# German American Bancorp, Inc. (GABC)

*Updated February 3rd, 2025, by Kody Kester*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $41 | **5 Year CAGR Estimate:** | 10.7% | **Market Cap:** | $1.2B |
| **Fair Value Price:** | $41 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 02/10/25 |
| **% Fair Value:** | 99% | **5 Year Valuation Multiple Estimate:** | 0.3% | **Dividend Payment Date:** | 02/20/25 |
| **Dividend Yield:** | 2.8% | **5 Year Price Target** | $61 | **Years Of Dividend Growth:** | 13 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | D | **Rating:** | Buy |

## Overview & Current Events

In 1910, German American Bancorp, Inc. began in Jasper, Indiana, a community with a rich history of German American heritage (thus the company name). That serves as the holding company for its German American Bank subsidiary.

The community bank provides a variety of services to customers across the following subsidiaries:

1. German American Bank: This subsidiary offers deposit products like savings and checking accounts, certificates of deposit, and money market accounts. It also provides loan products to customers, such as residential mortgage loans, agricultural loans, and commercial loans.
2. German American Investment Services, Inc.: The subsidiary provides customers with investment advisory, trust, brokerage, and retirement planning services.

As part of its growth strategy, GABC occasionally executes bolt-on acquisitions. On July 29th, GABC said that it was going to be acquiring Heartland Bancorp (HLAN). As of September 30th, this bank had 20 full-service banking offices and $1.9 billion in total assets. Shareholders of HLAN will receive 3.9 shares of GABC for each share they own. This acquisition will expand GABC's operations in existing markets and help the company gain access to Columbus and Cincinnati, Ohio. These are two of the fastest-growing markets in the Midwest. The deal formally closed the day of this update, and the combined organization now has 94 locations across Indiana, Kentucky, and Ohio. As of now, the company's total assets are about $8.3 billion.

On January 27th, GABC released its financial results for the fourth quarter ended December 31st. The company's net interest income rose by 10.5% year-over-year to $52.2 million during the quarter. A 4.4% uptick in outstanding loan balances and an 11-basis point expansion in the net interest margin to 3.54% led to this topline growth in the quarter. GABC's non-interest income decreased by 9.5% over the year-ago period to $14.1 million for the quarter. This was the result of the sale of insurance operations during the second quarter and the prior year comparison period having three full months of results with the business. GABC's diluted EPS increased by 6.8% to $0.78 in the quarter. That was $0.08 ahead of the analyst consensus for the quarter.

## Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.51 | $1.57 | $1.67 | $1.99 | $2.29 | $2.34 | $3.17 | $2.78 | $2.91 | $2.83 | ***$2.95*** | ***$4.33*** |
| **DPS** | $0.45 | $0.48 | $0.52 | $0.60 | $0.68 | $0.76 | $0.84 | $0.92 | $1.00 | $1.08 | ***$1.16*** | ***$1.63*** |
| **Shares**[1] | 19.9 | 22.9 | 22.9 | 25.0 | 26.7 | 26.5 | 26.6 | 29.5 | 29.6 | 29.7 | ***29.7*** | ***40.8*** |

Since 2015, GABC has grown diluted EPS by a high-single-digit rate annually. We believe that earnings growth will be comparable in the years ahead. GABC's net interest margin improved by seven points sequentially and this momentum should continue as lower rates show up in the economy. The incorporation of HLAN into its results should be another catalyst for the company. In the years to come, we believe additional high single-digit annual dividend growth is likely. On January 29th, the company announced its latest dividend increase, raising the payment 7% to $1.16/share per year.

[1] 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.*

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## Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. P/E | 14.7 | 22.3 | 21.2 | 14.0 | 15.4 | 14.1 | 12.3 | 13.4 | 11.1 | 14.2 | ***13.8*** | ***14.0*** |
| Avg. Yld. | 2.0% | 1.4% | 1.5% | 2.2% | 1.9% | 2.3% | 2.2% | 2.5% | 3.1% | 2.7% | ***2.8%*** | ***2.7%*** |

In the last 10 years, GABC's P/E ratio has ranged from as low as the low-double-digits to as much as the low 20s. The average P/E ratio over that time was 15.3. Based on slightly conservative assumptions, we still think the fair value multiple is around 14. This is because GABC's growth profile appears to be holding up. The community bank's current-year multiple of 13.8 represents a modest discount to fair value.

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

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | 30% | 31% | 31% | 30% | 30% | 32% | 26% | 33% | 34% | 38% | ***39%*** | ***38%*** |

GABC stands out from its peers with its 115-year operating history. This extensive corporate history has allowed it to build deep and meaningful relationships with existing customers. Thanks to this reputation, prospective customers are also more likely to become customers.

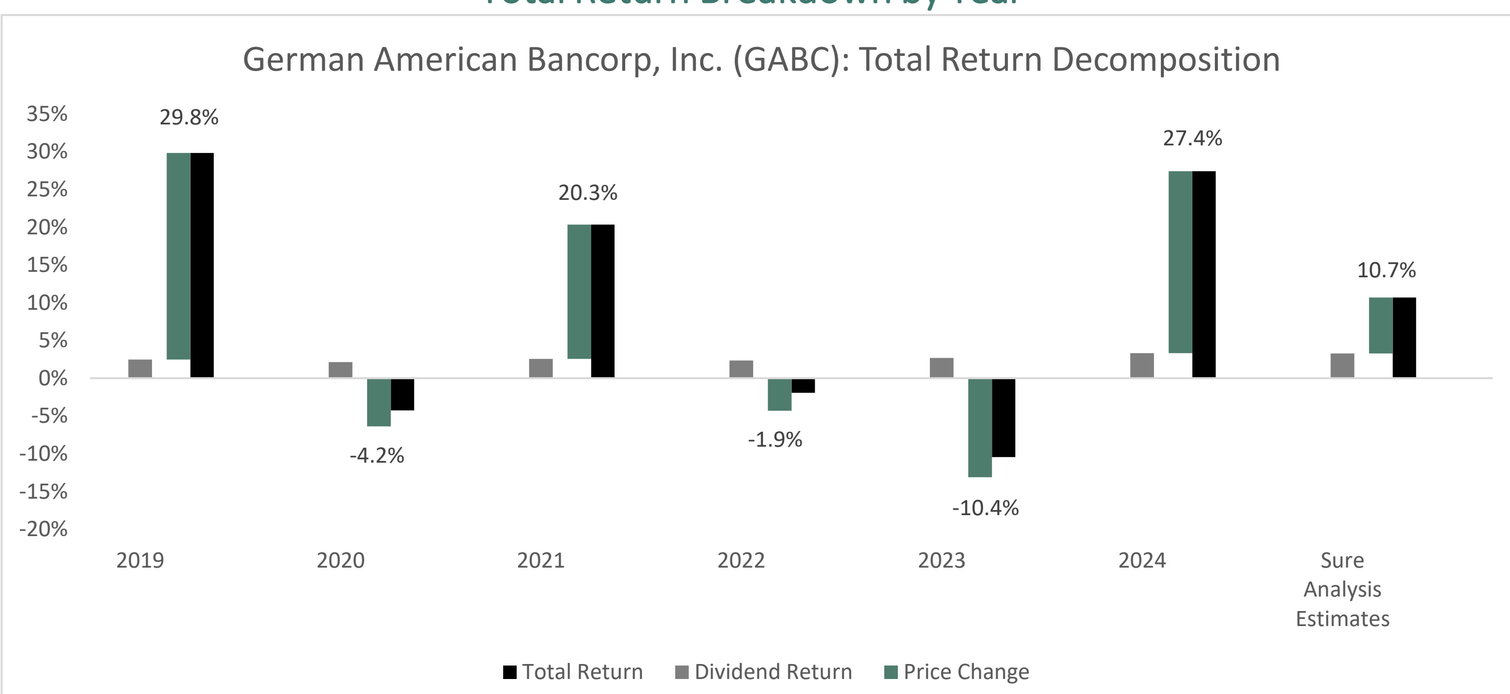
GABC's asset quality is also respectable. As of December 31st, the company's nonperforming assets were 0.18% of its portfolio. GABC's Common Tier 1 or CET1 ratio was 15%, which far exceeds the Federal Reserve Board's minimum of 4.5%.

GABC's payout ratio is primed to be in the high 30% range in 2025. This positions the bank to keep increasing its dividend in coming years.

## Final Thoughts & Recommendation

GABC's 2.8% dividend yield, 8.0% annual diluted EPS growth prospects, and 0.3% annual valuation multiple expansion set it up to generate 10.7% annual total returns through 2030. Thus, we're upgrading shares to a buy.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 98 | 103 | 127 | 132 | 152 | 191 | 210 | 220 | 260 | 251 |
| SG&A Exp. | 36 | 40 | 48 | 51 | 56 | 69 | 72 | 74 | 90 | 91 |
| D&A Exp. | 5 | 4 | 4 | 5 | 6 | 9 | 9 | 9 | 10 | 10 |
| Net Profit | 28 | 30 | 35 | 41 | 47 | 59 | 62 | 84 | 82 | 86 |
| Net Margin | 28.8% | 29.2% | 27.7% | 30.9% | 30.7% | 31.1% | 29.7% | 38.2% | 31.5% | 34.3% |
| Free Cash Flow | 33 | 30 | 37 | 44 | 47 | 56 | 85 | 96 | 102 | 101 |
| Income Tax | 12 | 12 | 14 | 12 | 10 | 12 | 13 | 19 | 17 | 18 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 2,237 | 2,374 | 2,956 | 3,144 | 3,929 | 4,398 | 4,978 | 5,609 | 6,156 | 6,152 |
| Cash & Equivalents | 34 | 36 | 48 | 47 | 65 | 62 | 59 | 48 | 76 | 79 |
| Goodwill & Int. Ass. | 23 | 22 | 57 | 56 | 114 | 134 | 131 | 128 | 190 | 187 |
| Total Liabilities | 2,008 | 2,121 | 2,626 | 2,780 | 3,470 | 3,824 | 4,353 | 4,940 | 5,598 | 5,489 |
| Long-Term Debt | 150 | 196 | 208 | 230 | 318 | 303 | 138 | 81 | 125 | 125 |
| Shareholder's Equity | 229 | 252 | 330 | 365 | 459 | 574 | 625 | 668 | 558 | 664 |
| LTD/E Ratio | 0.65 | 0.78 | 0.63 | 0.63 | 0.69 | 0.53 | 0.22 | 0.12 | 0.22 | 0.19 |

## 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% | 1.3% | 1.4% | 1.3% | 1.6% | 1.4% | 1.4% |
| Return on Equity | 13.2% | 12.5% | 12.1% | 11.7% | 11.3% | 11.5% | 10.4% | 13.0% | 13.3% | 14.1% |
| ROIC | 8.1% | 7.3% | 7.1% | 7.2% | 6.8% | 7.2% | 7.6% | 11.1% | 11.4% | 11.7% |
| Shares Out. | 19.8 | 19.9 | 22.9 | 22.9 | 25.0 | 26.7 | 26.5 | 26.6 | 29.5 | 29.6 |
| Revenue/Share | 4.95 | 5.18 | 5.67 | 5.75 | 6.49 | 7.39 | 7.90 | 8.30 | 8.81 | 8.48 |
| FCF/Share | 1.68 | 1.49 | 1.64 | 1.91 | 2.02 | 2.16 | 3.22 | 3.62 | 3.47 | 3.43 |

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