PSB Holdings Inc. (PSBQ)

Updated November 2nd, 2024, by Josh Arnold

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	2.7%	**Market Cap:**	$108 M
Fair Value Price:	$24	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	01/06/25[1]
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Dividend Payment Date:**	01/28/25
Dividend Yield:	2.5%	**5 Year Price Target**	$26	**Years Of Dividend Growth:**	31
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Sell

Overview & Current Events

PSB Holdings is the parent company of Peoples State Bank, or PSB, which opened its doors in 1962 in Wausau, Wisconsin. The company has paid dividends to shareholders continuously since 1965 and has increased its payment for 31 consecutive years. The bank has ten branches, and assets totaling $1.5 billion. The stock trades with a $108 million market cap, making it one of the smallest companies we cover.

PSB posted third quarter earnings on October 28th, 2024, and results were largely in line with expectations. The bank saw net income of $2.9 million, or 69 cents per share, which was much better than both the second quarter of this year, and the year-ago period. Those quarters came in at $2.3 million, or 56 cents per share, and $1.2 million, or 29 cents per share, respectively.

Earnings in Q3 reflected: higher net interest margin that increased six basis points, slightly lower non-interest income, lower non-interest expense due to the second quarter reflecting elevated severance expenses, and the return of a $2.5 million non-performing loan to performing status and a corresponding release in reserves.

Net interest income was up to $9.9 million for the quarter, from $9.4 million in Q2. The increase in asset and loan yields outpaced the increase in funding costs.

Noninterest income was down slightly to $1.8 million, from $1.9 million sequentially. Noninterest expenses were down in Q3, reflecting lower salary and benefit costs.

Nonperforming assets declined to 0.71% of total assets from 0.84% in the second quarter. We now have $2.25 in adjusted earnings-per-share forecast for this year, up a nickel from our prior estimate.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.30	$1.61	$1.83	$1.58	$2.29	$2.51	$2.40	$2.88	$3.07	$2.16	***$2.25***	***$2.48***
DPS	$0.27	$0.28	$0.30	$0.32	$0.34	$0.38	$0.41	$0.44	$0.48	$0.55	***$0.64***	***$0.78***
Shares[2]	5.0	4.8	4.6	4.6	4.5	4.5	4.4	4.4	4.3	4.2	***4.1***	***3.8***

PSB has an impressive track record of growth; it managed to remain profitable during the Great Recession, which is a testament to its lending standards. Since 2014, PSB has managed to grow earnings-per-share by more than 5% annually, on average. We don't see that sort of growth in the future, however, and instead estimate 2% annual expansion, primarily because asset growth has been very slow, and higher interest rates haven't necessarily translated to growth from an earnings-per-share perspective. We continue to think that PSB is going to struggle to grow earnings anytime soon, even on low current earnings.

This lack of strong projected growth is primarily because the bank's spreads had previously expanded widely, and because its loan-to-deposit ratio is stretched at or near the limit, although that is coming down with deposit growth and loan paydowns, both of which reduce the loan-to-deposit ratio. Both levers allow banks to boost profitability of the existing asset base by improving margins, and producing leverage, respectively. PSB has done these things well in recent

[1] Estimated date
[2] Share count in millions

years but given that its net interest margin is still near 3%, and that its loan-to-deposit ratio is still elevated, we see limited catalysts for outsized growth.

PSB almost certainly won't be able to produce anything like the growth it has for the past decade in the current environment with lending margins still moving in the wrong direction.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	8.5	8.7	8.6	13.8	10.7	9.7	8.8	8.7	7.1	10.2	***11.6***	***10.5***
Avg. Yld.	2.5%	2.0%	1.9%	1.5%	1.5%	1.5%	1.1%	1.8%	2.2%	2.5%	***2.5%***	***3.0%***

PSB's valuation has remained very low for much of the past decade despite its profitability and growth. The average P/E ratio for the past decade is just 9. However, we see fair value at 10.5 times earnings given the bank's track record of profitability. We also believe this multiple accounts for slower growth moving forward. At 11.6 times earnings today, the stock is overvalued in our view.

The yield stands at 2.5%, which is high compared to historical standards. We see the yield moving higher over time given that dividend growth could outpace earnings growth and therefore, share price growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

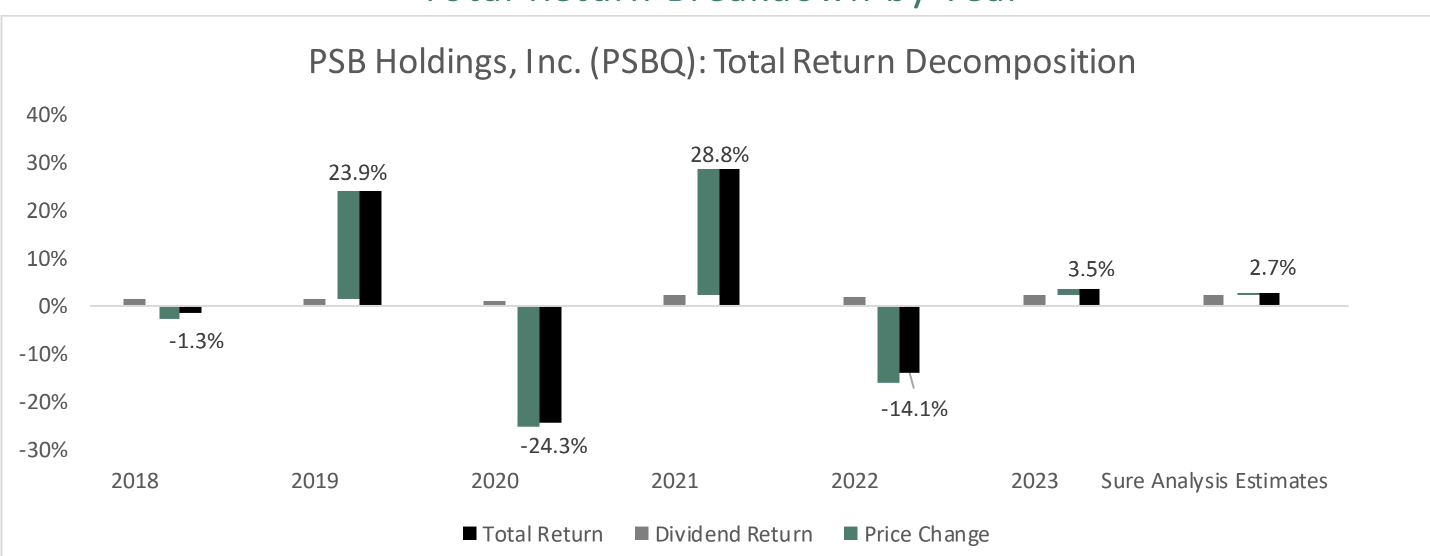
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21%	17%	16%	20%	16%	15%	10%	15%	16%	25%	***28%***	***31%***

Competitive advantages are tough to come by in banking, but PSB does have a strong brand in parts of Wisconsin. In addition, its lending standards are helping, as they did during the last downturn. The dividend is also very safe at just 28% of earnings, and there is plenty of room for future raises, as well as plenty of margin of safety if a prolonged recession were to strike.

Final Thoughts & Recommendation

We see PSB's total return outlook as having moved higher to 2.7%, which is based on the 2.5% yield, 2% growth, and a 1.9% headwind from the valuation. The bank's outlook for rate spreads is uninspiring, supported by weak numbers again in 2024 thus far. We still see a tough road for growth ahead from this year's base of earnings. With total returns of 2.7% projected, we are moving the stock from a hold to a sell 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	28	30	32	33	35	39	43	48	47	45
SG&A Exp.	13	14	15	15	16	17	17	21	19	19
D&A Exp.	2	2	2	2	2	2	3	1	3	3
Net Profit	6	8	8	7	10	11	11	13	14	10
Net Margin	23.3%	26.2%	26.4%	21.7%	29.2%	28.9%	24.7%	27.1%	29.8%	22.2%
Free Cash Flow	8	8	9	10	11	12	16	12	17	12
Income Tax	3	4	4	5	3	4	3	4	4	5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	734	784	828	848	916	975	1,132	1,299	1,338	1,424
Cash & Equivalents	22	24	29	22	22	29	8	24	29	22
Accounts Receivable	2	2	2	2	3	3	4	3	4	5
Goodwill & Int. Ass.	2	2	2	2	2	2	2	5	5	4
Total Liabilities	673	719	758	774	835	882	1,028	1,187	1,236	1,315
Long-Term Debt	33	33	48	60	91	84	72	62	61	152
Shareholder's Equity	61	65	69	74	81	93	104	111	95	102
LTD/E Ratio	0.53	0.51	0.70	0.81	1.13	0.90	0.69	0.56	0.60	1.39

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	1.0%	1.0%	0.9%	1.2%	1.2%	1.0%	1.1%	1.0%	0.7%
Return on Equity	10.9%	12.2%	12.6%	10.1%	13.3%	13.0%	10.8%	11.9%	13.2%	9.1%
ROIC	6.4%	8.1%	7.8%	5.7%	6.7%	6.5%	6.1%	7.3%	8.1%	4.5%
Shares Out.	5.0	4.8	4.6	4.6	4.5	4.5	4.4	4.5	4.4	4.2
Revenue/Share	5.57	6.16	6.91	7.27	7.86	8.69	9.72	10.82	4.42	10.79
FCF/Share	1.70	1.72	1.87	2.30	2.35	2.61	3.61	2.76	10.74	2.82

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