First Financial Bankshares, Inc. (FFIN)

Updated October 22nd, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$5.4 B
Fair Value Price:	$31	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/13/2024[1]
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Dividend Payment Date:**	01/02/2025[2]
Dividend Yield:	1.9%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	14
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Founded in 1890 and headquartered in Abilene, Texas, First Financial Bankshares Inc (FFIN) is a financial and bank holding company with a strong focus on community banking. Concentrated solely in Texas, the company's competitive position thrives in this single geographic area. Through its subsidiaries, the company offers a comprehensive range of commercial banking services, including checking, savings, and time deposits, as well as modern conveniences like internet and mobile banking.

On October 17th, 2024, the company announced results for the third quarter of 2024. FFIN reported non-GAAP EPS of $0.39, in-line with market's estimates, and revenues of $139.47 million were up 14.1% year-over-year.

Increases in loans, deposits, and net interest income underpin this growth. Management emphasized a net interest income increase from $103.27 million to $107.11 million in the third quarter, coupled with an improved net interest margin of 3.50%. This reflected business strength despite deteriorating economic conditions, such as rising interest rates, inflation, and tighter credit markets, which have impacted loan demand and raised funding costs. However, FFIN has managed to improve its net interest margin, indicating resilience in a tough environment.

The provision for credit losses (PCLs) rose to $6.12 million in Q3 2024, up from $5.89 million in the second quarter and $2.28 million in the third quarter of 2023. This increase reflects the bank's efforts to build reserves in response to potential loan defaults amid a more uncertain economic climate. Nonperforming assets were 0.83% of loans and foreclosed assets. First Financial's total noninterest income significantly increased to $32.36 million, while the trust fee income increased by 16.36% due to growth in the assets under management. However, higher interest rates have slightly constrained the growth of mortgage income, as elevated borrowing costs reduce consumer demand for new mortgages and refinancing activities. Despite ongoing concerns in the banking sector, including the impact of rising interest rates and economic uncertainties, FFIN's performance remains robust.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.70	$0.77	$0.79	$0.91	$1.11	$1.22	$1.42	$1.60	$1.64	$1.40	***$1.53***	***$2.15***
DPS	$0.28	$0.31	$0.35	$0.38	$0.41	$0.47	$0.51	$0.58	$0.66	$0.72	***$0.72***	***$1.16***
Shares[3]	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2	144.9	***146.8***	***157.0***

High interest rates could reduce consumer demand for credit, particularly for residential real estate loans, which account for about 25% of the total loan portfolio. However, the anticipated lower rates might compress net interest margins, and the company's strategic focus on loan growth and asset reallocation positions it well to navigate these changes. FFIN aims to capitalize on lower borrowing costs to drive loan demand and support deposit growth. The company is committed to maintaining strong financial performance and delivering value to shareholders and customers, even in a potentially lower-rate environment for the remainder of 2024.

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[1] Estimated ex-dividend date.
[2] Estimated payment date.
[3] In millions.

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As a result, we matched analysts' EPS estimates of $1.53 in 2024 and have maintained an annual expected EPS growth rate of 7.0% for the next five years, lower than the bank's long-term growth rates, which could mean EPS of $2.15 by 2029. First Financial Bankshares' DPS had a 10-year and five-year CAGR of 11.1% and 32.5%, respectively. Moreover, the bank has consistently increased dividend distributions to shareholders for the past 14 years, and we expect it to continue this trend.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.5	19.9	21.8	23.6	24.4	26.1	21.4	29.8	25.3	21.1	***24.2***	***20.0***
Avg. Yld.	1.9%	2.0%	2.0%	1.8%	1.5%	1.5%	1.7%	1.2%	1.6%	2.4%	***1.9%***	***2.7%***

First Financial Bankshares is trading at a forward P/E of 24.2, higher than its long-term average P/E of around 23.5. Considering the banking sector's fears, a lower multiple is justifiable. Even though our FFIN thesis remains intact, we believe that a P/E multiple of 20.0 fairly reflects the bank's risk/reward profile, suggesting a target price of $43 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

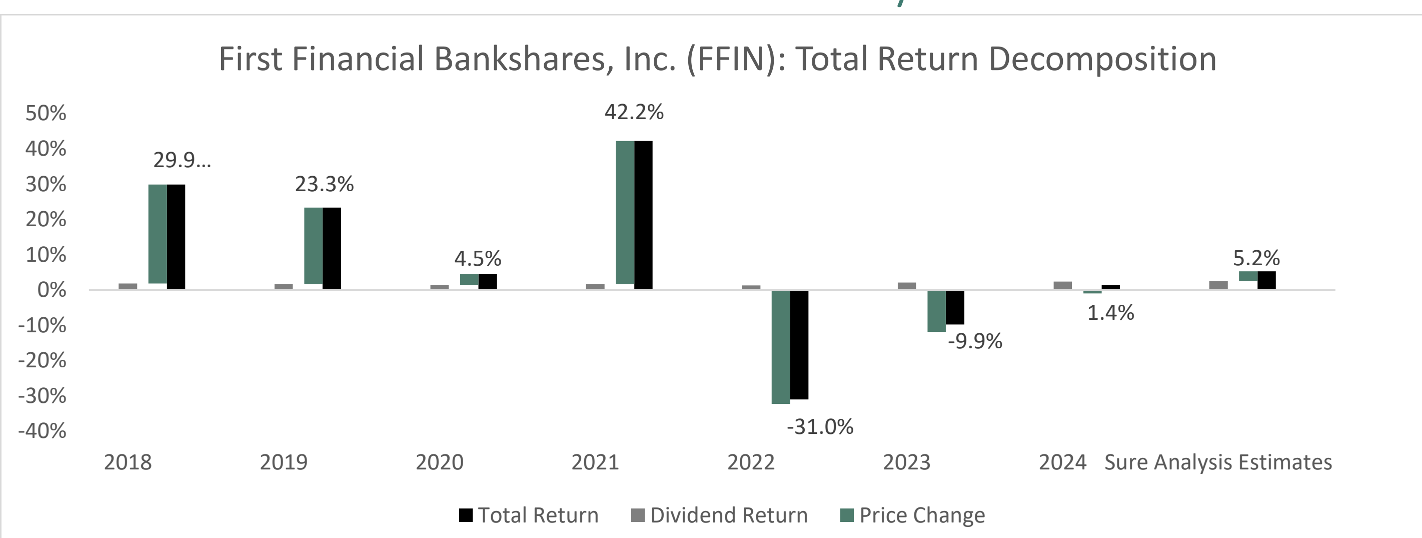
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	40%	40%	44%	42%	37%	39%	36%	36%	40%	51%	***47%***	***54%***

First Financial Bankshares boasts a competitive advantage stemming from its unwavering commitment to customer-centric services and localized approach. The bank has demonstrated resilient recession performance throughout economic downturns due to its conservative lending practices and diversified portfolio. This strategic approach has minimized risk and upheld stability. Finally, First Financial's prudent financial management is evidenced by its manageable debt levels, further contributing to its position as a robust and trustworthy financial institution.

Final Thoughts & Recommendation

Despite concerns in the banking sector, the stock has gained since our last report. Thus, we reaffirm our hold rating, premised upon the 5.2% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0% and the 1.9% dividend yield, offset by a valuation headwind.

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	253	284	304	319	364	387	478	500	520	478
SG&A Exp.	81	88	99	103	114	122	141	151	143	145
D&A Exp.	9	11	12	13	13	12	13	13	13	13
Net Profit	90	100	105	120	151	165	202	228	234	199
Net Margin	35.4%	35.4%	34.5%	37.7%	41.3%	42.6%	42.3%	45.6%	45.1%	41.6%
Free Cash Flow	114	92	140	176	169	194	194	334	308	268
Income Tax	29	31	31	27	28	33	40	44	46	44

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,848	6,665	6,810	7,255	7,732	8,262	10,905	13,102	12,974	13,110
Cash & Equivalents	262	273	255	374	250	279	729	529	331	537
Goodwill & Int.	97	144	144	141	175	174	318	317	316	315
Total Liabilities	5,167	5,860	5,972	6,332	6,679	7,035	9,226	11,343	11,708	11,610
Long-Term Debt	1	299	75	-	55	-	-	21	21	21
Total Equity	682	805	838	923	1,053	1,227	1,678	1,759	1,266	1,499
LTD/E Ratio	0.00	0.37	0.09	-	0.05	-	-	0.01	0.02	0.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.6%	1.6%	1.6%	1.7%	2.0%	2.1%	2.1%	1.9%	1.8%	1.5%
Return on Equity	14.1%	13.5%	12.8%	13.7%	15.2%	14.5%	13.9%	13.2%	15.5%	14.4%
ROIC	10.3%	11.2%	10.4%	13.1%	14.8%	14.1%	13.9%	13.2%	15.3%	14.2%
Shares Out.	128.6	130.1	132.2	132.6	136.0	136.3	142.5	143.1	143.2	143
Revenue/Share	1.97	2.18	2.30	2.41	2.68	2.84	3.35	3.49	3.63	3.34
FCF/Share	0.89	0.70	1.06	1.33	1.24	1.42	1.36	2.33	2.15	1.87

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