



Somerset Trust Holding Company

Updated November 5th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	12.7%	Market Cap:	\$104.7 B
Fair Value Price:	\$52	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/06/2024 ¹
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.4%	Dividend Payment Date:	12/20/2024
Dividend Yield:	4.0%	5 Year Price Target	\$66	Years Of Dividend Growth:	24
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Somerset Trust Holding Company, founded in 1889 and headquartered in Somerset, Pennsylvania, is a regional bank with 44 branches across Pennsylvania, Maryland, and Virginia. The company provides a full suite of financial services, including personal and business banking, wealth management, loans, and investments, with a strong commitment to community-driven banking. Still, the bank embraces modern banking innovations. In 2023, the bank introduced a new digital banking platform to enhance customer convenience and employ Robotic Process Automation (RPA) to improve operational efficiency. At the end of Q3, Somerset Trust reported total deposits of \$1.90 billion and net loans of \$1.50 billion.

On October 30th, Somerset Trust posted its 9M results for the period ending September 30th, 2024. For the period, total interest income grew 18% to \$92.2 million. Total interest expenses grew 84% to \$31.4 million. Net interest income was relatively flat, at about \$60.8 million. Total other income (including trust department income and service fees) increased 13% to \$13.6 million. Total other expenses (including salaries, occupancy, and equipment grew 10% to \$51.9 million. Net income was \$18.1 million, down 12% versus last year. EPS was \$7.16. For FY2024, we expect FY2024 EPS of \$8.60.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.16	\$3.69	\$4.13	\$2.71	\$4.44	\$4.53	\$4.60	\$5.56	\$8.28	\$9.21	\$8.60	\$10.98
DPS	\$1.04	\$1.12	\$1.24	\$1.31	\$1.38	\$1.44	\$1.49	\$1.53	\$1.57	\$1.61	\$1.64	\$2.09
Shares²	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.6

Somerset Trust EPS growth trajectory over the past decade reflects the bank's navigation through various economic cycles and external factors. After a stable start in 2014 and 2015, EPS saw a slight drop in 2015 due to the Federal Reserve's low interest rates, followed by recovery in 2016 as rates began to rise. The sharp decline in 2017 can be attributed to the Tax Cuts and Jobs Act, which caused one-time charges from the revaluation of deferred tax assets.

EPS rebounded in 2018 and 2019, benefiting from a strong economy and rising interest rates. During the pandemic in 2020, the bank showed resilience with stable earnings due to government stimulus and conservative risk management. In 2021, EPS surged as the economy recovered and loan demand increased. The significant growth in 2022 and 2023 was driven by the Federal Reserve's aggressive interest rate hikes, which boosted interest income, although rising deposit costs began to pressure margins.

Moving forward, we believe the company is poised to grow its EPS at a CAGR of 5%. This is well below its five and ten-year average of 13.7% and 9.2%, to account for the fact that company is coming off a rather favorable environment.

Note that Somerset Trust features a tremendous dividend growth track, spanning 24 consecutive annual increases. The dividend has grown at a rather slow pace, with its five and ten-year CAGR standing at 2.6% and 5.0%, respectively. Still,

¹ Estimated dates based on past dividend dates.

² Shares 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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we appreciate management prudent capital management. We expect the dividend to grow at a 5% CAGR through 2029 in line with EPS.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	6.3	8.4	8.9	15.1	9.5	9.5	8.8	7.2	4.8	4.6	4.8	6.0
Avg. Yld.	4.0%	3.6%	3.4%	3.2%	3.3%	3.4%	3.7%	3.8%	3.9%	3.8%	4.0%	3.2%

Somerset Trust's valuation has historically hovered well below that of its industry peers. Regional bank usually trade in the high-single to low-double digits in terms of P/E. Somerset's valuation has virtually never scratched the surface of the upper echelon of that range. We believe this is due to the company's particularly localized operations and the fact that its shares don't trade on a major exchange. Today, the stock is trading at just 4.8 times our expected EPS for the year. While we do believe that stock deserves a modest discount we find Somerset to be notably undervalued at its current levels. Note that the company's book value stands at \$63.45 as of its latest quarter, meaning the stock is trading below its book value as well. The dividend yield, at 4.0%, is noteworthy and will contribute to the stock's total return prospects.

Safety, Quality, Competitive Advantage, & Recession Resiliency

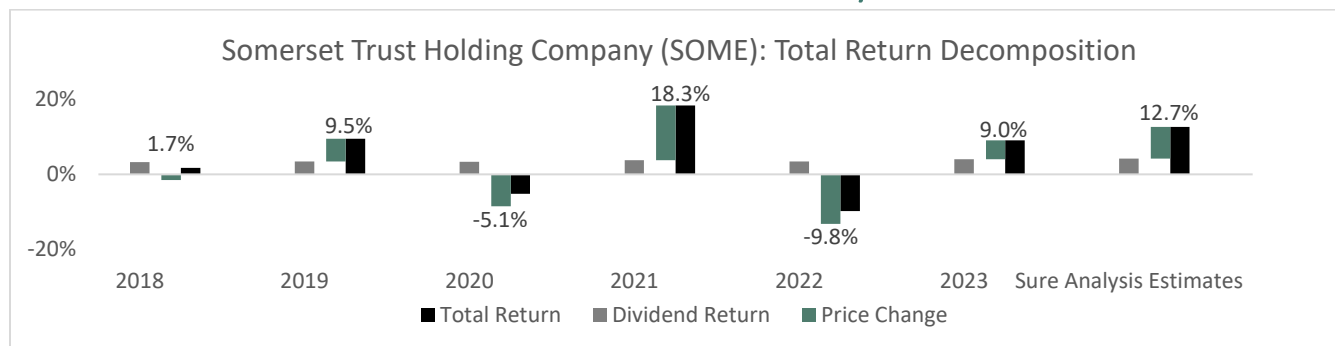
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	30%	30%	48%	31%	32%	32%	28%	19%	17%	19%	19%

Somerset Trust has established a solid competitive edge through its deep-rooted presence in the local communities it serves. With a history dating back to 1889, it has built long-lasting relationships, especially in rural areas of Pennsylvania, Maryland, and Virginia, where larger banks have less focus. This community-oriented approach gives Somerset Trust a loyal customer base, allowing it to thrive in less saturated markets. Further, the bank's conservative lending practices helped it remain profitable during both the Great Financial Crisis and the COVID-19. For instance, during the financial crisis, while many banks posted heavy losses, Somerset remained profitable by sticking to its prudent lending standards and core banking products. Likewise, in 2020, despite the pandemic-induced turmoil, the bank leveraged government programs like the Paycheck Protection Program (PPP) to support local businesses, which bolstered its loan portfolio. Still, being a smaller regional bank, Somerset may face challenges scaling in more competitive markets. Also, note that only a few hundred shares are traded per day, on average. In any case, we believe that Somerset's dividend is safe.

Final Thoughts & Recommendation

Somerset features an interesting investment case. Its deep community ties, strong earnings history, and exceptional dividend growth track record are all quite noteworthy. Moving forward, we believe the stock can deliver annualized total returns of 12.7% backed by our growth estimates, the starting yield, and the possibility of a valuation expansion. Hence, Somerset Trust earns a buy rating. Still, we advise caution regarding the company's OTC listing.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	---	---	---	---	66	75	80	84
SG&A Exp.	---	---	---	---	---	---	3	2	2	2
D&A Exp.	---	---	---	---	---	---	3	3	4	4
Net Profit	---	---	---	---	---	---	11	12	14	21
Net Margin	---	---	---	---	---	---	16.7%	15.4%	17.5%	24.8%
Free Cash Flow	---	---	---	---	---	---	9	6	12	18
Income Tax	---	---	---	---	---	---	1	1	2	3

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---	---	---	1,336	1,611	1,867	2,017
Cash & Equivalents	---	---	---	---	---	---	27	69	151	40
Accounts Receivable	---	---	---	---	---	---	0	0	0	0
Goodwill & Int. Ass.	---	---	---	---	---	---	1,218	1,480	1,727	1,915
Total Liabilities	---	---	---	---	---	---	150	122	102	217
Long-Term Debt	---	---	---	---	---	---	118	131	140	103
Shareholder's Equity	---	---	---	---	---	---	1.27	0.93	0.73	2.11

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	---	---	0.8%	0.8%	1.1%
Return on Equity	---	---	---	---	---	---	---	9.3%	10.3%	17.2%
ROIC	---	---	---	---	---	---	---	4.4%	5.6%	7.4%
Shares Out.	---	---	---	---	---	---	2.5	2.5	2.5	2.5
Revenue/Share	---	---	---	---	---	---	27.08	29.85	31.73	33.40
FCF/Share	---	---	---	---	---	---	3.77	2.20	4.63	7.06

Notes: Historical data from 2023 and prior to 2019 not available from our data provider for the above tables. All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

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