



# Orrstown Financial Services, Inc. (ORRF)

Updated February 3<sup>rd</sup>, 2025, by Kody Kester

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	13.2%	<b>Market Cap:</b>	\$674M
<b>Fair Value Price:</b>	\$44	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	02/14/25
<b>% Fair Value:</b>	79%	<b>5 Year Valuation Multiple Estimate:</b>	4.8%	<b>Dividend Payment Date:</b>	02/21/25
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$59	<b>Years Of Dividend Growth:</b>	10
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Founded in 1919, Orrstown Financial Services, Inc. is a community bank. ORRF serves as the holding company for its operating bank subsidiary, Orrstown Bank.

The company provides banking and financial advisory services to customers located in the south-central Pennsylvania counties of Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry, and York. ORRF also serves customers in Anne Arundel, Baltimore, Howard, and Washington counties in Maryland.

Its savings products include money market accounts, savings accounts, certificates of deposit, and checking accounts. Loan products offered consist of residential mortgages, home equity lines of credit, commercial mortgages, construction loans, and commercial loans. Financial advisory services provided include fiduciary, investment advisory, and brokerage services.

In December 2023, the company announced a “merger of equals” with Codorus Valley Bancorp, which owns the bank subsidiary, PeoplesBank. This bank also serves customers in Pennsylvania and Maryland. On July 1<sup>st</sup>, the merger was finalized. For each share of Codorus Valley Bancorp that was owned just before that date, shareholders received 0.875 shares of ORRF. This explains the recent uptick in the share count. As of December 31<sup>st</sup>, ORRF’s total assets were \$5.4 billion.

On January 31<sup>st</sup>, ORRF released its financial results for the fourth quarter ended December 31<sup>st</sup>. The company’s net interest income soared 94.4% over the year-ago period to \$50.6 million during the quarter, which was mostly due to the acquisition of Codorus Valley Bancorp. The other tailwind for ORRF was a 34-basis point year-over-year expansion in the net interest margin to 4.05% in the quarter. Thanks to the acquisition, the company’s noninterest income also surged 73.3% over the year-ago period to \$11.2 million for the quarter. ORRF’s adjusted diluted EPS edged 4.8% higher year-over-year to \$0.87 during the quarter. That was \$0.16 below the analyst consensus in the quarter.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$0.83	\$0.81	\$1.30	\$1.81	\$1.89	\$2.21	\$2.91	\$3.25	\$3.51	\$3.76	<b>\$4.37</b>	<b>\$5.85</b>
<b>DPS</b>	\$0.22	\$0.35	\$0.42	\$0.51	\$0.60	\$0.68	\$0.74	\$0.76	\$0.80	\$0.86	<b>\$1.04</b>	<b>\$1.39</b>
<b>Shares<sup>1</sup></b>	8.3	8.3	8.3	9.4	11.2	11.2	11.2	10.7	10.6	19.4	<b>19.4</b>	<b>24.8</b>

In the last decade, ORRF’s adjusted diluted EPS has compounded at a solidly double-digit rate annually. Moving forward, we expect this to drop to around 6% or 7% annually. That’s because the company has more flexibility to execute acquisitions to grow. As the full effect of the Federal Reserve’s recent rate cuts materializes, ORRF’s net interest margin should also stabilize and modestly expand.

On January 31<sup>st</sup>, Orrstown raised its dividend 13% from 23 cents to 26 cents per quarter, which marked a significantly larger increase than the bank had averaged over the past five years.

<sup>1</sup> 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	21.5	27.7	19.5	10.1	11.7	7.5	8.7	7.1	8.4	9.5	7.9	10.0
Avg. Yld.	1.2%	1.6%	1.7%	2.8%	2.7%	4.1%	2.9%	3.3%	2.7%	2.3%	3.0%	2.4%

Ranging from a trough valuation multiple of roughly seven to a peak valuation multiple in the high 20s, ORRF’s valuation has widely varied since 2015. The average P/E ratio over this time was 13.2, however. The most recent five-year average is just 8.2. Assuming the lower end of the middle of this range at 10, ORRF could be an intriguing value from the current-year P/E ratio of just 7.9.

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

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	27%	43%	32%	28%	32%	31%	25%	23%	23%	23%	24%	24%

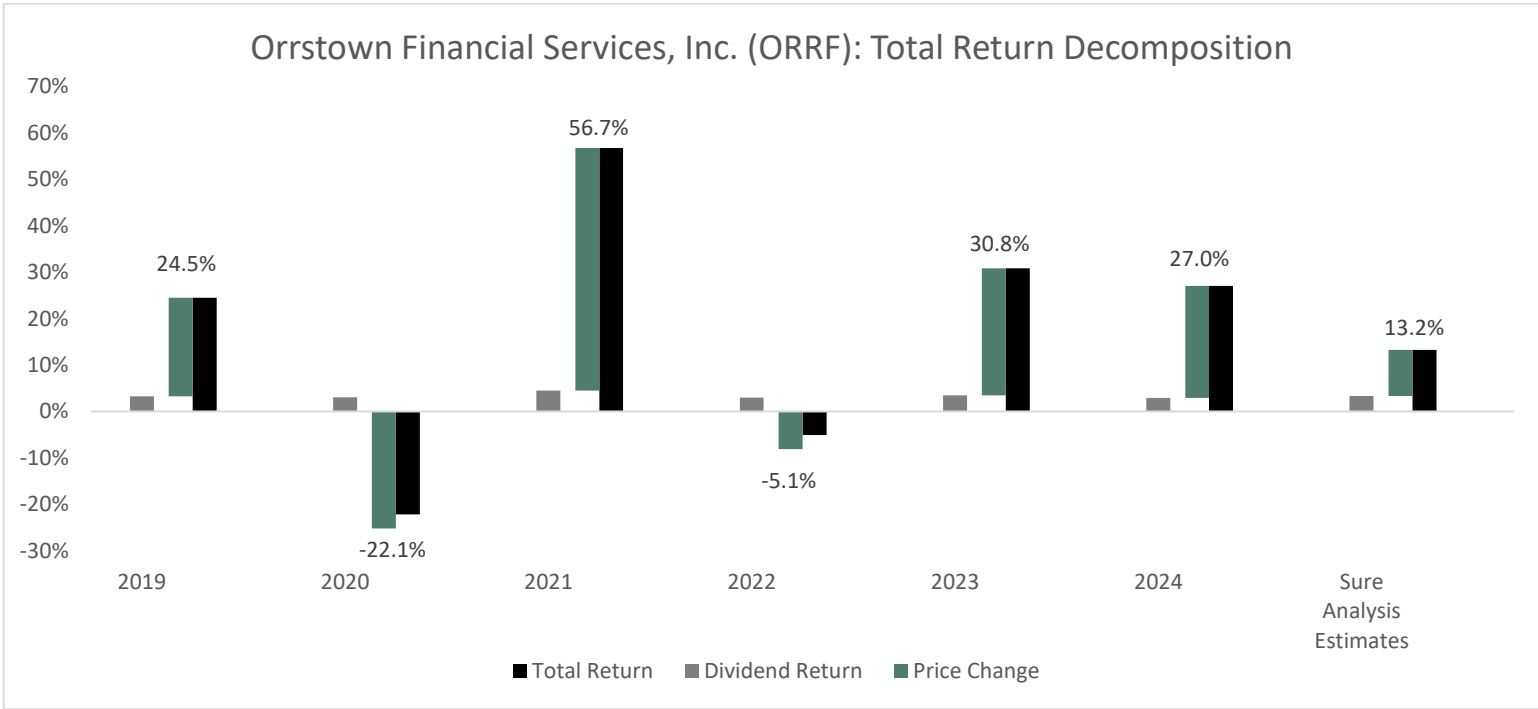
In its 106-year operating history, ORRF has fostered extensive relationships with its customers. This is helping it to retain existing customers and to gain new customers. Coupled with the improving macroeconomic environment, that should lead adjusted diluted EPS to compound over time.

As of December 31<sup>st</sup>, ORRF’s NPAs/assets ratio was 0.45% - - a four-basis point improvement sequentially. This suggests that the bank strives for asset quality. Furthermore, ORRF’s payout ratio remains at around a quarter of its profits. Put another way, the bank could withstand a downturn in corporate profits and keep paying dividends to its shareholders. That sets up ORRF to likely extend its 10-year dividend growth streak in the years ahead.

## Final Thoughts & Recommendation

ORRF’s 3.0% dividend yield, 6.0% annual adjusted diluted EPS growth prospects, and 4.8% annual valuation multiple upside could produce 13.2% annual total returns for shareholders through 2030. As a result, we’re maintaining our buy rating.

## 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	52	53	56	63	72	97	111	115	125	129
SG&A Exp.	30	30	34	36	38	46	47	48	52	56
D&A Exp.	3	3	3	3	4	6	7	5	5	4
Net Profit	29	8	7	8	13	17	26	33	22	36
Net Margin	56.0%	14.9%	11.9%	12.8%	17.7%	17.5%	23.9%	28.6%	17.6%	27.6%
Free Cash Flow	16	11	2	14	18	6	29	40	35	41
Income Tax	(16)	2	1	4	2	3	6	8	5	9

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,190	1,293	1,415	1,559	1,934	2,383	2,751	2,835	2,922	3,064
Cash & Equivalents	31	28	30	30	72	56	125	209	61	65
Accounts Receivable	3	4	5	5	6	6	9	8	11	14
Goodwill & Int. Ass.	0			1	17	27	24	23	22	21
Total Liabilities	1,063	1,160	1,280	1,414	1,761	2,160	2,504	2,563	2,694	2,799
Long-Term Debt	80	84	76	134	170	242	90	34	138	170
Shareholder's Equity	127	133	135	145	173	223	246	272	229	265
LTD/E Ratio	0.63	0.64	0.56	0.92	0.98	1.08	0.37	0.12	0.60	0.64

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.5%	0.6%	0.5%	0.5%	0.7%	0.8%	1.0%	1.2%	0.8%	1.2%
Return on Equity	26.6%	6.0%	4.9%	5.8%	8.0%	8.5%	11.3%	12.7%	8.8%	14.4%
ROIC	16.0%	3.7%	3.1%	3.3%	4.1%	4.2%	6.6%	10.2%	6.6%	8.9%
Shares Out.	8.3	8.3	8.3	8.3	9.4	11.2	11.2	11.2	10.7	10.6
Revenue/Share	6.41	6.47	6.82	7.66	6.56	9.21	10.05	10.35	11.70	12.39
FCF/Share	2.02	1.31	0.27	1.67	1.60	0.59	2.62	3.56	3.30	3.97

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

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