Norwood Financial Corp. (NWFL)

Updated January 30th, 2025, by Patrick Neuwirth

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$238 M
Fair Value Price:	$24	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date[1]:**	04/10/25
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date[1]:**	05/01/25
Dividend Yield:	4.7%	**5 Year Price Target**	$31	**Years Of Dividend Growth:**	33
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

Norwood Financial Corp. (NWFL) is a bank holding company that operates through its subsidiary, Wayne Bank. The company is an independent community bank with over 14 offices in Northeastern Pennsylvania and approximately 16 offices in Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York. It offers a range of personal and business credit services, trust and investment products, and real estate settlement services to the consumers, businesses, non-profit organizations and municipalities in each of the communities that the company serves. It operates a Wealth Management/Trust Department, which provides estate planning, investment management and financial planning to customers. As of December 31st, 2024, Norwood Financial Corp. had total assets of $2.317 billion, loans outstanding of $1.694 billion, and total deposits of $1.859 billion. The company was founded in 1870 and has 264 employees.

On January 27th, 2025, Norwood Financial Corp. released its fourth quarter results for the period ending December 31st, 2024. For the quarter, the company reported a net loss of $12.7 million, which represented a significant decline compared to net income of $3.8 million earned in the third quarter of 2024 and $355,000 in the same period of 2023. Reported quarterly earnings per diluted share for the same periods were $(1.54), compared to $0.48 in Q3 2024 and $0.04 in Q4 2023. The sharp decline in earnings was primarily due to a one-time $20 million loss incurred on the sale of securities during the quarter as part of a strategic investment portfolio repositioning.

Net interest income on a fully taxable equivalent (FTE) basis was $16.6 million during the quarter, an increase from $16.1 million in Q3 2024 and $15.3 million in Q4 2023. The FTE-yield on interest-earning assets for the fourth quarter of 2024 increased by 42 basis points compared to the corresponding period in 2023. However, this increase was partially offset by the rise in the cost of funds, which grew by 56 basis points over the same period. This disparity between the yield on assets and the cost of funds had a moderate impact on the net interest margin. Consequently, the annualized net interest spread (FTE) for the fourth quarter of 2024 was 2.31%, up from 2.23% in Q3 2024 and 2.23% in Q4 2023.

The annualized return on average assets was -2.19%, and the return on average tangible equity was -30.77%, both of which declined sharply from 0.68% and 9.58% in Q3 2024, and from 0.06% and 1.01% in Q4 2023, respectively.

For the full-year 2024, Norwood Financial Corp. reported a net loss of $160,000, compared to net income of $16.8 million in 2023. Diluted earnings per share (EPS) for 2024 were $(0.02), compared to $2.07 in 2023.

Norwood Financial Corp.'s 2025 outlook[2] anticipates a higher net interest margin (NIM), stable capital levels above 'Well-Capitalized' targets, and expansion, including a new branch opening in Forty Fort, PA, in Q1 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.07	$1.15	$1.31	$2.17	$2.25	$2.09	$3.04	$3.58	$2.07	-$0.02	***$2.00***	***$2.55***
DPS	$0.83	$0.83	$0.86	$0.88	$0.96	$1.00	$1.04	$1.12	$1.16	$1.20	***$1.24***	***$1.58***
Shares[3]	6	6	6	6	6	8	8	8	8	8	***9***	***10***

[1] Estimated date

[2] Investors presentation, January 2025.

[3] In millions.

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The company has a negative grown earnings by 6.5% per year since 2015 when exclude the 2024 earnings and -0.9% over the past five years. We expect earnings to increase by 5% per year for the next five years. The company has been able to increase its dividend for 33 consecutive years. Over the last five years, the average annual dividend growth rate is 3.9%. In December 2024, the company increased its quarterly dividend by 3.3% from $0.30 to $0.31 per share.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.1	16.6	21.0	15.6	14.5	13.1	8.5	8.9	10.8	10.8	***13.3***	***12.0***
Avg. Yld.	1.9%	4.4%	3.2%	2.7%	3.0%	3.7%	4.1%	3.7%	4.1%	4.1%	***4.7%***	***5.2%***

During the past decade shares of Norwood Financial Corp. have traded with an average price-to-earnings ratio of 13.8 and today, it stands at 13.3. We are using 12 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 4.7%, which is above the average yield over the past decade of 3.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	78%	72%	66%	41%	43%	48%	34%	31%	56%	--	***62%***	***62%***

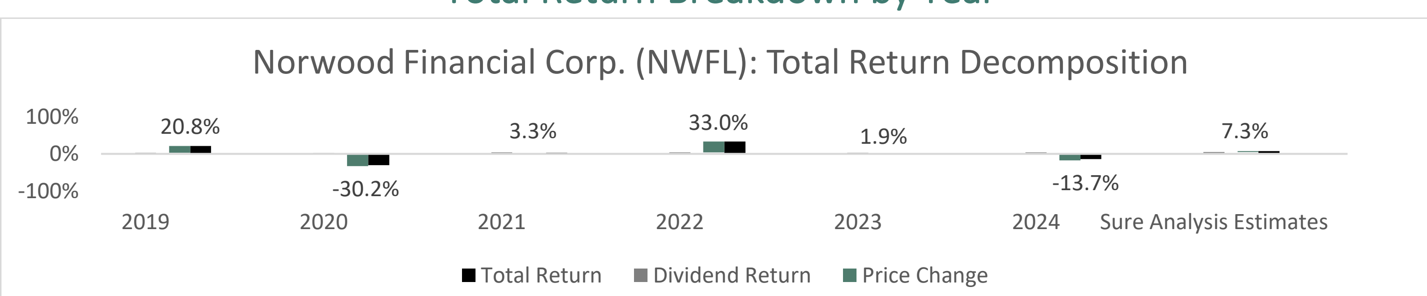
During the past five years, the company's dividend payout ratio has averaged around 42%. However, in 2024, Norwood Financial Corp. reported a GAAP net loss of $0.02 per share, primarily due to a one-time $20 million loss from securities repositioning. Excluding this non-recurring loss, adjusted EPS was $1.93, resulting in a payout ratio of approximately 59.1%. While this is higher than historical levels, the dividend remains well covered by adjusted earnings. Given the company's expected earnings growth and improved net interest margin, there is room for continued dividend growth while maintaining a sustainable payout ratio.

Wayne Bank's business model remains focused on lending to local businesses and residents within the communities it serves, funded primarily through gathering local deposits at its community offices. The bank holds a strong market position in several counties, ranking third in FDIC-insured deposits in Wayne County with approximately 22.3% market share and second in Pike County with 18.1%. Additionally, the bank operates a Wealth Management/Trust Department, offering estate planning, investment management, and financial planning services, with compensation typically based on a percentage of assets under management. This business segment provides a diversified revenue stream, complementing the bank's core lending and deposit operations.

Final Thoughts & Recommendation

Norwood Financial is a well-established community bank operating in northeastern U.S. counties, with a strong local presence and a 4.7% dividend yield. In 2024, the company faced a challenging year, reporting a net loss of $0.02 per share, primarily due to a one-time $20 million securities repositioning loss. Despite this, adjusted earnings remained strong, and the bank demonstrated resilience through loan and deposit growth, and an improving net interest margin. We estimate total return potential of 7.3% per year for the next five years based on an 5% earnings-per-share growth, the dividend yield, and a valuation headwind. The shares earn 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	30	29	34	42	44	45	58	74	78	70
SG&A Exp.	11	11	14	16	17	18	21	25	23	25
D&A Exp.	1	1	1	1	1	1	1	2	1.6	1.5
Net Profit	8	6	7	8	14	14	15	25	29	17
Net Margin	25.8%	20.2%	19.9%	19.6%	31.1%	31.3%	25.9%	33.8%	37.2%	24.3%
Free Cash Flow	10	10	11	14	16	17	13	28	28.6	28.4
Income Tax	3	2	2	7	3	3	3	6	7.2	4.4

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	712	751	1,111	1,133	1,185	1,231	1,852	2,069	2,047	2,201
Cash & Equivalents	12	10	17	17	18	15	112	207	31.9	66
Goodwill & Int.	10	10	12	12	12	12	30	30	30	29.5
Total Liabilities	613	650	1,000	1,017	1,062	1,093	1,657	1,863	1,880	2,020
Long-Term Debt	22	61	32	54	68	88	42	30	82	144
Total Equity	99	101	111	116	122	137	195	205	167	181
LTD/E Ratio	0.22	0.60	0.29	0.47	0.56	0.64	0.22	0.15	0.49	0.80

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.1%	0.8%	0.7%	0.7%	1.2%	1.2%	1.0%	1.3%	1.4%	0.8%
Return on Equity	8.0%	5.9%	6.3%	7.2%	11.5%	10.9%	9.1%	12.5%	15.7%	9.6%
ROIC	6.1%	4.2%	4.4%	5.2%	7.6%	6.8%	6.5%	10.5%	12.1%	5.8%
Shares Out.	6	6	6	6	6	6	8	8	8	8
Revenue/Share	5.41	5.28	5.79	6.67	6.98	7.17	8.06	8.98	9.58	8.68
FCF/Share	1.88	1.84	1.86	2.30	2.61	2.66	1.80	3.41	3.50	3.52

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