%
Free Cash Flow	(93)	33	33	7	11	11	10	30	42	25
Income Tax	1	4	4	4	4	4	3	2	9	4

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	879	1,032	1,159	1,623	1,786	2,149	2,321	2,513	2,754	2,815
Cash & Equivalents	19	21	29	30	17	44	35	97	40	32
Goodwill & Int. Ass.	3	3	3	20	20	31	32	44	43	42
Total Liabilities	776	922	1,046	1,450	1,604	1,907	2,078	2,271	2,538	2,588
Long-Term Debt	129	131	87	191	231	180	169	130	440	289
Shareholder's Equity	103	109	113	173	182	242	243	243	216	227
LTD/E Ratio	1.25	1.20	0.78	1.10	1.26	0.75	0.70	0.54	2.04	1.27

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.7%	0.7%	0.6%	0.8%	0.9%	0.6%	0.3%	1.4%	0.6%
Return on Equity	6.8%	6.6%	7.1%	5.7%	7.7%	7.9%	5.7%	3.3%	15.6%	7.5%
ROIC	3.3%	3.0%	3.6%	2.9%	3.5%	4.0%	3.3%	2.0%	6.9%	2.8%
Shares Out.	5.8	7.3	7.1	8.5	9.7	10.0	10.9	10.4	10.0	9.8
Revenue/Share	5.63	5.46	5.45	5.46	6.37	7.08	7.88	9.17	10.65	8.37
FCF/Share	(16.1)	4.59	4.65	0.87	1.19	1.06	0.93	2.87	4.10	2.56

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