



Timberland Bancorp, Inc. (TSBK)

Updated April 27th, 2025, by Ian Bezek

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	14.8%	Market Cap:	\$232 M
Fair Value Price:	\$35	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/09/25
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	05/23/25
Dividend Yield:	3.6%	5 Year Price Target	\$51	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Sector:	Financials	Rating:	Buy

Overview & Current Events

Timberland Bancorp is a Hoquiam, Washington-based regional bank. The bank was founded in 1915 to help provide financial services to the lumber towns in western Washington state. In 1998, Timberland converted its share structure from a mutual savings bank to a traditional chartered stock bank. The bank has had a generally successful run in the public markets. It survived the 2008 financial crisis, and has delivered strong total returns since that point.

Timberland has enjoyed considerable growth in recent years, both from growth in its core market along with the bank's expansion in business and merchant services. Timberland operates 23 bank branches today, all in Washington, serving both rural areas and some communities in the greater Seattle metropolitan area. Timberland has a lending book weighted toward commercial credits, with more than half its loans being in either commercial real estate or construction lending.

Timberland shares fell to a low valuation in recent years amid the jitters in the regional banking sector generally and specific worries around the commercial real estate market. However, Timberland has defied the critics, with its earnings holding up despite the unsettled macroeconomic environment.

On April 23rd, 2025, Timberland reported its fiscal second quarter 2025 earnings. Earnings per share of 85 cents surged 21 percent from the 70 cents in the same period of 2024. The bank's core metrics are firing on all cylinders right now, with the bank's net interest margin jumping 15 basis points higher this quarter. That is much stronger than most other regional banks peers that have reported so far this earnings season. The bank's loan book also grew by 4% year-over-year, and loan metrics remain pristine, with the bank having net charge-offs of less than a thousand dollars for the period. We would normally raise our full-year EPS outlook based on this much stronger than expected quarter. However, to be prudent, we are sticking with our prior estimate to reflect the sharply higher macroeconomic uncertainty from tariffs, which could have an outsized impact on the local Washington economy.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.17	\$1.43	\$1.92	\$2.22	\$2.84	\$2.88	\$3.27	\$2.82	\$3.29	\$3.01	\$3.18	\$4.67
DPS	\$0.24	\$0.32	\$0.42	\$0.50	\$0.58	\$0.75	\$0.83	\$0.87	\$0.91	\$0.97	\$1.04	\$1.46
Shares	7	7	7	7	7	8	8	8	8	8	8	8

Timberland has been a surprisingly strong growth story within the regional banking space, with its earnings growing at 11.1% annualized since 2015 and the dividend increasing at a rapid 16.8% annualized pace over the same period. Future growth is unlikely to be quite this strong. Timberland benefitted from significant business opportunities within its geographical region, a strong construction market, and favorable developments in interest rates.

Since the pandemic, Timberland's growth rate has decelerated significantly, with earnings growing at just 2% annualized over the past five years. We believe the company's true long-term potential lies in the middle of that range and forecast 8% growth going forward. While the company's dividend payout ratio has crept up slightly in recent years, there is still plenty of room for healthy dividend increases; we forecast a 7% annualized increase going forward. On April 22nd, 2025, the bank boosted its dividend from 25 cents to 26 cents per quarter.

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	Now	2030
Avg. P/E	9.2	10.8	16.2	13.8	9.5	6.2	8.7	9.6	8.1	10.0	9.1	11.0
Avg. Yld.	2.0%	2.0%	1.5%	1.4%	2.1%	3.7%	2.9%	3.0%	3.3%	3.1%	3.6%	2.8%

Despite Timberland’s impressive growth story, the market has not assigned the bank much of a valuation premium. Shares have averaged a 10.2 P/E ratio since 2015, and only an 8.5 P/E ratio over the past five years. We believe the market’s sentiment has been overly negative and that well-run regional banks like Timberland can support slightly higher valuation ratios. The bank’s current 3.6% dividend yield is the highest it has offered over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

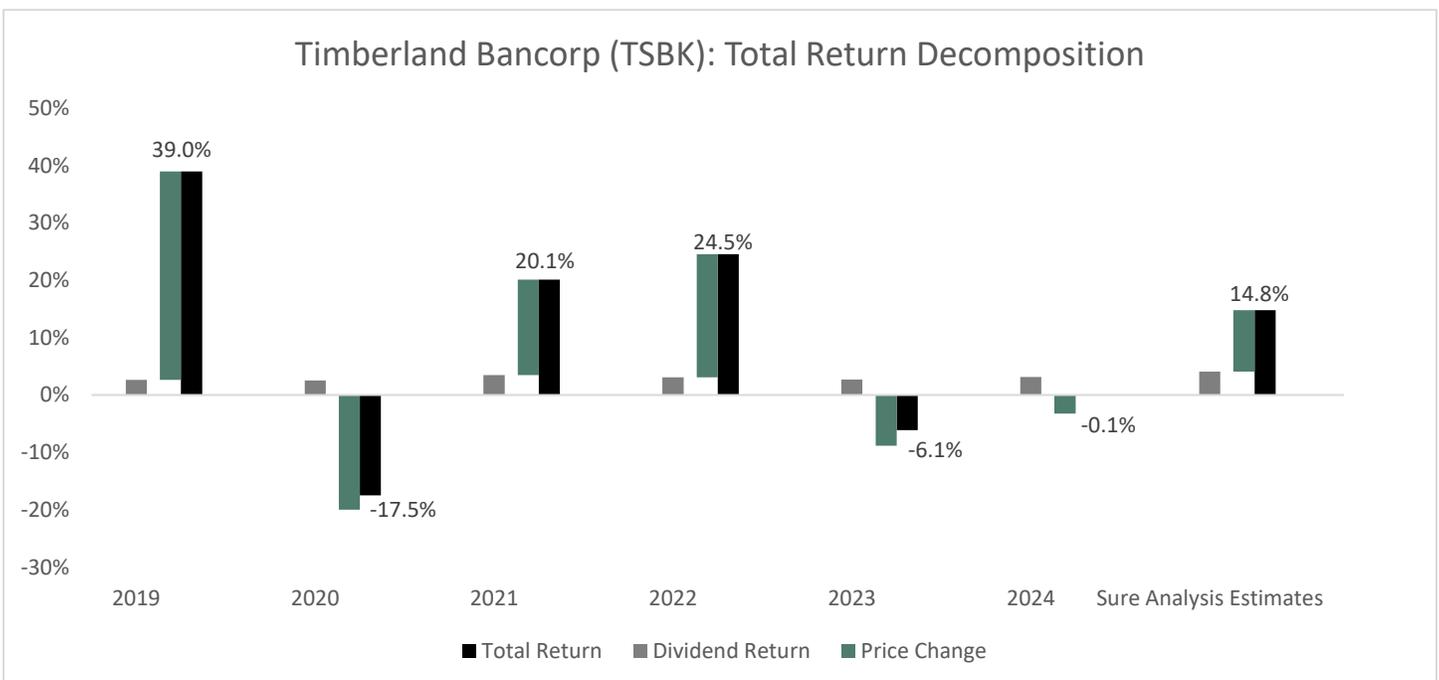
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	21%	22%	22%	23%	20%	26%	25%	31%	28%	32%	33%	31%

Timberland is a regional bank tied almost entirely to the health of the state of Washington’s economy. This risk appeared in 2008, when Timberland shares lost the majority of their value. However, most regional Pacific banks struggled during this period, and Timberland fared better than many of its peers. The bank also faces significant risk from its outsized exposure to commercial real estate and construction lending. These loans can offer higher yields and growth opportunities, but could lead to greater credit risk during a prolonged recession. The bank’s payout ratio has increased from 21% to 33% over the past decade, but the dividend remains well-supported from earnings.

Final Thoughts & Recommendation

Timberland shares have been deeply undervalued for much of the past few years. Shares are up about 15% over the past 12 months. Even so, Timberland shares are trading well below fair value and offer a favorable return profile based on the starting 3.6% dividend yield, the bank’s earnings growth rate, and the possibility of meaningful multiple expansion. We forecast 14.8% annualized returns going forward, which makes shares a buy today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	34	39	45	49	62	65	66	65	76	71
SG&A Exp.	17	17	18	19	24	22	20	22	25	25
D&A Exp.	2	2	2	2	3	3	3	3	3	---
Net Profit	8	10	14	17	24	24	28	24	27	24
Net Margin	24.0%	26.0%	31.6%	34.3%	38.6%	37.3%	42.1%	36.5%	35.9%	33.8%
Free Cash Flow	7	11	10	19	16	32	29	26	30	---
Income Tax	4	5	7	6	6	6	7	6	7	6

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	816	891	952	1,018	1,247	1,566	1,792	1,861	1,840	1,923
Cash & Equivalents	141	162	191	212	221	380	609	340	144	175
Acc. Receivable	2	2	3	3	4	4	4	4	6	7
Goodwill & Int.	7	7	7	8	20	20	20	19	18	17
Total Liabilities	727	795	841	894	1,076	1,378	1,585	1,642	1,607	1,678
Accounts Payable	2	2	2	3	5	4	4	5	6	---
Long-Term Debt	45	30	-	-	-	10	5	-	35	20
Total Equity	89	97	111	125	171	188	207	219	233	245
LTD/E Ratio	0.50	0.31	-	-	-	0.05	0.02	-	0.15	0.08

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.1%	1.2%	1.5%	1.7%	2.1%	1.7%	1.6%	1.3%	1.5%	1.3%
Return on Equity	9.6%	10.9%	13.6%	14.2%	16.2%	13.5%	14.0%	11.1%	12.0%	10.2%
ROIC	6.3%	7.8%	11.9%	14.2%	16.2%	13.2%	13.5%	11.0%	11.1%	9.1%
Shares Out.	7	7	7	7	7	8	8	8	8	8.1
Revenue/Share	4.88	5.50	6.07	5.76	7.34	7.73	7.76	7.71	9.17	8.77
FCF/Share	0.98	1.55	1.40	2.27	1.88	3.78	3.40	3.05	3.62	---

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

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