S&T Bancorp (STBA)

Updated February 6th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	4.7%	**Market Cap:**	$1.5 B
Fair Value Price:	$40	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	2/13/25
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	2/27/25
Dividend Yield:	3.3%	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

S&T Bancorp is the holding company of S&T Bank. It was founded in 1902 and is headquartered in Indiana, Pennsylvania. The bank provides retail and commercial banking products and services to more than 225,000 customers in Pennsylvania and Ohio through its 72 locations. S&T Bancorp has a market capitalization of $1.5 billion.

S&T Bancorp has a diversified loan portfolio. Commercial real estate loans, consumer loans and industrial loans comprise 44%, 30% and 21%, respectively, of total loans. The bond portfolio of the company comprises just 10% of its total assets and hence the bank has not incurred material losses from the surge of interest rates to nearly 23-year highs. Net interest income comprises 86% of total income but the bank has proved resilient to the downturn caused by high interest rates, as it has maintained one of the widest net interest margins in the entire financial sector.

On January 30th, 2025, S&T Bancorp reported results for Q4-2024. Loans grew 1% and deposits grew 6% over the prior year's quarter. Net interest margin contracted from 3.92% to 3.77% due to increased deposit costs amid intense competition among banks. As a result, net interest income fell -2% and earnings-per-share dipped -10%, from $0.96 to $0.86, though they beat the analysts' consensus by $0.09. The net interest margin of S&T Bancorp, which is one of the highest in the financial sector, has stabilized in the last three quarters, after having shrunk for five quarters in a row. Notably, the stock of S&T Bancorp surged 14% on the day of the elections, in line with the other regional banks, thanks to expectations for strong economic growth under the new government, as regional banks are leveraged to economic growth.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.98	$2.05	$2.09	$3.02	$2.83	$0.54	$2.81	$3.46	$3.74	$3.41	***$3.30***	***$3.64***
DPS	$0.73	$0.77	$0.82	$0.99	$1.09	$1.12	$1.13	$1.20	$1.29	$1.33	***$1.36***	***$1.56***
Shares[1]	33.8	34.8	35.0	35.0	34.7	39.1	39.1	39.0	38.4	38.6	***38.6***	***38.0***

S&T Bancorp has consistently grown its earnings-per-share over the last decade thanks to sustained growth of loans. The bank proved highly vulnerable to the pandemic but it recovered swiftly from that crisis. It has grown its earnings-per-share by 6.2% per year on average over the last decade but by only 2.0% per year on average over the last six years. Just like the vast majority of regional banks, S&T Bancorp is currently facing pressure on its net interest margin due to a high cost of deposits, which has resulted from high interest rates. On the bright side, the Fed has provided guidance for lower interest rates until the end of 2026. As a result, S&T Bancorp is likely to see its net interest margin expand. In order to be on the safe side, we have assumed 2.0% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.2	13.7	17.8	14.1	13.5	46.9	11.0	9.0	8.0	10.6	***12.4***	***12.1***
Avg. Yld.	2.4%	2.8%	2.2%	2.3%	2.9%	4.4%	3.7%	3.8%	4.3%	3.7%	***3.3%***	***3.5%***

[1] In millions.

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Excluding the abnormally high price-to-earnings ratios in 2017 and 2020, S&T Bancorp has traded at an average price-to-earnings ratio of 12.1 over the last decade. We assume this valuation level as fair for this stock. S&T Bancorp is currently trading at a price-to-earnings ratio of 12.4. If it trades at our assumed fair valuation level in five years, it will incur a -0.5% annualized valuation drag over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	37%	38%	39%	33%	39%	207%	40%	35%	34%	39%	***41%***	***43%***

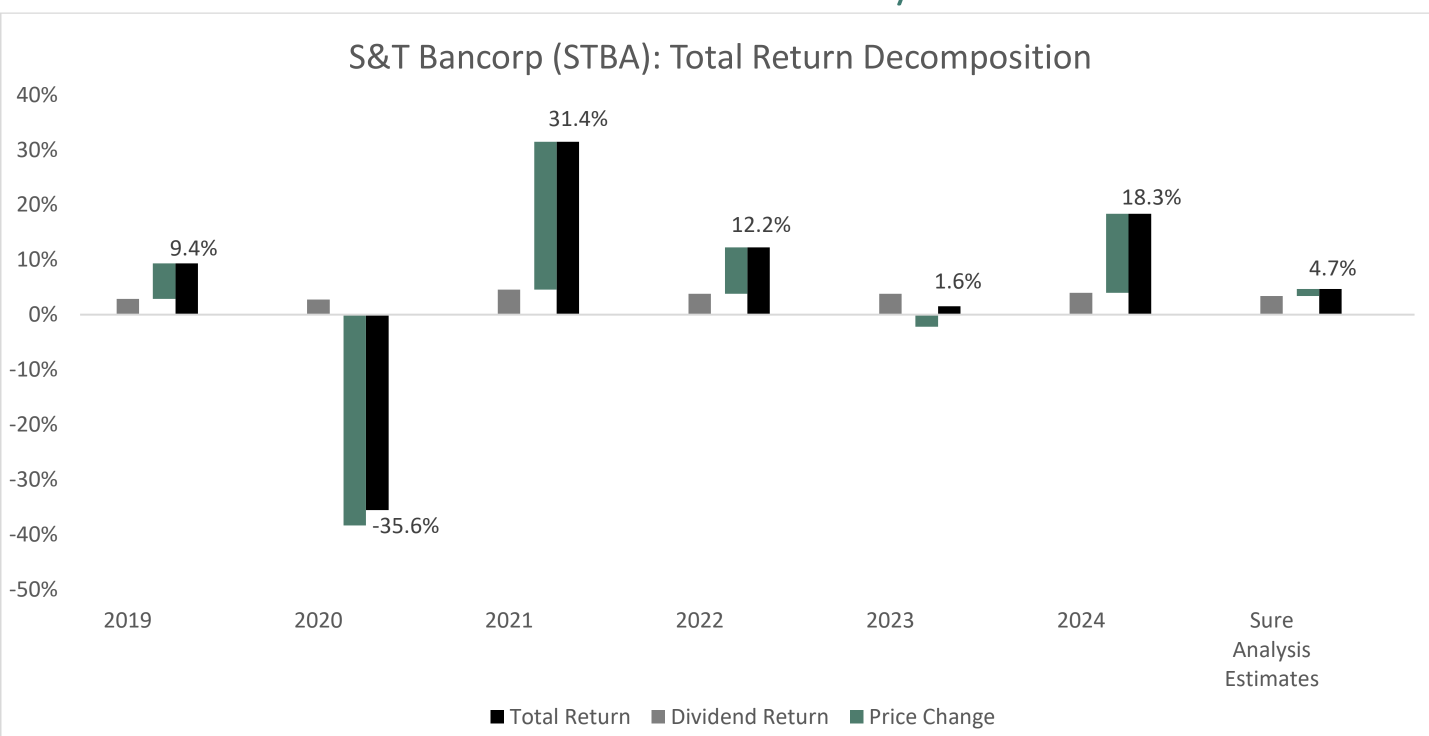
S&T Bancorp raised its dividend by 3% last year and thus it has raised its dividend for 13 consecutive years. It is offering a 3.3% dividend yield, which is slightly higher than the 3.0% median dividend yield of the financial sector, and has a healthy payout ratio of 41%. As a result, its dividend has a wide margin of safety in the absence of a severe downturn.

In addition, S&T Bancorp has a healthy tier 1 leverage ratio of 12.0%. However, we are concerned over the high ratio of non-performing assets (0.36%), which is among the worst in the sector. Moreover, the bank proved highly vulnerable to the pandemic, as it incurred an -81% plunge in earnings-per-share in 2020. We also note its pronounced underperformance vs. the S&P 500 over the last five years (+4% vs. +82%). Overall, S&T Bancorp is offering a dividend with a wide margin of safety but it is not a safe haven during unexpected downturns.

Final Thoughts & Recommendation

S&T Bancorp has proved one of the most resilient regional banks to the headwind from nearly 23-year high interest rates but the market has already rewarded the bank for its strong business performance, at least in part. We also note the vulnerability of this regional bank to recessions due to its exposure to commercial, industrial and consumer loans. We expect the stock to offer a 4.7% average annual return over the next five years thanks to 2.0% growth of earnings-per-share and its 3.3% dividend, partly offset by a -0.5% valuation drag. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	239	258	281	282	299	339	341	374	407	384
SG&A Exp.	91	99	94	86	89	101	109	112	122	133
D&A Exp.	0	4	2	7	12	12	11	9	8	---
Net Profit	67	71	73	105	98	21	110	136	145	131
Net Margin	28.1%	27.7%	25.9%	37.4%	32.8%	6.2%	32.4%	36.2%	35.6%	34.2%
Free Cash Flow	55	93	110	124	133	46	211	237	166	---
Income Tax	24	25	46	18	19	(0)	25	33	34	34

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	6,318	6,943	7,060	7,252	8,765	8,968	9,489	9,111	9,552	9,658
Cash & Equivalents	99	139	117	155	198	230	922	210	234	245
Goodwill & Int. Ass.	298	297	295	290	383	382	380	379	377	376
Total Liabilities	5,526	6,101	6,176	6,316	7,573	7,813	8,282	7,926	8,268	8,278
Long-Term Debt	519	720	633	586	396	163	77	439	504	250
Shareholder's Equity	792	842	884	936	1,192	1,155	1,206	1,185	1,283	1,380
LTD/E Ratio	0.65	0.86	0.72	0.63	0.33	0.14	0.06	0.37	0.39	0.18

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.2%	1.1%	1.0%	1.5%	1.2%	0.2%	1.2%	1.5%	1.6%	1.4%
Return on Equity	9.6%	8.7%	8.5%	11.6%	9.2%	1.8%	9.3%	11.3%	11.7%	9.9%
ROIC	5.9%	5.0%	4.7%	6.9%	6.3%	1.4%	8.5%	9.3%	8.5%	7.7%
Shares Out.	33.8	34.8	35.0	35.0	34.7	39.1	39.1	39.0	38.4	38.5
Revenue/Share	7.03	7.41	8.07	8.06	8.63	8.68	8.73	9.58	10.53	9.97
FCF/Share	1.63	2.68	3.14	3.54	3.84	1.18	5.41	6.06	4.28	---

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