Republic Bancorp (RBCAA)

Published October 22nd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	2.3%	**Market Cap:**	$1.3 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date[1]:**	12/12/24
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	1/17/25
Dividend Yield:	2.4%	**5 Year Price Target**	$66	**Years Of Dividend Growth:**	23
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Sell

Overview & Current Events

Republic Bancorp is a financial holding company that is headquartered in Louisville, Kentucky, and provides both traditional and non-traditional banking products to its customers. It has 47 full-service banking centers in five states, with most of the centers in Kentucky, and has a market cap of $1.3 billion. The bank offers savings, checking and money market accounts while it also originates residential mortgage loans, home equity loans, commercial real estate loans, credit lines and offers personal and business banking services. Republic Bancorp is characterized by conservative management and thus it has raised its dividend for 23 consecutive years.

In mid-October, Republic Bancorp reported (10/18/24) financial results for the third quarter of 2024. The bank grew its loans 5% over the prior year's quarter. Net interest margin expanded from 3.43% in the prior year's quarter to 3.53% and net interest income grew 9%, assisted by loan growth. Earnings-per-share grew 25%, from $1.10 to $1.37, exceeding the analysts' consensus by $0.15. The bank has beaten the analysts' estimates in 10 of the last 14 quarters. Net interest margin expanded for the first time in more than a year. As the bank has exceeded our expectations, we have raised our forecast for annual earnings-per-share from $4.90 to $5.45.

Most banks faced material loan losses due to the pandemic in 2020, but Republic Bancorp proved resilient to that crisis thanks to its disciplined business model. The bank grew its earnings-per-share 3% in 2020 and 6% in 2021.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.38	$1.70	$2.22	$2.50	$3.74	$3.89	$3.99	$4.24	$4.59	$4.62	***$5.45***	***$5.73***
DPS	$0.74	$0.78	$0.83	$0.87	$0.97	$1.06	$1.14	$1.23	$1.36	$1.50	***$1.63***	***$2.00***
Shares[2]	20.9	20.9	21.0	21.0	21.1	21.1	21.1	20.8	20.0	19.7	***19.5***	***19.0***

Republic Bancorp has exhibited a solid performance record over the last decade. It has grown its earnings-per-share at a 14.4% average annual rate over the last decade and at a 4.3% average annual rate over the last five years. The bank is trying to grow by expanding its reach via digital channels and acquiring smaller peers, while it is also doing its best to reduce its operating costs. It is now facing a headwind from high deposit costs due to nearly 23-year high interest rates but the Fed expects to reduce interest rates from 5.0% to 2.75%-3.0% by 2026. This will probably help Republic Bancorp enhance its net interest margin, i.e., the difference between the interest rate it charges on loans minus the interest rate it pays on deposits. Given the high comparison base formed by the all-time high expected earnings-per-share this year, we expect 1.0% growth of earnings-per-share going forward.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.1	14.6	13.2	14.7	11.6	11.6	8.6	11.2	9.6	9.6	***12.3***	***11.5***
Avg. Yld.	3.1%	3.1%	2.8%	2.4%	2.2%	2.4%	3.3%	2.6%	3.1%	3.4%	***2.4%***	***3.0%***

[1] Estimated date.

[2] In millions.

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Republic Bancorp is currently trading at a price-to-earnings ratio of 12.3, which is higher than its 9-year average price-to-earnings ratio of 11.5. We expect the stock to trade at its average valuation level in five years. In such a case, the stock will incur a -1.3% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54%	46%	37%	35%	26%	27%	29%	29%	30%	32%	***30%***	***35%***

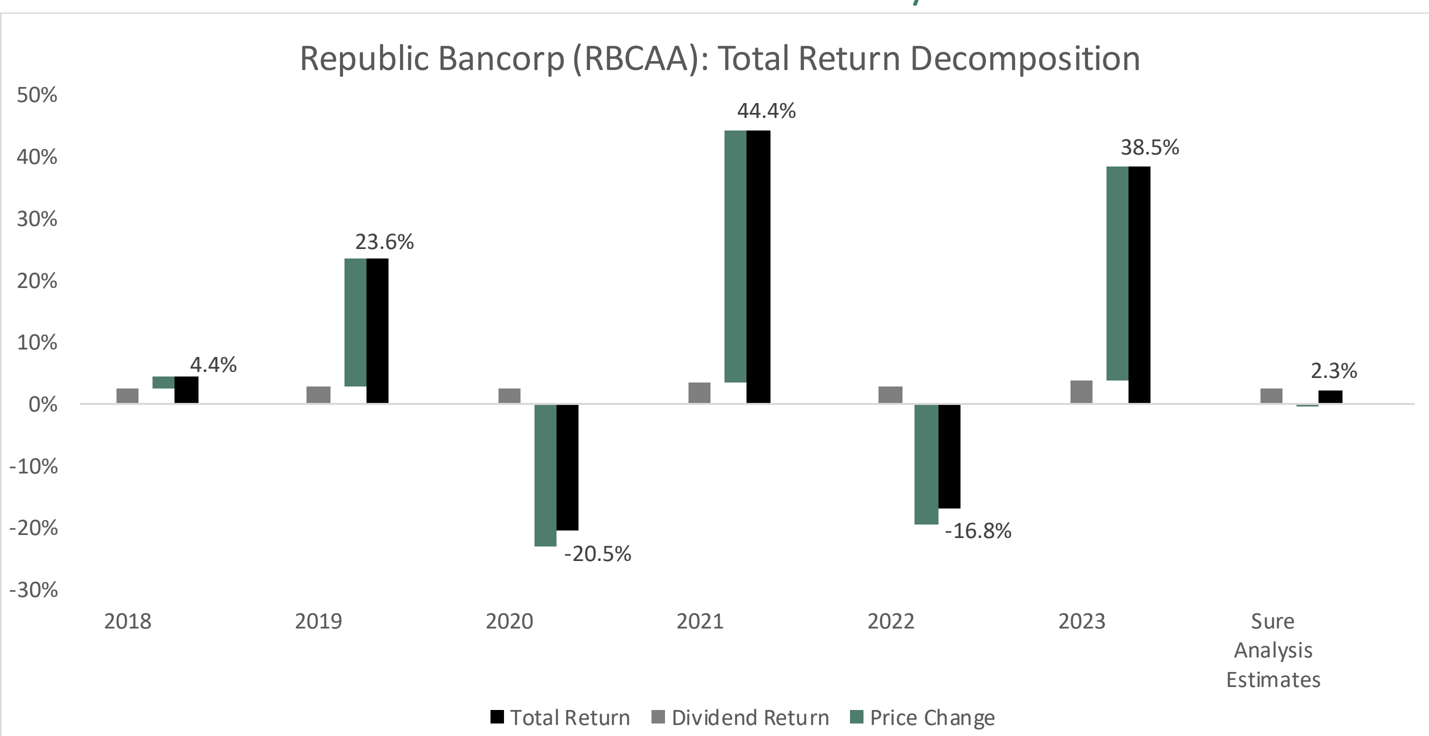
Republic Bancorp is characterized by disciplined management, which is focused on maintaining pristine credit quality metrics. Non-performing loans are only 0.38% of total loans while net loan charge-offs are only 0.14% of total loans. Thanks to its prudent strategy, the company has proved resilient to recessions. In the Great Recession, the worst financial crisis of the last 90 years, when most banks incurred severe losses and cut their dividends, Republic Bancorp continued growing its earnings and its dividend. The bank proved resilient throughout the pandemic as well.

The conservative strategy of the bank results in slower growth during boom times but much more reliable performance during downturns. This helps explain the superior dividend growth record of Republic Bancorp. The bank has raised its dividend by 9% this year and hence it has raised its dividend for 23 consecutive years. Given its solid payout ratio of 30% and its defensive business model, the bank can keep raising its dividend for many more years.

Final Thoughts & Recommendation

Republic Bancorp is a high-quality bank, which has proved resilient to recessions. The stock came under pressure last year due to the collapse of a few banks but it has endured the downturn and it has rallied 68% in the last 18 months. As a result, it has become less attractive. It could offer a 2.3% average annual return over the next five years, as 1.0% earnings-per-share growth and its 2.4% dividend could be partly offset by a -1.3% annualized valuation headwind. The stock receives a sell rating. In addition, investors should be aware of the low trading volume of this small-cap stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	152	168	209	253	285	298	315	302	309	354
SG&A Exp.	68	73	87	103	113	130	140	145	120	127
D&A Exp.	8	8	9	10	11	11	13	12	10	15
Net Profit	29	35	46	46	78	92	83	87	91	90
Net Margin	19.0%	20.9%	21.9%	18.0%	27.3%	30.7%	26.4%	28.7%	29.4%	25.4%
Free Cash Flow	19	45	41	65	109	92	72	94	151	102
Income Tax	16	18	23	33	16	21	19	24	26	23

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,747	4,230	4,816	5,085	5,240	5,620	6,168	6,094	5,836	6,595
Cash & Equivalents	73	210	289	299	351	385	486	757	314	317
Goodwill & Int. Ass.	10	10	16	16	16	16	16	16	16	41
Total Liabilities	3,188	3,654	4,212	4,453	4,550	4,856	5,345	5,259	4,979	5,682
Long-Term Debt	749	741	844	779	851	791	276	25	95	380
Shareholder's Equity	559	577	604	632	690	764	823	834	857	913
LTD/E Ratio	1.34	1.28	1.40	1.23	1.23	1.04	0.34	0.03	0.11	0.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	0.9%	1.0%	0.9%	1.5%	1.7%	1.4%	1.4%	1.5%	1.5%
Return on Equity	5.2%	6.2%	7.8%	7.4%	11.8%	12.6%	10.5%	10.5%	10.8%	10.2%
ROIC	2.3%	2.7%	3.3%	3.2%	5.3%	5.9%	6.3%	8.9%	10.1%	8.1%
Shares Out.	20.9	20.9	21.0	21.0	21.1	21.1	21.1	20.8	20.1	19.4
Revenue/Share	7.27	8.03	9.99	12.04	13.53	14.12	14.95	14.57	15.36	18.30
FCF/Share	0.91	2.14	1.94	3.11	5.19	4.37	3.41	4.51	7.53	5.12

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