Orrstown Financial Services, Inc. (ORRF)

Updated October 23rd, 2024, by Kody Kester

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$730M
Fair Value Price:	$38	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	11/05/24
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	11/12/24
Dividend Yield:	2.4%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Founded in 1919, Orrstown Financial Services, Inc. is a community bank. ORRF serves as the holding company for its subsidiary, Orrstown Bank.

The company provides banking and financial advisory services to customers located in the south-central Pennsylvania counties of Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry, and York. ORRF also serves customers in Anne Arundel, Baltimore, Howard, and Washington counties in Maryland.

Savings products include money market accounts, savings accounts, certificates of deposit, and checking accounts. Loan products offered consist of residential mortgages, home equity lines of credit, commercial mortgages, construction loans, and commercial loans. Financial advisory services provided include fiduciary, investment advisory, and brokerage services.

Last December, the company announced a "merger of equals" with Codorus Valley Bancorp, which owns the bank subsidiary, PeoplesBank. This bank also serves customers in Pennsylvania and Maryland. On July 1st, 2024 the merger was finalized. For each share of Codorus Valley Bancorp that was owned just before that date, shareholders received 0.875 shares of ORRF. This explains the recent uptick in the share count. As of September 30th, ORRF's total assets were $5.5 billion.

On October 22nd, ORRF shared its financial results for the third quarter ended September 30th. The company's net interest income almost doubled (+97.2%) year-over-year to $51.7 million in the quarter. This was mostly driven by the acquisition of Codorus Valley Bancorp. Net accretion from the acquisition and a more favorable environment helped ORRF's net interest margin expand by 41 basis points over the year-ago period to 4.14% during the quarter. The acquisition and strength in wealth management led noninterest income to more than double (+109%) to $12.4 million for the quarter. ORRF's adjusted diluted EPS climbed 27.6% higher year-over-year to $1.11 in the quarter. This came in ahead of the analyst consensus by $0.18 for the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.59	$0.83	$0.81	$1.30	$1.81	$1.89	$2.21	$2.91	$3.25	$3.51	***$3.83***	***$5.50***
DPS	-	$0.22	$0.35	$0.42	$0.51	$0.60	$0.68	$0.74	$0.76	$0.80	***$0.92***	***$1.23***
Shares[1]	8.3	8.3	8.3	8.3	9.4	11.2	11.2	11.2	10.7	10.6	***19.4***	***19.4***

Of significance, ORRF's 2014 adjusted diluted EPS includes a favorable adjustment of $2.00 stemming from a recapture of the deferred tax asset valuation allowance. Factoring this out of the mix, the company's adjusted diluted EPS has compounded by around 9% annually from 2014 through 2023. In the medium term, we still think that adjusted diluted EPS growth will be in the high single-digits annually. That's because the Federal Reserve's rate-cutting cycle has just begun, which should further boost the company's net interest margin.

[1] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	4.7	21.5	27.7	19.5	10.1	11.7	7.5	8.7	7.1	8.4	***9.8***	***10.0***
Avg. Yld.	-	1.2%	1.6%	1.7%	2.8%	2.7%	4.1%	2.9%	3.3%	2.7%	***2.4%***	***2.2%***

Ranging from a trough valuation multiple of below five to a peak valuation multiple in the high 20s, ORRF's valuation has been all over the place since 2014. The average P/E ratio over this time was 12.7, though. The most recent five-year average is just 8.7. Assuming a middling valuation multiple of 10, ORRF could still be a sensible value from the current-year P/E ratio of 9.8.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-	27%	43%	32%	28%	32%	31%	25%	23%	23%	***24%***	***22%***

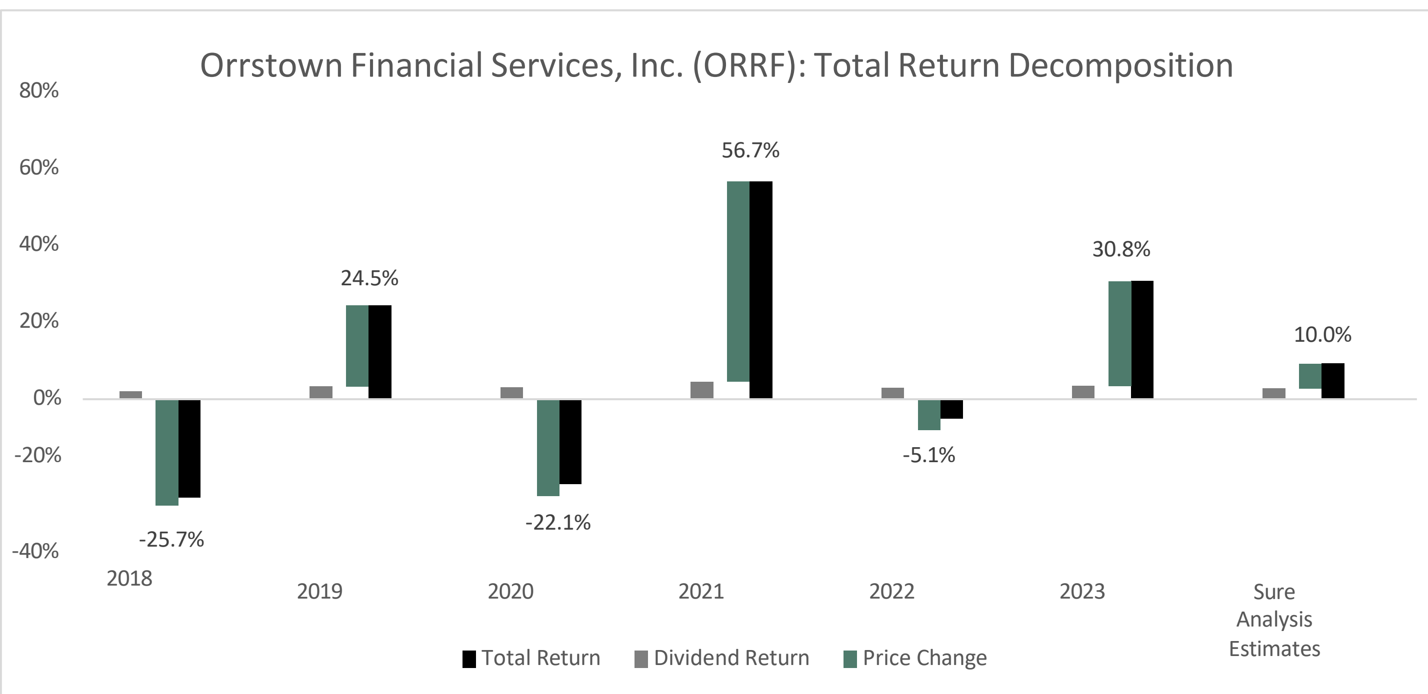
In its 105-year operating history, ORRF has fostered extensive relationships with its customers. This is helping it to retain existing customers and to gain new customers. Coupled with the improving macroeconomic environment, that should lead adjusted diluted EPS to compound over time.

As of September 30th, ORRF's NPAs/assets ratio was 0.49%. This suggests that the bank strives for asset quality. Furthermore, ORRF's payout ratio remains at around a quarter of its profits. Put another way, the bank could withstand a downturn in corporate profits and keep paying dividends to its shareholders. That sets up ORRF to likely extend its nine-year dividend growth streak in the years ahead.

Final Thoughts & Recommendation

ORRF's 2.4% dividend yield, 7.5% annual adjusted diluted EPS growth prospects, and 0.4% annual valuation multiple expansion could produce 10.0% annual total returns for shareholders through 2029. The valuation remains buyable here, so we're reaffirming our buy rating.

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	52	53	56	63	72	97	111	115	125	129
SG&A Exp.	30	30	34	36	38	46	47	48	52	56
D&A Exp.	3	3	3	3	4	6	7	5	5	4
Net Profit	29	8	7	8	13	17	26	33	22	36
Net Margin	56.0%	14.9%	11.9%	12.8%	17.7%	17.5%	23.9%	28.6%	17.6%	27.6%
Free Cash Flow	16	11	2	14	18	6	29	40	35	41
Income Tax	(16)	2	1	4	2	3	6	8	5	9

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,190	1,293	1,415	1,559	1,934	2,383	2,751	2,835	2,922	3,064
Cash & Equivalents	31	28	30	30	72	56	125	209	61	65
Accounts Receivable	3	4	5	5	6	6	9	8	11	14
Goodwill & Int. Ass.	0			1	17	27	24	23	22	21
Total Liabilities	1,063	1,160	1,280	1,414	1,761	2,160	2,504	2,563	2,694	2,799
Long-Term Debt	80	84	76	134	170	242	90	34	138	170
Shareholder's Equity	127	133	135	145	173	223	246	272	229	265
LTD/E Ratio	0.63	0.64	0.56	0.92	0.98	1.08	0.37	0.12	0.60	0.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.5%	0.6%	0.5%	0.5%	0.7%	0.8%	1.0%	1.2%	0.8%	1.2%
Return on Equity	26.6%	6.0%	4.9%	5.8%	8.0%	8.5%	11.3%	12.7%	8.8%	14.4%
ROIC	16.0%	3.7%	3.1%	3.3%	4.1%	4.2%	6.6%	10.2%	6.6%	8.9%
Shares Out.	8.3	8.3	8.3	8.3	9.4	11.2	11.2	11.2	10.7	10.6
Revenue/Share	6.41	6.47	6.82	7.66	6.56	9.21	10.05	10.35	11.70	12.39
FCF/Share	2.02	1.31	0.27	1.67	1.60	0.59	2.62	3.56	3.30	3.97

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