Lakeland Financial Corporation (LKFN)

Updated October 25th, 2024, by Kody Kester

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$1.6B
Fair Value Price:	$62	**5 Year Growth Estimate:**	6.4%	**Ex-Dividend Date[1]:**	01/24/25
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	02/05/25
Dividend Yield:	3.0%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	11
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 1872, Lakeland Financial Corporation is a community bank headquartered in Warsaw, Indiana. LKFN is the holding company for its wholly-owned subsidiary, Lake City Bank. Via its 54 branch offices, the company serves Northern Indiana and Central Indiana, in the Indianapolis area. LKFN earns the distinction of being the third oldest financial institution headquartered in Indiana. As of September 30th, it had $6.6 billion in banking assets and $3.4 billion in trust, and retirement and investment brokerage assets. That makes it the seventh biggest bank holding company headquartered in Indiana.

LKFN provides a variety of products and services to its commercial and consumer customers. Savings products include savings accounts, checking accounts, and money market accounts. On the loan side, the company offers consumer mortgage loans, construction loans, and agricultural loans. LKFN also provides customers with treasury management, wealth advisory, trust, and retail brokerage services.

Rather than emphasizing acquisitions to grow, the bank focuses on execution to drive organic business growth. Approximately two-thirds of the company's 15 counties in which it has branch offices are classified as either growth or high-growth counties economically. Growth in the existing book of business and gradual openings of additional branch offices have led to record net income in 32 out of the past 35 years.

On October 25th, LKFN released its financial results for the third quarter ended September 30th. The company's net interest income increased by 1.9% over the year-ago period to $49.3 million during the quarter. Organic loan growth of 5% outpaced organic deposit growth of 4% in the quarter. That's how LKFN's net interest income moved higher despite a 5-basis point contraction in the net interest margin to 3.16% for the quarter. Noninterest income rose by 10% to $11.9 million during the quarter, which was due to higher wealth advisory fees from customer growth and favorable market performance. LKFN's diluted EPS decreased by 7.1% in the quarter to $0.91. That was the result of growth in noninterest expenses and higher tax expenses in the quarter. This still managed to beat the analyst consensus by $0.04 for the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.74	$1.83	$2.05	$2.40	$3.13	$3.38	$3.30	$3.74	$4.04	$3.65	***$3.50***	***$4.77***
DPS	$0.55	$0.63	$0.73	$0.85	$1.00	$1.16	$1.20	$1.36	$1.60	$1.84	***$1.92***	***$2.45***
Shares[2]	24.7	24.8	24.9	25.0	25.1	25.4	25.2	25.3	25.4	25.4	***25.5***	***26.0***

Since the Federal Reserve began its rate-cutting cycle last month, we expect LKFN's net interest margin should start to see improvement. Along with organic loan growth, this is why we still anticipate 6.4% annual diluted EPS growth in the coming five years. In that time, the share count shouldn't grow by much. This is because LKFN doesn't need share issuances for its growth strategy.

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[1] Estimate

[2] Share count is 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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	16.4	17.0	23.1	20.2	12.9	14.4	16.2	21.4	18.1	17.8	***18.3***	***17.8***
Avg. Yld.	1.9%	2.0%	1.5%	1.8%	2.5%	2.4%	2.2%	1.7%	2.2%	2.8%	***3.0%***	***2.9%***

Since 2014, LKFN's P/E ratio has varied from the low double-digits to the mid-20s. This is why the 10-year average P/E ratio works out to 17.8. Moving forward, we still think this is a reasonable fair value estimate. That's because LKFN's growth prospects have largely held up in recent years. The present valuation multiple of 18.3 is modestly above our fair value estimate, so there doesn't appear to be a margin of safety here today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	34%	36%	35%	32%	34%	36%	36%	40%	50%	***55%***	***51%***

In its 150-plus years of operations, LKFN has built meaningful relationships with many of its customers. Along with its extensive product offerings, this helps it to retain existing customers. This reputation also allows it to attract new customers.

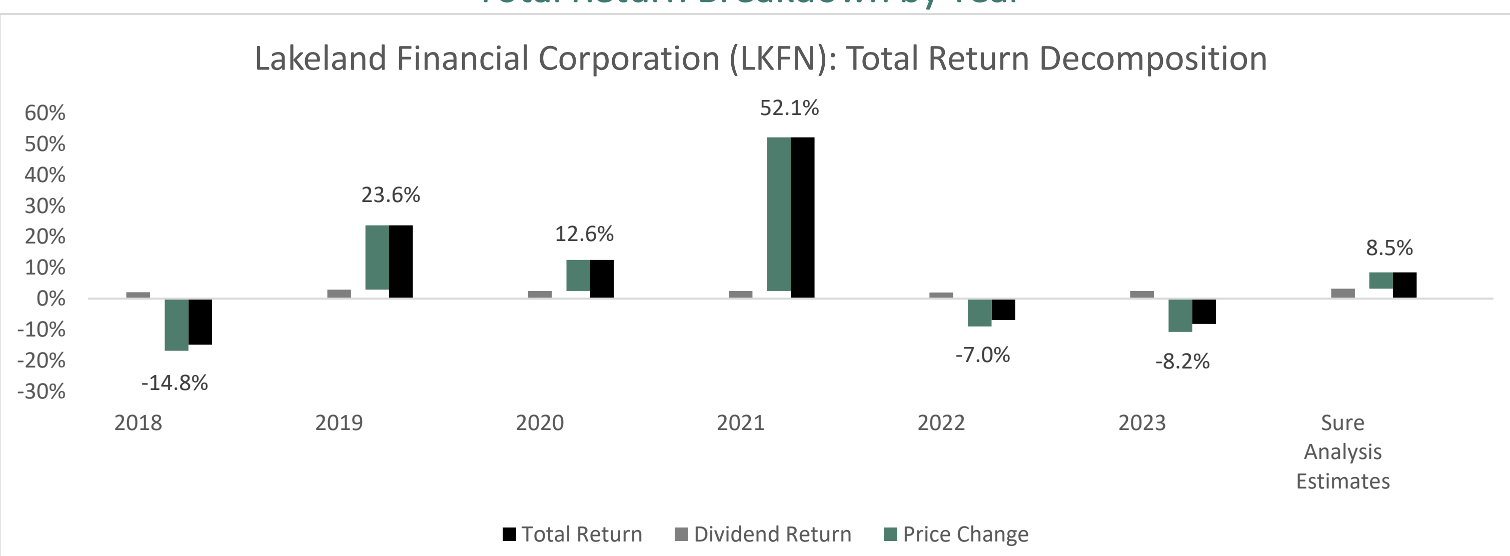
The placement of an industrial company in Northern Indiana in the nonperforming status category last quarter persisted into the third quarter. LKFN's non-performing assets ratio improved by a basis point to 0.87%. The company's financial positioning remained strong, though, with its Common Equity Tier 1 (CET1) ratio improving by 22 basis points sequentially to 14.5% for the quarter.

LKFN's payout ratio is going to be in the mid-50 % range in 2024. Since this year still looks like it will be a bottoming-out year for diluted EPS, that is a reasonable payout ratio.

Final Thoughts & Recommendation

LKFN's 3.0% dividend yield, 6.4% annual diluted EPS growth potential, and 0.6% annual valuation multiple contraction could combine to produce 8.5% annual total returns through 2029. This isn't sufficient for a buy rating, so we're maintaining our hold rating for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	126	130	143	164	182	190	198	223	245	247
SG&A Exp.	44	44	47	52	54	54	54	60	61	63
D&A Exp.	4	4	5	6	6	6	7	8	7	6
Net Profit	44	46	52	57	80	87	84	96	104	94
Net Margin	34.7%	35.7%	36.4%	35.0%	44.2%	45.9%	42.6%	43.0%	42.4%	38.0%
Free Cash Flow	48	47	52	68	97	92	82	108	165	108
Income Tax	22	23	25	32	19	20	20	22	21	17

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,443	3,766	4,290	4,683	4,875	4,947	5,830	6,557	6,432	6,524
Cash & Equivalents	91	81	167	176	217	99	250	683	130	152
Accounts Receivable	9	9	12	14	16	15	19	18	28	30
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	5
Total Liabilities	3,082	3,373	3,863	4,214	4,354	4,349	5,173	5,852	5,863	5,874
Accounts Payable	3	4	6	6	10	12	6	3	3	21
Long-Term Debt	136	101	211	111	201	170	86	75	275	50
Shareholder's Equity	361	393	427	469	522	598	657	705	569	650
LTD/E Ratio	0.38	0.26	0.49	0.24	0.39	0.28	0.13	0.11	0.48	0.08

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.3%	1.3%	1.3%	1.7%	1.8%	1.6%	1.5%	1.6%	1.4%
Return on Equity	12.8%	12.3%	12.7%	12.8%	16.2%	15.5%	13.4%	14.1%	16.3%	15.4%
ROIC	8.8%	9.4%	9.2%	9.4%	12.3%	11.7%	11.2%	12.6%	12.8%	12.1%
Shares Out.	24.7	24.8	24.9	25.0	25.1	25.4	25.2	25.3	25.4	25.4
Revenue/Share	5.01	5.14	5.62	6.38	7.07	7.36	7.74	8.70	9.52	9.60
FCF/Share	1.90	1.85	2.06	2.64	3.77	3.57	3.19	4.20	6.40	4.20

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