Lakeland Financial Corporation (LKFN)

Updated January 27th, 2025, by Kody Kester

Key Metrics

Current Price:	$70	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$1.6B
Fair Value Price:	$66	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	04/24/25
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date:**	05/05/25
Dividend Yield:	2.9%	**5 Year Price Target**	$89	**Years Of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 1872, Lakeland Financial Corporation is a community bank headquartered in Warsaw, Indiana. LKFN is the holding company for its wholly-owned subsidiary, Lake City Bank. Via its 54 branch offices, the company serves Northern Indiana and Central Indiana, in the Indianapolis area. LKFN earns the distinction of being the third oldest financial institution headquartered in Indiana. As of December 31st, 2024, it had $6.7 billion in banking assets and $3.4 billion in trust, and retirement and investment brokerage assets.

LKFN provides a variety of products and services to its commercial and consumer customers. Savings products include savings accounts, checking accounts, and money market accounts. On the loan side, the company offers consumer mortgage loans, construction loans, and agricultural loans. LKFN also provides customers with treasury management, wealth advisory, trust, and retail brokerage services.

Rather than emphasizing acquisitions to grow, the bank focuses on execution to drive organic business growth. Approximately two-thirds of the counties in which it has branch offices are classified as either growth or high-growth counties economically. Growth in the existing book of business and gradual openings of additional branch offices have led to record net income in 30 out of the past 34 years.

On January 24th, LKFN shared its fourth-quarter earnings report for the period ending December 31st. The company's net interest income rose by 6.4% year-over-year to $51.7 million in the quarter. LKFN's posted an organic loan growth rate of 5% during the quarter. Along with a two-basis point improvement in net interest margin over the year-ago period to 3.25%, that explains the growth in net interest income. Noninterest income fell by 31% year-over-year to $11.9 million for the quarter. This was because of insurance and loss recoveries of $6.3 million in the year-ago period related to wire fraud loss, which pressured the other income category. Double-digit growth rates in wealth advisory fees and bank-owned life insurance partially helped to counter that headwind. LKFN's diluted EPS fell by 19% year-over-year to $0.94 in the quarter. This was $0.04 better than the analyst consensus during the quarter.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.83	$2.05	$2.40	$3.13	$3.38	$3.30	$3.74	$4.04	$3.65	$3.63	***$3.68***	***$4.92***
DPS	$0.63	$0.73	$0.85	$1.00	$1.16	$1.20	$1.36	$1.60	$1.84	$1.92	***$2.00***	***$2.55***
Shares[2]	24.8	24.9	25.0	25.1	25.4	25.2	25.3	25.4	25.4	25.5	***25.5***	***26.0***

Our thesis of net interest margin expansion with the Federal Reserve's interest rate cuts is already starting to play out, with a nine-basis point expansion sequentially. Combined with organic loan growth, this is why we anticipate 6.0% annual diluted EPS growth in the coming five years. In that time, the share count shouldn't rise very much. This is because LKFN doesn't need share issuances to execute its growth strategy.

[1] Estimate
[2] Share count is in millions.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	17.0	23.1	20.2	12.9	14.4	16.2	21.4	18.1	17.8	18.8	***19.0***	***18.0***
Avg. Yld.	2.0%	1.5%	1.8%	2.5%	2.4%	2.2%	1.7%	2.2%	2.8%	2.8%	***2.9%***	***2.9%***

Since 2015, LKFN's P/E ratio has ranged from as low as the low double-digits to as high as the mid-20s. In the last 10 years, the P/E ratio has averaged 18.0. Moving forward, we believe this remains a sensible fair value estimate. That's because LKFN's growth prospects appear to be intact. The current valuation multiple of 19 is modestly above our fair value estimate, so shares look to be slightly overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	34%	36%	35%	32%	34%	36%	36%	40%	50%	53%	***54%***	***52%***

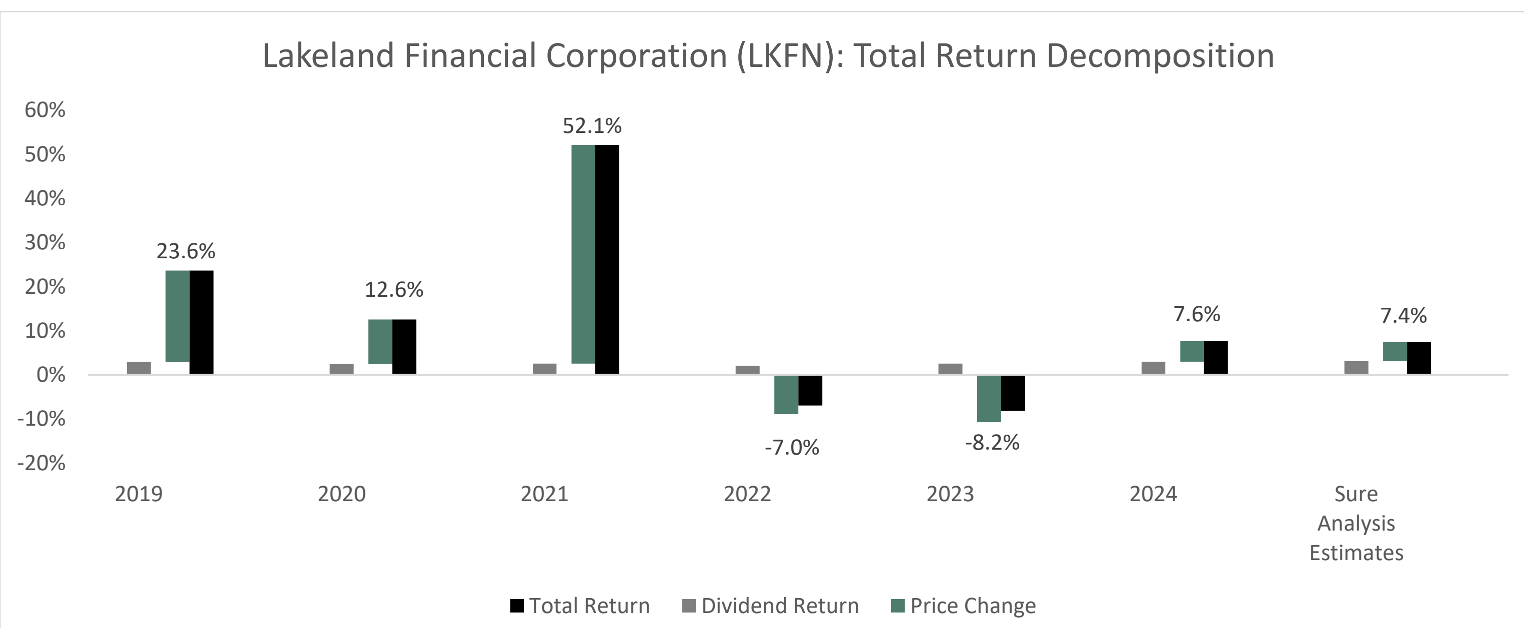
In its 150-plus years of operations, LKFN has built meaningful relationships with many of its customers. Along with its extensive product offerings, that helps it to retain existing customers. This reputation also allows it to attract new customers.

LKFN's non-performing assets ratio improved by two basis points sequentially to 0.85%. The company's financial positioning also remains strong, with its Common Equity Tier 1 (CET1) ratio improving by 14 basis points sequentially to 14.64% for the quarter. LKFN's payout ratio is going to be in the mid-50% range in 2025, which would be about the same as last year. That should give the company room to up its dividend at a rate just below diluted EPS growth in the years ahead.

Final Thoughts & Recommendation

LKFN's 2.9% dividend yield, 6.0% annual diluted EPS growth potential, and 1.1% annual valuation multiple contraction could combine to generate 7.4% annual total returns through 2030. As a result, we're reiterating our hold rating on shares for now.

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	126	130	143	164	182	190	198	223	245	247
SG&A Exp.	44	44	47	52	54	54	54	60	61	63
D&A Exp.	4	4	5	6	6	6	7	8	7	6
Net Profit	44	46	52	57	80	87	84	96	104	94
Net Margin	34.7%	35.7%	36.4%	35.0%	44.2%	45.9%	42.6%	43.0%	42.4%	38.0%
Free Cash Flow	48	47	52	68	97	92	82	108	165	108
Income Tax	22	23	25	32	19	20	20	22	21	17

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,443	3,766	4,290	4,683	4,875	4,947	5,830	6,557	6,432	6,524
Cash & Equivalents	91	81	167	176	217	99	250	683	130	152
Accounts Receivable	9	9	12	14	16	15	19	18	28	30
Goodwill & Int. Ass.	5	5	5	5	5	5	5	5	5	5
Total Liabilities	3,082	3,373	3,863	4,214	4,354	4,349	5,173	5,852	5,863	5,874
Accounts Payable	3	4	6	6	10	12	6	3	3	21
Long-Term Debt	136	101	211	111	201	170	86	75	275	50
Shareholder's Equity	361	393	427	469	522	598	657	705	569	650
LTD/E Ratio	0.38	0.26	0.49	0.24	0.39	0.28	0.13	0.11	0.48	0.08

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.3%	1.3%	1.3%	1.7%	1.8%	1.6%	1.5%	1.6%	1.4%
Return on Equity	12.8%	12.3%	12.7%	12.8%	16.2%	15.5%	13.4%	14.1%	16.3%	15.4%
ROIC	8.8%	9.4%	9.2%	9.4%	12.3%	11.7%	11.2%	12.6%	12.8%	12.1%
Shares Out.	24.7	24.8	24.9	25.0	25.1	25.4	25.2	25.3	25.4	25.4
Revenue/Share	5.01	5.14	5.62	6.38	7.07	7.36	7.74	8.70	9.52	9.60
FCF/Share	1.90	1.85	2.06	2.64	3.77	3.57	3.19	4.20	6.40	4.20

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