German American Bancorp, Inc. (GABC)

Updated November 4th, 2024, by Kody Kester

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$1.2B
Fair Value Price:	$38	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	11/08/24
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	11/20/24
Dividend Yield:	2.6%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

In 1910, German American Bancorp, Inc. began in Jasper, Indiana, a community with a rich history of German American heritage (thus the company name). That serves as the holding company for its German American Bank subsidiary. The community bank operates 74 banking offices in 20 contiguous counties in Southern Indiana and 14 counties in Kentucky. As of September 30th, GABC had nearly $6.3 billion in assets.

The community bank provides a variety of services to customers across the following subsidiaries:

1. German American Bank: This subsidiary offers deposit products like savings and checking accounts, certificates of deposit, and money market accounts. It also provides loan products to customers, such as residential mortgage loans, agricultural loans, and commercial loans.
2. German American Investment Services, Inc.: The subsidiary provides customers with investment advisory, trust, brokerage, and retirement planning services.

As part of its growth strategy, GABC occasionally executes bolt-on acquisitions. On July 29th, GABC shared that it was going to be acquiring Heartland Bancorp (HLAN). As of September 30th, this bank had 20 full-service banking offices and $1.9 billion in total assets. Shareholders of HLAN will receive 3.9 shares of GABC for each share they own. This acquisition will expand GABC's operations in existing markets and help the company gain access to Columbus and Cincinnati, Ohio. These are two of the fastest-growing markets in the Midwest. The deal is still anticipated to close in the first quarter of 2025.

On October 28th, GABC shared its financial results for the third quarter ended September 30th. The company's net interest income increased by 1.2% over the year-ago period to $49.7 million in the quarter. A 10-basis point decline in net interest margin to 3.47% was more than offset by a 4.5% increase in outstanding loan balances during the quarter. GABC's non-interest income fell by 6.8% to $13.8 million for the quarter. That was because of the sale of GABC's insurance operations in the second quarter and a comparison of three months of revenue in the year-ago period. The company's diluted EPS decreased by 2.7% year-over-year to $0.71 during the quarter. This beat the analyst consensus by $0.01 for the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.43	$1.51	$1.57	$1.67	$1.99	$2.29	$2.34	$3.17	$2.78	$2.91	***$2.74***	***$3.84***
DPS	$0.43	$0.45	$0.48	$0.52	$0.60	$0.68	$0.76	$0.84	$0.92	$1.00	***$1.08***	***$1.51***
Shares[1]	19.8	19.9	22.9	22.9	25.0	26.7	26.5	26.6	29.5	29.6	***29.7***	***40.8***

Since 2014, GABC has grown diluted EPS by a high-single-digit rate annually. We believe that earnings growth will remain around this level in the years to come. GABC's net interest margin improved by 13 points sequentially and this momentum should continue as the Federal Reserve gradually lowers the federal funds rate. The acquisition of HLAN is also set to be completed next year. GABC has posted nearly 10% annual dividend growth in the past five years. In the years to come, we still think that high single-digit annual dividend growth is likely to persist.

[1] 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	13.7	14.7	22.3	21.2	14.0	15.4	14.1	12.3	13.4	11.1	***14.9***	***14.0***
Avg. Yld.	2.2%	2.0%	1.4%	1.5%	2.2%	1.9%	2.3%	2.2%	2.5%	3.1%	***2.6%***	***2.8%***

In the past decade, GABC's P/E ratio has varied from the low-double-digits to the low 20s. The average P/E ratio in that time was 15.2. Based on slightly conservative assumptions, we believe the fair value multiple remains around 14. This is because GABC's growth profile looks to be mostly intact versus prior years. The community bank's current-year multiple approaching 15 leaves no margin of safety here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30%	30%	31%	31%	30%	30%	32%	26%	33%	34%	***39%***	***39%***

GABC stands out from its peers with its 114-year operating history. This extensive corporate history has allowed it to build deep and meaningful relationships with existing customers. Thanks to this reputation, prospective customers are also more likely to become customers.

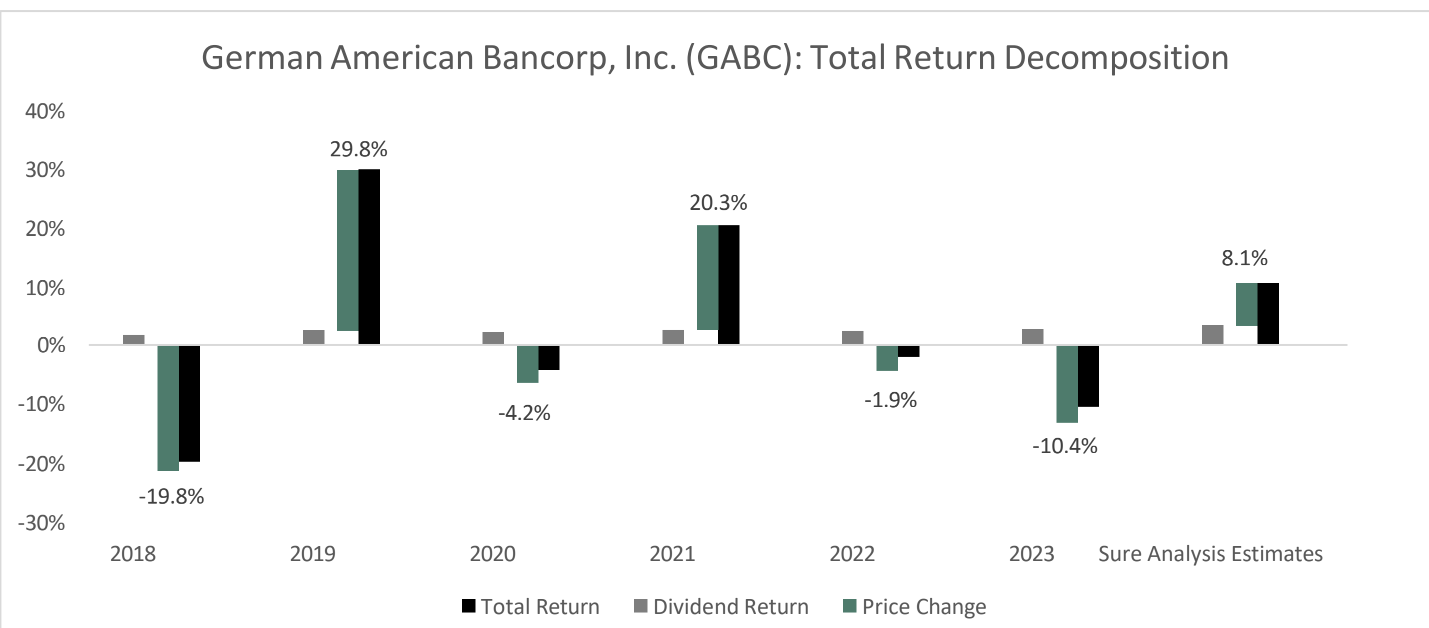
GABC's asset quality is also respectable. As of September 30th, the company's nonperforming assets were 0.15% of its portfolio. GABC's Common Tier 1 or CET1 ratio was 15% as of September 30th, which far exceeds the Federal Reserve Board's minimum of 4.5%.

GABC's payout ratio is primed to be in the high 30% range. This also puts the dividend in a position to keep rising in the years ahead.

Final Thoughts & Recommendation

GABC's 2.6% dividend yield, 7.0% annual diluted EPS growth prospects, and 1.2% annual valuation multiple contraction set it up to deliver 8.1% annual total returns over the medium term. The recent rally in shares means that the community bank is no longer attractively valued, so we're downgrading it to a hold 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	98	103	127	132	152	191	210	220	260	251
SG&A Exp.	36	40	48	51	56	69	72	74	90	91
D&A Exp.	5	4	4	5	6	9	9	9	10	10
Net Profit	28	30	35	41	47	59	62	84	82	86
Net Margin	28.8%	29.2%	27.7%	30.9%	30.7%	31.1%	29.7%	38.2%	31.5%	34.3%
Free Cash Flow	33	30	37	44	47	56	85	96	102	101
Income Tax	12	12	14	12	10	12	13	19	17	18

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,237	2,374	2,956	3,144	3,929	4,398	4,978	5,609	6,156	6,152
Cash & Equivalents	34	36	48	47	65	62	59	48	76	79
Goodwill & Int. Ass.	23	22	57	56	114	134	131	128	190	187
Total Liabilities	2,008	2,121	2,626	2,780	3,470	3,824	4,353	4,940	5,598	5,489
Long-Term Debt	150	196	208	230	318	303	138	81	125	125
Shareholder's Equity	229	252	330	365	459	574	625	668	558	664
LTD/E Ratio	0.65	0.78	0.63	0.63	0.69	0.53	0.22	0.12	0.22	0.19

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%	1.3%	1.4%	1.3%	1.6%	1.4%	1.4%
Return on Equity	13.2%	12.5%	12.1%	11.7%	11.3%	11.5%	10.4%	13.0%	13.3%	14.1%
ROIC	8.1%	7.3%	7.1%	7.2%	6.8%	7.2%	7.6%	11.1%	11.4%	11.7%
Shares Out.	19.8	19.9	22.9	22.9	25.0	26.7	26.5	26.6	29.5	29.6
Revenue/Share	4.95	5.18	5.67	5.75	6.49	7.39	7.90	8.30	8.81	8.48
FCF/Share	1.68	1.49	1.64	1.91	2.02	2.16	3.22	3.62	3.47	3.43

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