FB Financial Corporation (FBK)

Published December 19th, 2024, by Kody Kester

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	2.9%	**Market Cap:**	$2.4B
Fair Value Price:	$41	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	02/10/25
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date:**	02/25/25
Dividend Yield:	1.3%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 1906, FB Financial Corporation is one of the longest continually operating banks in Tennessee. As of September 30th, 2024, the Nashville, Tennessee-headquartered financial holding company operated 77 full-service bank branches throughout Tennessee, Kentucky, Alabama, and North Georgia. The company also operates a mortgage business with office locations across the Southeast. These offices mostly originate loans to be sold to third-party private investors or government-sponsored agencies in the secondary market. As of September 30th, the company held roughly $12.9 billion in total assets. In 2023, FBK's total deposits accounted for 4.3% of Tennessee's total deposit market share. For perspective, that earned it a sixth-place finish among the top 10 banks in Tennessee.

Unsurprisingly, the community bank provides customers with an array of products and services. These include savings accounts, money market accounts, checking accounts, and certificates of deposit. FBK's loan products include commercial loans, residential mortgages, construction loans, and vehicle loans. The company also provides customers with trust, insurance, and investment services.

Periodically, FBK leverages acquisitions as part of its growth strategy. In the last 25 years, it has completed 13 acquisitions. The most recent acquisitions came in 2020 when FBK acquired FNB Financial Corporation and Franklin Financial Network.

On October 15th, FBK released its third-quarter earnings report. The company's total revenue fell by 17.8% over the year-ago period to $89.5 million in the quarter. FBK's net interest income grew by 5% year-over-year to $106 million for the quarter. Net interest margin was down sequentially by 2 basis points to 3.55% during the quarter. However, this was a 13-basis point improvement over the year-ago period. That pushed net interest income higher in the quarter. This topline growth was more than offset by a $40 million loss on a securities trade for the quarter. FBK's adjusted diluted EPS climbed 21.1% to $0.86 during the quarter. For more color, that exceeded the analyst consensus in the quarter by $0.06.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-	$1.92	$2.04	$2.14	$2.61	$2.83	$3.73	$3.78	$2.91	$3.01	***$3.38***	***$4.52***
DPS	-	-	-	-	$0.20	$0.32	$0.36	$0.44	$0.52	$0.60	***$0.68***	***$1.09***
Shares[2]	-	-	24.1	30.5	30.7	31.0	47.2	47.6	46.7	46.9	***46.7***	***56.8***

Since 2015, FBK has grown its adjusted diluted EPS by about 6% annually. In the years ahead, we think this level of growth can continue. That's because the company's net interest margin has stabilized. As recent interest rate cuts from the Federal Reserve work their way into the economy, this should help to further stimulate borrowing activity. That should allow for further expansion in the net interest margin to push adjusted diluted EPS upward over time. FBK is in a position financially to continue executing bolt-on acquisitions as well. The company also has plenty of acquisition targets

[1] Estimate

[2] 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.

that it could acquire: In Tennessee, Alabama, Georgia, Kentucky, North Carolina, South Carolina, and Virginia, the company estimates that there are more than 500 commercial banks with assets of less than $5 billion.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	-	-	11.8	19.6	13.3	13.9	9.3	11.6	12.4	13.2	***15.2***	***12.1***
Avg. Yld.	-	-	-	-	0.6%	0.8%	1.0%	1.0%	1.4%	1.5%	***1.3%***	***2.0%***

Since its initial public offering in 2016, FBK's P/E ratio has varied from the high single digits to nearly 20. Overall, the average over that time was right around 12. Moving forward, we believe that this remains a sensible valuation for FBK. This is because the company's growth prospects appear to be intact. Compared to the current P/E ratio just above 15, this implies that shares are overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	-	-	-	-	8%	11%	10%	12%	18%	20%	***20%***	***24%***

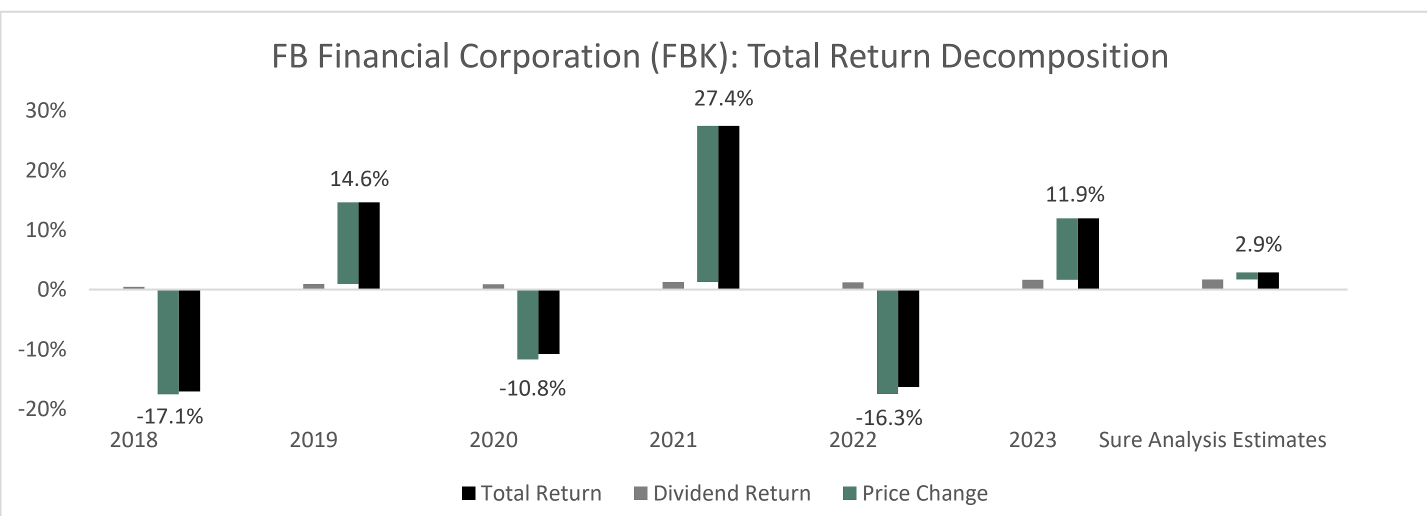
FBK has the advantage of being well-known and trusted in the communities that it serves. The company believes that its personalized, relationship-based client service has contributed significantly to its success. Combined with its extensive product offerings, this has helped FBK to reliably make a profit over the years.

As of September 30th, the company had $1.5 billion of on-balance sheet liquidity. Off-balance sheet liquidity was $5.2 billion at the end of the period. Overall, the liquidity to uninsured and uncollateralized deposits ratio stood at 245% in Q3 2024. That would suggest FBK has the financial prowess to endure most economic environments. The company's dividend also looks reasonably well-covered for a community bank, with the payout ratio poised to be around 20% in 2024. This should give FBK the flexibility to hike its dividend at a rate greater than adjusted diluted EPS growth for the foreseeable future.

Final Thoughts & Recommendation

FBK's 1.3% dividend yield, 6.0% annual adjusted diluted EPS growth prospects, and 4.5% annual valuation multiple downside could produce 2.9% annual total returns through 2029. As a result, we're initiating coverage with a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	134	183	256	295	335	361	568	576	527	478
SG&A Exp.	68	94	127	143	150	161	244	262	223	212
D&A Exp.	5	8	14	6	8	10	13	14	13	15
Net Profit	32	48	41	52	80	84	64	190	125	120
Net Margin	24.2%	26.1%	15.9%	17.8%	24.0%	23.2%	11.2%	33.1%	23.6%	25.2%
Free Cash Flow	(111)	(52)	(250)	33	202	57	(276)	49	779	191
Income Tax	2	3	22	21	26	26	19	53	35	30

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,428	2,899	3,277	4,728	5,137	6,125	11,207	12,598	12,848	12,604
Cash & Equivalents	41	76	123	54	94	102	1,197	1,670	817	728
Accounts Receivable	7	7	7	13	15	17	44	39	46	53
Goodwill & Int. Ass.	56	83	86	230	239	264	346	376	423	416
Total Liabilities	2,213	2,663	2,946	4,131	4,465	5,363	9,916	11,165	11,522	11,150
Accounts Payable	1	1	1	2	5	6	7	3	9	19
Long-Term Debt	144	75	195	348	230	310	245	180	425	401
Shareholder's Equity	215	237	330	597	672	762	1,291	1,433	1,325	1,455
LTD/E Ratio	0.67	0.32	0.59	0.58	0.34	0.41	0.19	0.13	0.32	0.28

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.4%	1.8%	1.3%	1.3%	1.6%	1.5%	0.7%	1.6%	1.0%	0.9%
Return on Equity	16.0%	21.2%	14.3%	11.3%	12.6%	11.7%	6.2%	14.0%	9.0%	8.6%
ROIC	9.5%	14.3%	9.7%	7.1%	8.7%	8.5%	4.9%	12.1%	7.4%	6.7%
Shares Out.	-	-	24.1	30.5	30.7	31.0	47.2	47.6	46.7	46.9
Revenue/Share	5.59	7.65	13.24	10.45	10.69	11.51	14.90	12.00	11.15	10.20
FCF/Share	(4.63)	(2.16)	(12.94)	1.17	6.45	1.82	(7.24)	1.02	16.49	4.08

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

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