Orrstown Financial Services, Inc. (ORRF)

Updated April 24th, 2025, by Kody Kester

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	15.7%	**Market Cap:**	$550M
Fair Value Price:	$39	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/06/25
% Fair Value:	72%	**5 Year Valuation Multiple Estimate:**	6.7%	**Dividend Payment Date:**	05/13/25
Dividend Yield:	3.7%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	10
Dividend Risk Score:	B	**Sector:** Financials		**Rating:**	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 1st, 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 March 31st, 2025, ORRF's total assets were $5.4 billion.

On April 22nd, ORRF shared its first-quarter earnings report for the period ending March 31st, 2025. The company's net interest income soared by 81.4% year-over-year to $48.8 million in the quarter. This was primarily driven by the acquisition of Codorus Valley Bancorp. The secondary catalyst for ORRF was a 23-basis point uptick in the net interest margin to 4.00% during the quarter. The company's noninterest income jumped 75.3% over the year-ago period to $11.6 million for the quarter. That was again fueled by the acquisition. ORRF's adjusted diluted EPS rose by 13.6% year-over-year to $1.00 in the quarter. This was $0.07 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	$0.83	$0.81	$1.30	$1.81	$1.89	$2.21	$2.91	$3.25	$3.51	$3.76	***$3.90***	***$5.22***
DPS	$0.22	$0.35	$0.42	$0.51	$0.60	$0.68	$0.74	$0.76	$0.80	$0.86	***$1.04***	***$1.39***
Shares[1]	8.3	8.3	8.3	9.4	11.2	11.2	11.2	10.7	10.6	19.4	***19.5***	***24.9***

Since 2015, ORRF's adjusted diluted EPS has compounded at a solidly double-digit rate annually. Moving forward, we continue to think this will be around 6% or 7% annually. This is because the company has more flexibility to execute acquisitions to grow. That's why we think that the share count will moderately expand over the medium term. On January 31st, Orrstown raised its dividend by 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.

[1] 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	***7.2***	***10.0***
Avg. Yld.	1.2%	1.6%	1.7%	2.8%	2.7%	4.1%	2.9%	3.3%	2.7%	2.3%	***3.7%***	***2.7%***

ORRF's valuation has widely varied since 2015, from as little as a P/E ratio of seven to as much as a P/E ratio in the high 20s. The average P/E ratio over this time was 13.2. The most recent five-year average is just 8.2. We still think that a P/E ratio of 10 is reasonable for ORRF. That's because adjusting for a larger earnings base, the company's fundamentals seem to be mostly intact. Relative to the current P/E ratio of just 7.2, this suggests that shares could be trading at a sizable discount to fair value.

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%	***27%***	***27%***

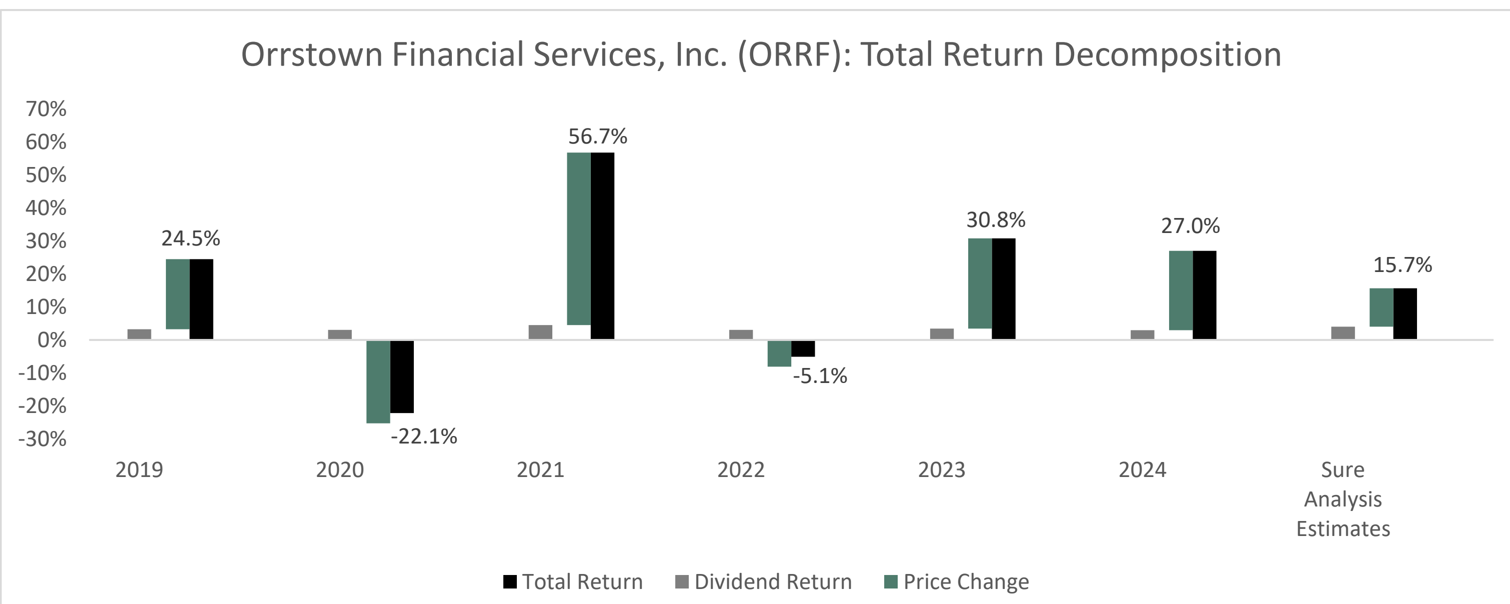
In its 106-year operating history, ORRF has fostered extensive relationships with its customers. This is helping it to retain existing customers and to gain new customers. Coupled with the improving macroeconomic environment, that should lead adjusted diluted EPS to compound over time.

As of March 31st, ORRF's NPAs/assets ratio was 0.42%, this was a three-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 3.7% dividend yield, 6.0% annual adjusted diluted EPS growth prospects, and 6.7% annual valuation multiple upside could generate 15.7% annual total returns for shareholders over the next five years. That's why we're reiterating 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	53	56	63	72	97	111	115	125	129	176
SG&A Exp.	30	34	36	38	46	47	48	52	56	79
D&A Exp.	3	3	3	4	6	7	5	5	4	10
Net Profit	8	7	8	13	17	26	33	22	36	22
Net Margin	14.9%	11.9%	12.8%	17.7%	17.5%	23.9%	28.6%	17.6%	27.6%	12.5%
Free Cash Flow	11	2	14	18	6	29	40	35	41	33
Income Tax	2	1	4	2	3	6	8	5	9	6

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,293	1,415	1,559	1,934	2,383	2,751	2,835	2,922	3,064	5,442
Cash & Equivalents	28	30	30	72	56	125	209	61	65	249
Accounts Receivable	4	5	5	6	6	9	8	11	14	21
Goodwill & Int.				17	27	24	23	22	21	68
Total Liabilities	1,160	1,280	1,414	1,761	2,160	2,504	2,563	2,694	2,799	4,925
Long-Term Debt	84	76	134	170	242	90	34	138	170	184
Shareholder's Equity	133	135	145	173	223	246	272	229	265	517
LTD/E Ratio	0.64	0.56	0.92	0.98	1.08	0.37	0.12	0.60	0.64	0.36

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.6%	0.5%	0.5%	0.7%	0.8%	1.0%	1.2%	0.8%	1.2%	0.5%
Return on Equity	6.0%	4.9%	5.8%	8.0%	8.5%	11.3%	12.7%	8.8%	14.4%	5.6%
Shares Out.	8.3	8.3	8.3	9.4	11.2	11.2	11.2	10.7	10.6	14.9
Revenue/Share	6.47	6.82	7.66	6.56	9.21	10.05	10.35	11.70	12.39	11.81
FCF/Share	1.31	0.27	1.67	1.60	0.59	2.62	3.56	3.30	3.97	2.21

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