Colony Bankcorp (CBAN)

Published September 30th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$15	**5 Year CAGR Estimate:**	7.7%	**Market Cap:**	$268 M
Fair Value Price:	$16	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	11/5/24
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	11/20/24
Dividend Yield:	3.0%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	8
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Colony Bankcorp (CBAN) is the holding company of Colony Bank, the largest community bank in Georgia, which was founded in 1975 and is headquartered in Fitzgerald, Georgia. It operates 34 branches in Georgia, 1 branch in Alabama and 1 branch in Florida and provides various banking products and services to commercial customers and consumers. Commercial real estate loans comprise 55% of total loans while commercial, financial and agricultural loans comprise 31% of total loans. Colony Bankcorp has total assets of $3.0 billion and a market capitalization of $268 million.

In late July, Colony Bankcorp reported (7/24/24) financial results for the second quarter of fiscal 2024. Loans grew 0.35% but deposits decreased -2.5% sequentially. Net interest margin contracted from 2.77% in the prior year's quarter to 2.68% due to higher deposit costs amid 23-year high interest rates. As a result, net interest income dipped -4%. However, noninterest income grew 6% and thus earnings-per-share edged up 3%, from $0.33 to $0.34, exceeding the analysts' consensus by $0.04. On the one hand, the dip in net interest margin was in contrast to the performance of most banks and hence it was disappointing. It is also remarkable that Colony Bankcorp has a much lower net interest margin that the average regional bank, mostly due to its focus on commercial customers. On the other hand, as the Fed just began reducing interest rates, the net interest margin of the bank is likely to expand in the upcoming quarters. We expect a nearly 5% increase in earnings-per-share this year, from $1.29 to $1.35.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.57	$0.71	$0.84	$0.87	$1.40	$1.12	$1.24	$1.66	$1.28	$1.29	***$1.35***	***$1.64***
DPS	---	---	---	$0.10	$0.20	$0.30	$0.40	$0.41	$0.43	$0.44	***$0.45***	***$0.50***
Shares[2]	8.4	8.5	8.5	8.6	8.5	9.1	9.5	13.7	17.6	17.6	***17.6***	***20.0***

Colony Bankcorp has grown its earnings-per-share by 9.5% per year on average over the last decade but with significant volatility. If the bank meets our forecast for earnings-per-share this year, it will have grown its earnings-per-share by 3.8% per year on average over the last five years. In the long run, the bank aims to grow its customer base by 8%-12% per year, both organically and via acquisitions, and benefit from economies of scale. In addition, the Fed just began reducing interest rates and expects to reduce them further, from 4.75%-5.0% now to 2.75%-3.0% after 2026. As a result, Colony Bankcorp is likely to see its net interest margin expand meaningfully in the upcoming years. Given the somewhat low comparison base formed this year but also the choppy performance record of this bank, we expect 4.0% average annual growth of earnings-per-share over the next five years, in line with the 5-year average of the company.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.4	12.1	11.7	15.8	11.8	14.5	10.0	10.2	12.2	8.3	***11.1***	***11.8***
Avg. Yld.	---	---	---	0.7%	1.2%	1.8%	3.2%	2.4%	2.8%	4.1%	***3.0%***	***2.6%***

[1] Estimated date.

[2] 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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Colony Bankcorp has traded at an average price-to-earnings ratio of 11.8 over the last decade. We assume this valuation level as fair for this stock. The stock is currently trading at a price-to-earnings ratio of 11.1, which is lower than the historical average of the bank. If the stock trades at its average valuation level in five years, it will enjoy a 1.2% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	11%	14%	27%	32%	25%	34%	34%	***33%***	***30%***

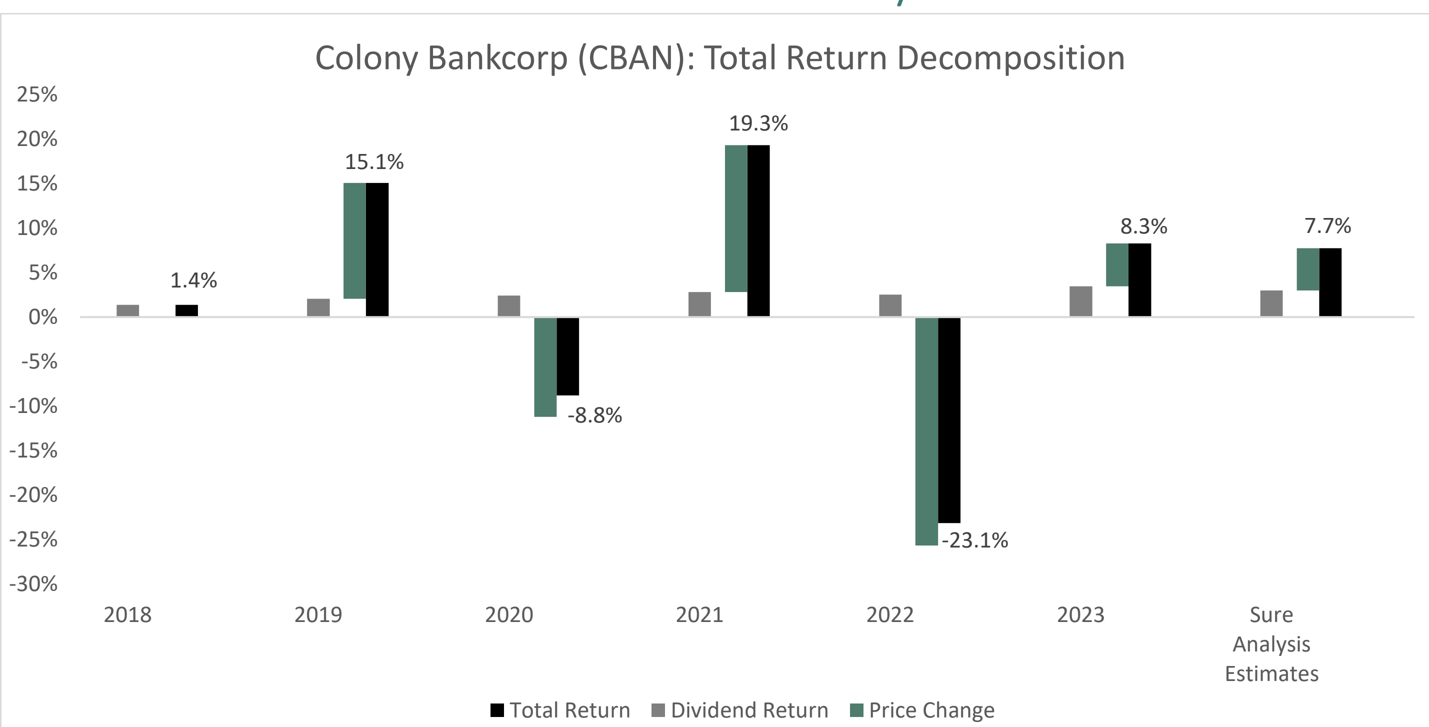
Colony Bankcorp has raised its dividend for 8 consecutive years. The bank is currently offering a dividend yield of 3.0%, which is lackluster and marginally lower than the 3.1% median dividend yield of the financial sector. The bank has a healthy payout ratio of 33% and hence it can continue raising its dividend in the upcoming years. On the other hand, Colony Bankcorp has grown its dividend by only 3.2% per year on average over the last three years. Overall, the dividend appears safe in the absence of a severe downturn but yield and growth are modest.

Colony Bankcorp has a healthy Tier 1 Capital Ratio of 12.3% but it has exhibited a somewhat volatile performance record and has proved vulnerable to recessions and downturns of the financial sector. It incurred a -20% decrease in its earnings-per-share in 2019 and a -23% decrease in its bottom line in 2022 due to the surge of inflation and interest rates. Overall, the stock is suitable only for investors who can tolerate stock price volatility during downturns.

Final Thoughts & Recommendation

Colony Bankcorp has rallied 56% in the last 12 months thanks to the moderation of inflation and expectations for lower interest rates in the upcoming years. Despite its steep rally, the stock remains reasonably valued and can offer a 7.7% average annual return over the next five years thanks to 4.0% growth of earnings-per-share, its 3.0% dividend and a 1.2% valuation tailwind. The stock receives a hold rating but investors should be aware of the risks related to the small market cap of the bank and its somewhat volatile business performance.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	47	47	48	49	50	62	79	102	116	114
SG&A Exp.	22	22	23	24	20	28	36	48	56	53
D&A Exp.	3	3	3	3	2	3	6	9	12	9
Net Profit	8	8	9	8	12	10	12	19	20	22
Net Margin	16.0%	17.9%	18.2%	15.9%	23.6%	16.5%	14.9%	18.2%	16.9%	19.1%
Free Cash Flow	13	11	10	11	12	0	(23)	30	47	17
Income Tax	3	4	4	7	3	2	3	4	3	5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,147	1,174	1,210	1,233	1,252	1,515	1,764	2,692	2,937	3,053
Cash & Equivalents	46	61	75	58	10	16	17	19	21	25
Goodwill & Int. Ass.	0	0	0	0	1	20	18	60	55	53
Total Liabilities	1,048	1,079	1,117	1,142	1,156	1,385	1,619	2,474	2,706	2,798
Long-Term Debt	64	64	70	72	68	86	60	88	203	238
Shareholder's Equity	71	77	84	90	96	131	144	218	230	255
LTD/E Ratio	0.65	0.67	0.75	0.79	0.71	0.66	0.42	0.41	0.88	0.94

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%	1.0%	0.7%	0.7%	0.8%	0.7%	0.7%
Return on Equity	8.0%	8.6%	9.2%	8.4%	12.8%	9.0%	8.6%	10.3%	8.7%	9.0%
ROIC	4.7%	5.2%	5.4%	4.8%	7.3%	5.4%	5.6%	7.3%	5.3%	4.7%
Shares Out.	8.4	8.5	8.5	8.6	8.5	9.1	9.5	13.7	17.6	17.6
Revenue/Share	5.58	5.53	5.60	5.65	5.90	6.77	8.37	9.11	6.73	6.48
FCF/Share	1.55	1.29	1.19	1.30	1.42	0.04	(2.46)	2.69	2.73	0.99

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