



# Timberland Bancorp, Inc. (TSBK)

Updated November 30<sup>th</sup>, 2024, by Ian Bezek

## Key Metrics

<b>Current Price:</b>	\$32	<b>5 Year CAGR Estimate:</b>	12.2%	<b>Market Cap:</b>	\$256M
<b>Fair Value Price:</b>	\$35	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	02/07/25 <sup>1</sup>
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.5%	<b>Dividend Payment Date:</b>	02/21/25 <sup>1</sup>
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$51	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Timberland Bancorp is a Hoquiam, Washington-based regional bank. The bank was founded in 1915 to help provide financial services to the lumber towns in western Washington state. In 1998, Timberland converted its share structure from a mutual savings bank to a traditional chartered stock bank. The bank has had a generally successful run in the public markets. It survived the 2008 financial crisis, and has delivered strong total returns since that point.

Timberland has enjoyed strong growth in recent years, both from growth in its core market along with the bank's expansion in business and merchant services. Timberland operates 23 bank branches today, all in Washington, serving both rural areas and some communities in the greater Seattle metropolitan area. Timberland has a lending book weighted toward commercial credits, with more than half its loans being in either commercial real estate or construction lending.

Timberland shares fell to a low valuation in recent years amid the jitters in the regional banking sector generally and specific worries around the commercial real estate market. However, Timberland has defied the critics, with its earnings holding up despite the unsettled macroeconomic environment.

On October 31<sup>st</sup>, 2024, Timberland reported its fiscal fourth quarter 2024 earnings. Earnings per share of 79 cents slipped slightly from 81 cents in the same period of 2023, but rose sequentially from Q3. Timberland reported an uptick in loan volumes, deposits, and net interest margin. This indicates that Timberland has navigated the recent deposit flight worries successfully. The outlook for commercial real estate remains unsettled, but the Federal Reserve is now in a rate-cutting cycle which could alleviate some concerns. While earnings dipped a bit in fiscal year 2024, we believe the bank's rising loan volumes and rebound in net interest margin will power renewed EPS growth in 2025.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$1.17	\$1.43	\$1.92	\$2.22	\$2.84	\$2.88	\$3.27	\$2.82	\$3.29	\$3.01	<b>\$3.14</b>	<b>\$4.61</b>
<b>DPS</b>	\$0.24	\$0.32	\$0.42	\$0.50	\$0.58	\$0.75	\$0.83	\$0.87	\$0.91	\$0.97	<b>\$1.00</b>	<b>\$1.40</b>
<b>Shares</b>	7	7	7	7	7	8	8	8	8	8	<b>8</b>	<b>8</b>

Timberland has been a surprisingly strong growth story within the regional banking space, with its earnings growing at 11.1% annualized since 2015 and the dividend increasing at a rapid 16.8% annualized pace over the same period. Future growth is unlikely to be quite this strong. Timberland benefitted from significant business opportunities within its geographical region, a strong construction market, and favorable developments in interest rates.

Since the pandemic, Timberland's growth rate has decelerated significantly, with earnings growing at just 1.7% annualized over the past five years. We believe the company's true long-term potential lies in the middle of that range and forecast 8% growth going forward. While the company's dividend payout ratio has crept up slightly in recent years, there is still plenty of room for healthy dividend increases; we forecast a 7% annualized increase going forward. Barring any mergers or acquisitions, we do not expect Timberland's outstanding share count to meaningfully change.

<sup>1</sup> Estimated date.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2029
Avg. P/E	9.2	10.8	16.2	13.8	9.5	6.2	8.7	9.6	8.1	10.0	10.2	11.0
Avg. Yld.	2.0%	2.0%	1.5%	1.4%	2.1%	3.7%	2.9%	3.0%	3.3%	3.1%	3.1%	2.8%

Despite Timberland's impressive growth story, the market has not assigned the bank much of a valuation premium. Shares have averaged a 10.2 P/E ratio since 2015, and only an 8.5 P/E ratio over the past five years. We believe the market's sentiment has been overly negative and that well-run regional banks like Timberland can support slightly higher valuation ratios. The bank's current 3.1% dividend yield is well above its 2.5% average yield over the past decade.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

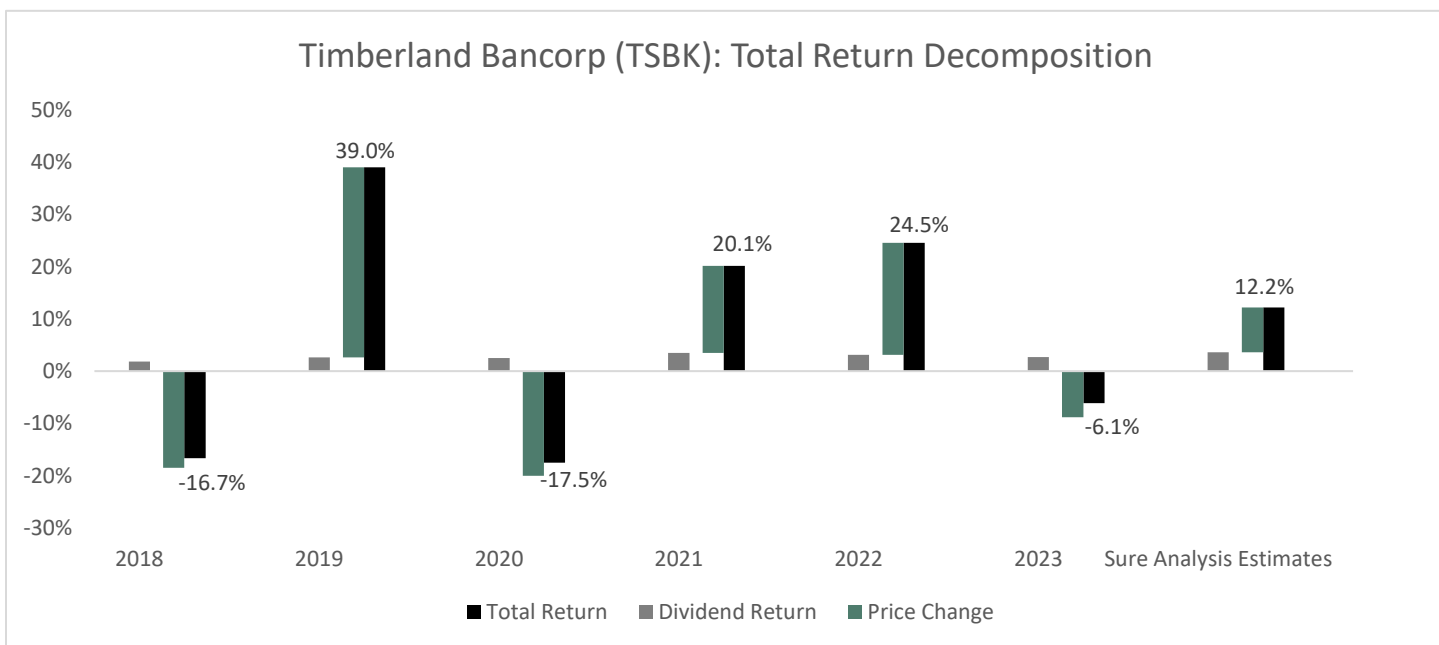
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	21%	22%	22%	23%	20%	26%	25%	31%	28%	32%	32%	30%

Timberland is a regional bank tied almost entirely to the health of the state of Washington's economy. This risk appeared in 2008, when Timberland shares lost the majority of their value. However, most regional Pacific banks struggled during this period, and Timberland fared better than many of its peers. The bank also faces significant risk from its outsized exposure to commercial real estate and construction lending. These loans can offer higher yields and growth opportunities, but could lead to greater credit risk during a prolonged recession. The bank's payout ratio has increased from 20% to 32% over the past decade, but the dividend remains well-supported from earnings.

## Final Thoughts & Recommendation

Timberland shares had been deeply undervalued for much of the past year. More recently, the stock has rallied from \$25 to \$32 as investors are starting to appreciate the improving outlook for the regional banking sector. Even so, Timberland shares are still trading slightly below fair value and offer a favorable return profile based on the starting 3.1% dividend yield and the bank's earnings growth rate. We forecast 12.2% annualized returns going forward, which makes shares a buy today.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	34	39	45	49	62	65	66	65	76	71
SG&A Exp.	17	17	18	19	24	22	20	22	25	25
D&A Exp.	2	2	2	2	3	3	3	3	3	---
Net Profit	8	10	14	17	24	24	28	24	27	24
Net Margin	24.0%	26.0%	31.6%	34.3%	38.6%	37.3%	42.1%	36.5%	35.9%	33.8%
Free Cash Flow	7	11	10	19	16	32	29	26	30	---
Income Tax	4	5	7	6	6	6	7	6	7	6

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	816	891	952	1,018	1,247	1,566	1,792	1,861	1,840	1,923
Cash & Equivalents	141	162	191	212	221	380	609	340	144	175
Acc. Receivable	2	2	3	3	4	4	4	4	6	7
Goodwill & Int.	7	7	7	8	20	20	20	19	18	17
Total Liabilities	727	795	841	894	1,076	1,378	1,585	1,642	1,607	1,678
Accounts Payable	2	2	2	3	5	4	4	5	6	---
Long-Term Debt	45	30	-	-	-	10	5	-	35	20
Total Equity	89	97	111	125	171	188	207	219	233	245
LTD/E Ratio	0.50	0.31	-	-	-	0.05	0.02	-	0.15	0.08

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.1%	1.2%	1.5%	1.7%	2.1%	1.7%	1.6%	1.3%	1.5%	1.3%
Return on Equity	9.6%	10.9%	13.6%	14.2%	16.2%	13.5%	14.0%	11.1%	12.0%	10.2%
ROIC	6.3%	7.8%	11.9%	14.2%	16.2%	13.2%	13.5%	11.0%	11.1%	9.1%
Shares Out.	7	7	7	7	7	8	8	8	8	8.1
Revenue/Share	4.88	5.50	6.07	5.76	7.34	7.73	7.76	7.71	9.17	8.77
FCF/Share	0.98	1.55	1.40	2.27	1.88	3.78	3.40	3.05	3.62	---

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

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### Disclaimer

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