City Holding Company (CHCO)

Updated January 29th, 2025, by Yiannis Zourmpanos

Key Metrics

Current Price:	$120	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$1.76 B
Fair Value Price:	$76	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	01/15/2025
% Fair Value:	157%	**5 Year Valuation Multiple Estimate:**	-8.7%	**Dividend Payment Date:**	01/31/2025
Dividend Yield:	2.6%	**5 Year Price Target**	$123	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

City Holding Company (CHCO) serves as the holding entity for City National Bank of West Virginia, offering a comprehensive range of financial services throughout the United States. These services encompass banking, trust, and investment management, with a diverse suite of products, including checking, savings, money market accounts, certificates of deposit, and individual retirement accounts. The company's portfolio encompasses commercial and industrial loans, commercial real estate loans, residential real estate loans, home equity loans, and consumer loans. Additionally, they provide mortgage banking services and a variety of deposit and wealth management solutions for individual and commercial clients, along with modern banking technologies such as ATMs, interactive teller machines, mobile banking, and credit and debit card services.

On January 23rd, 2025, the company announced results for the fourth quarter of 2024. City Holding reported net income of $71.7 million, which translated to $1.94 per diluted share and beat estimates by $0.01.

The bank's return on assets (ROA) stood at an impressive 1.85%, while return on tangible equity (ROTE) reached 21.2%, reflecting the strength of its asset quality and operational efficiency. The company's net interest income edged higher to $220.2 million, supported by increased loan yields and balance growth. However, margin pressures were evident as the net interest margin (NIM) declined from 4.01% in 2023 to 3.86% in 2024, largely due to rising funding costs. City Holding's strategic acquisition of Citizens Commerce Bancshares contributed $2.8 million in net interest income, bolstering its expansion efforts in Kentucky. Additionally, non-interest income saw modest growth, increasing to $73.3 million, driven by higher trust and investment management fees, service charges, and bankcard revenues.

Despite robust earnings, credit quality weakened slightly, with nonperforming assets rising from 0.21% to 0.35% of total loans, largely due to a struggling commercial loan linked to a movie theater. The provision for credit losses stood at $1.8 million for the year, down from $3.2 million in 2023, indicating continued stability in the overall loan portfolio. Loan growth remained strong, climbing 3.6% to $4.27 billion, while deposits increased 4.3% year-over-year to $5.04 billion. With a solid capital position—reflected in a 9.1% tangible equity ratio—and ongoing share repurchases, City Holding remains well-positioned for sustained profitability in 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.53	$3.45	$3.48	$4.49	$5.42	$5.55	$5.66	$6.80	$7.61	$7.91	***$7.63***	***$12.28***
DPS	$1.66	$1.71	$1.75	$1.38	$2.16	$2.28	$2.32	$2.45	$2.67	$3.01	***$3.16***	***$4.03***
Shares[1]	15.2	14.9	15.4	15.4	16.3	16	15.4	14.9	14.9	14.7	***14.7***	***14.4***

City Holding's performance reflects its focus on stability and growth, which are underpinned by its core values. With consistent non-performing asset ratios and a robust risk management strategy, the company's proactive approach to maintaining credit quality is evident. The growth of loans, notably in commercial and industrial sectors, demonstrates their value in supporting local businesses and economic development. However, the dip in commercial real estate loans suggests cautious lending practices. An increase in average depository balances mitigates the decline in period-end

[1] In millions

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deposit balances, thanks to acquisitions from Citizens. Nevertheless, a decline in savings and non-interest-bearing demand deposits, counterbalanced by growth in interest-bearing demand and time balances, shows a shift in customer deposit preferences. In line with the analysts' estimates and the favorable microenvironment, we expect the company to post an EPS of $7.63 in 2025. We estimate an EPS growth of 10.0% over the next five years, leading to our estimated EPS of $12.28 by 2030. Moreover, the company has a solid record of paying dividends despite operating in a macroeconomically sensitive sector, as City Holding has paid an increasing dividend for the past six years. We expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 5.0%, leading to a dividend of $4.03 by 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	13.3	14.7	19.3	16.4	14.2	11.8	13.7	12.7	12.4	14.1	***15.7***	***10.0***
Avg. Yld.	3.5%	3.4%	2.6%	1.9%	2.8%	3.5%	3.0%	2.8%	2.8%	2.7%	***2.6%***	***3.3%***

The regional bank trades at a forward P/E of 15.7, higher than the long-term average P/E of 14.3 and the five-year average P/E of 12.9. Even though the higher interest rates and an uptick in the loan portfolio will benefit the company in the near term, we assign a P/E of 10.0 to the stock, which is a fair reflection of its value in our view, leading to our target price of $123 by 2030.

Safety, Quality, Competitive Advantage, & Recession Resiliency

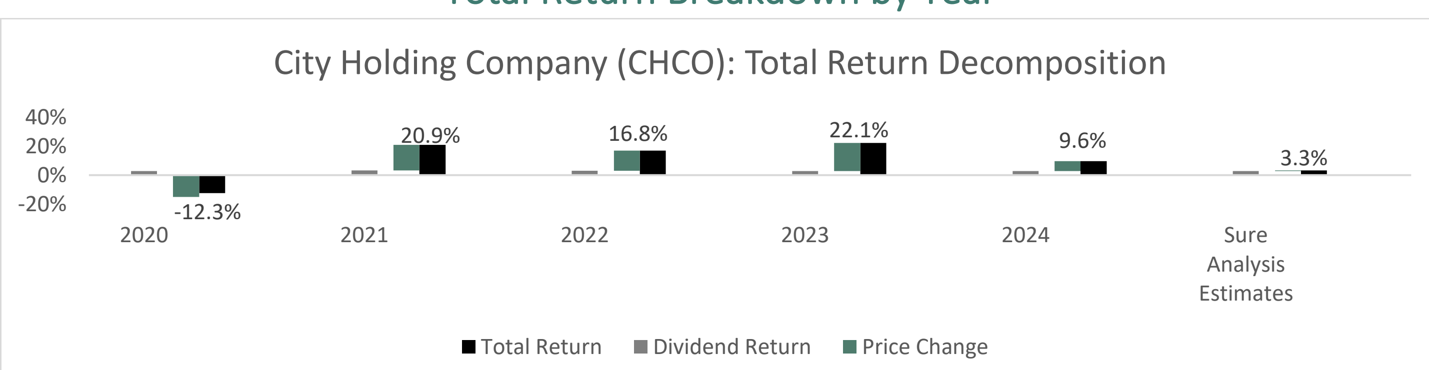
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	47%	50%	50%	31%	40%	41%	41%	36%	35%	38%	***41%***	***33%***

The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 41%, and we expect the company to maintain and increase its payout in the future. The demand for loans has recovered in recent quarters, and we expect the company to be in a much better position in the future than it is today. In addition, the margins continue to improve in the high-interest rate environment, and the net interest margin ought to be high, driven by the Fed's 'higher for longer' stance. During Q4, City Holding repurchased 179,000 shares at an average price of $100.24. There is approximately 821,000 shares still available for buybacks under its current repurchase plan.

Final Thoughts & Recommendation

While City Holding runs an interest rate-sensitive regional banking business, increased loans and net interest margins will be a positive catalyst for EPS growth. Additionally, City Holding's dividend growth prospects could remain strong throughout the medium-term. However, we maintain our hold rating for CHCO premised upon the 3.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 2.6% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	173	167	173	186	194	224	231	219	246	282
SG&A Exp.	57	52	55	55	59	66	66	67	72	79
D&A Exp.	1	1	7	7	6	6	11	15	16	11
Net Profit	53	54	52	54	70	89	90	88	102	114
Net Margin	30.7%	32.3%	30.1%	29.2%	36.0%	39.8%	38.7%	40.3%	41.5%	40.4%
Free Cash Flow	51	45	60	70	67	100	84	99	114	135
Income Tax	24	28	25	36	18	24	22	23	25	29

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,462	3,714	3,984	4,132	4,899	5,019	5,759	6,004	5,878	6,168
Cash & Equivalents	148	70	88	83	123	140	529	635	200	156
Acc. Receivable	7	7	8	9	12	12	16	16	18	20
Goodwill & Int.	74	80	79	79	123	120	119	117	116	163
Total Liabilities	3,071	3,295	3,542	3,630	4,298	4,361	5,058	5,323	5,300	5,491
Long-Term Debt	16	29	81	70	44	4	-	-	-	125
Total Equity	391	419	442	503	601	658	701	681	578	677
LTD/E Ratio	0.04	0.07	0.18	0.14	0.07	0.01	-	-	-	0.18

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.6%	1.5%	1.4%	1.3%	1.6%	1.8%	1.7%	1.5%	1.7%	1.9%
Return on Equity	13.6%	13.4%	12.1%	11.5%	12.7%	14.2%	13.2%	12.7%	16.2%	18.2%
ROIC	13.1%	12.6%	10.7%	9.9%	11.5%	13.7%	13.1%	12.7%	16.2%	16.6%
Shares Out.	15.5	15.2	14.9	15.4	15.4	16.3	16.0	15.4	14.9	14.9
Revenue/Share	11.14	11.02	11.62	12.04	12.58	13.73	14.47	14.20	16.55	18.97
FCF/Share	3.29	2.96	4.01	4.51	4.36	6.14	5.27	6.42	7.64	9.04

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