



Andover Bancorp (ANDC)

Updated October 2nd, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$19.00	5 Year CAGR Estimate:	0.0%	Market Cap:	\$39.6 M
Fair Value Price:	\$14.40	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	12/12/2024 ¹
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	01/02/2024
Dividend Yield:	3.9%	5 Year Price Target	\$15.13	Years Of Dividend Growth:	41
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

Andover Bancorp is a financial holding company that operates via its wholly-owned subsidiary, Andover Bank. Founded in 1884, Andover Bank has a long history of providing community-focused financial services in northeastern Ohio and western Pennsylvania regions. The company operates through 10 branches and a loan production office, serving both individual and commercial customers. Its financial services include traditional products like deposit accounts, loan services, and mortgage lending as well as additional services such as debit card processing, investment services, and bank-owned life insurance policies. In 2023, Andover Bank reported total assets of \$558 million and total deposits of about \$524.6 million. The company has a market cap of merely \$39.6 million.

On March 13th, 2024, Andover Bancorp released its annual results for the period ending December 31st, 2023. For the year, net earnings landed at \$3.78 million, or \$1.80 per share, down from \$4.87 million or \$2.29 per share in 2022. Net interest income was \$14.4 million, slightly down from \$15.0 million in 2022, primarily due to a sharp increase in interest expense on deposits, which rose to \$3.0 million from \$549,000 the previous year. This increase was only partially offset by a \$1.8 million increase in interest income. Provision for credit losses saw a recovery of \$46,900, versus a recovery of \$100,000 in 2022. Non-interest income grew to \$3.8 million, up 9.7%, while non-interest expenses rose to \$14.3 million, driven mainly by higher salaries and data processing fees. For 2024, we anticipate continued pressure on earnings due to high interest rates, with EPS expected to remain close to \$1.80.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	\$1.33	\$1.51	\$1.56	\$1.57	\$1.56	\$1.85	\$2.42	\$2.29	\$1.80	\$1.80	\$1.89
DPS	\$0.685	\$0.695	\$0.705	\$0.710	\$0.725	\$0.730	\$0.735	\$0.740	\$0.745	\$0.750	\$0.750	\$0.79
Shares²	2.5	2.5	2.5	2.5	2.4	2.4	2.3	2.2	2.1	2.1	2.1	2.0

Andover Bancorp's EPS track record from 2015 to 2023 reflects a series of fluctuations driven by a mix of organic growth, economic conditions, and M&A. During this eight-year period, EPS grew at a CAGR of about 4%. The company recorded steady EPS growth from \$1.33 in 2015 to \$1.57 by 2018, supported by conservative lending practices and local economic stability. The acquisition of Community National Bank of Northwestern Pennsylvania in 2015 also contributed to boosted scale and earnings, as evidenced by consistent growth during that period.

From 2019 to 2020, EPS rose from \$1.56 to \$1.85, boosted by favorable interest rates and economic growth prior to the pandemic. The spike to \$2.42 in 2021 was largely attributed to the post-pandemic economic rebound and elevated loan demand, which benefited the bank's core lending operations. However, by 2022 and 2023, EPS declined to \$2.29 and \$1.80, respectively, due to rising interest rates and inflation, which increased the cost of deposits and reduced loan demand. The bank's conservative management helped stabilize operations, but the following rapid rate hikes by the Fed strained margins. Moving forward, we believe EPS will grow at a CAGR of just 1%, as we doubt if Andover's conservative practices and size can lead to competitive net interest margins or meaningful growth in its deposits.

¹ Estimated dated based on past dividend dates.

² Share count is in millions.

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Regarding the dividend, while we were unable to confirm this via multiple sources, the bank's latest annual report claims the company has grown its annual dividend for 41 consecutive years. Nevertheless, the increases have been weak, with the dividend growth CAGR over the past ten and five years standing at 1% and 0.5%, respectively. We believe this also illustrates the company's rather limited growth prospects moving forward. Thus, we project a 1% growth through 2029, matching our EPS growth estimate. It's worth noting that modest buybacks have taken place over the past decade.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	18.0	16.6	16.0	14.6	13.5	9.7	7.9	8.7	10.8	10.6	8.0
Avg. Yld.	---	2.9%	2.8%	2.8%	3.2%	3.5%	4.1%	3.9%	3.7%	3.8%	3.9%	5.2%

Excluding the relatively insignificant period between 2015 and 2017, when Andover's stock had very low trading volume, the company has generally traded at P/E ratios in the high-single digits to low teens, in-line with its regional bank peers. Currently, the stock is trading at 10.6 times our projected EPS for the year, which we view as a high multiple considering the limited growth prospects and risks related to its lack of geographic scope and scale. As a result, we have set our fair value multiple at 8X, suggesting potential valuation headwinds. While the dividend yield, now at 3.9%, offers a modest contribution to the stock's total return prospects, we expect a higher yield from Andover in the medium term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

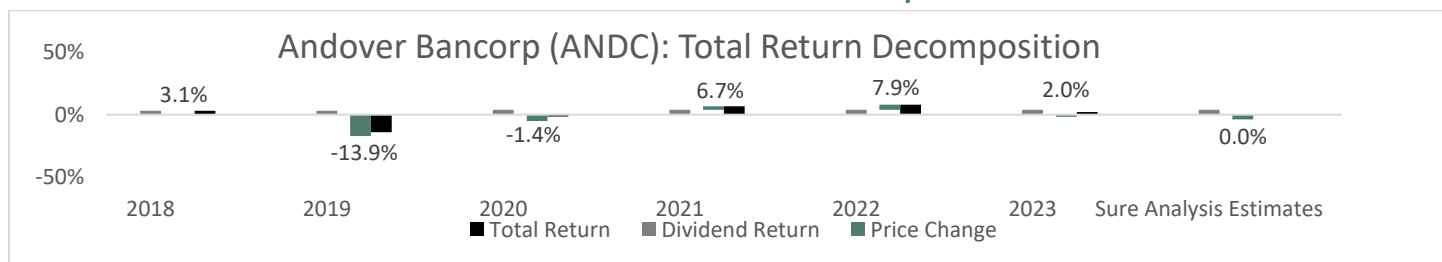
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	52%	47%	46%	46%	47%	40%	31%	33%	42%	42%	42%

Andover's competitive advantages lie in its strong community banking model, conservative financial management, and long-standing presence in northeastern Ohio and western Pennsylvania. Its focus on sustaining high asset quality, careful loan underwriting, and avoiding riskier financial products like brokered deposits and excessive wholesale borrowings has helped the bank remain stable even in uncertain economic environments. For example, during the challenging economic environment post-COVID, the bank remained profitable, reflecting its resilience and prudent risk management. While its regional presence provides a solid foundation, however, the bank's smaller scale compared to national competitors may limit its ability to leverage technology and innovation as rapidly, which could be a potential vulnerability in the long run. In any case, Andover's focus on core deposits and relationship-based banking continues to offer a durable moat against larger, less personalized financial institutions, and so for this reason we remain confident in its dividend coverage. Note that only a few hundred shares a day are traded Over the Counter (OTC). The stock is highly illiquid.

Final Thoughts & Recommendation

Andover's robust community presence and footprint in the areas it serves make it a seemingly solid choice for investors seeking exposure to a well-managed regional bank with a track record of consistent earnings and dividend growth. That said, we believe the stock may be unable to deliver meaningful returns moving forward. Our growth projections are too soft, while valuation headwinds could offset returns from the dividend. Thus, Andover Bancorp earns a sell rating.

Total Return Breakdown by Year



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Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue						15	16	18	18	18
SG&A Exp.						1	1	1	1	1
D&A Exp.						1	1	1	1	1
Net Profit						4	4	5	5	4
Net Margin						24.4%	26.6%	30.1%	26.4%	20.7%
Free Cash Flow						4	8	6	6	5
Income Tax						0	0	0	0	0

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets						427	527	575	571	558
Cash & Equivalents						13	19	18	15	29
Goodwill & Int. Ass.						3	3	3	3	3
Total Liabilities						384	478	528	558	538
Accounts Payable						0	0	0	0	1
Long-Term Debt						15	18	20	30	10
Shareholder's Equity						43	49	47	14	20
LTD/E Ratio						0.35	0.36	0.42	2.18	0.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets							0.9%	1.0%	0.9%	0.7%
Return on Equity							9.3%	11.3%	16.2%	22.2%
ROIC							6.9%	8.1%	8.9%	10.3%
Shares Out.	2.5	2.5	2.5	2.5	2.4	2.4	2.3	2.2	2.1	2.1
Revenue/Share						6.37	6.94	8.05	8.66	8.69
FCF/Share						1.51	3.59	2.85	2.64	2.59

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

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