1st Source Corp. (SRCE)

Updated July 28th, 2025, by Josh Arnold

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	3.8%	**Market Cap:**	$1.5 B
Fair Value Price:	$65	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	08/05/25
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date:**	08/15/25
Dividend Yield:	2.5%	**5 Year Price Target**	$65	**Years Of Dividend Growth:**	38
Dividend Risk Score:	B	**Sector:**	Financials	**Rating:**	Hold

Overview & Current Events

1st Source was founded in 1863 and since that time has grown into a regional bank with about $8 billion in total assets. The company is headquartered in Indiana and has about 100 locations to service its customers. 1st Source's market capitalization is $1.5 billion, and it is expected to produce over $400 million in revenue this year. 1st Source also has an exceptional dividend increase streak that stands at 38 years, which very few banks can match.

1st Source posted second quarter earnings on July 24th, 2025, and results were better than expected on both the top and bottom lines. Earnings came to $1.51 per share, which was four cents ahead of estimates. Revenue was up 11.5% year-over-year to $108 million, beating estimates by almost $4 million.

Net income was $37.3 million, down $0.5 million, or 1.4%, from the year-ago period. On a per-share basis, earnings came to $1.51, or two cents higher than a year ago.

Average loans and leases were $170 million higher, or 2.5%, from the first quarter. Compared to the year-ago period, they rose $363 million, or 5.5%.

Net interest income was $85.4 million, up $4 million, or 5.3%, from Q1. It was higher by $11 million, or 15%, from last year's Q2. Net interest margin was 4.01%, up 11 basis points from Q1 and 42 basis points from last year's Q2.

Provisions for credit losses were $7.7 million, over double the $3.3 million in Q1, and up from basically nothing a year ago.

We now see $5.95 in earnings-per-share for this year after a great first half of 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.17	$2.22	$2.52	$3.16	$3.58	$3.27	$4.70	$4.84	$5.06	$5.54	***$5.95***	***$5.95***
DPS	$0.67	$0.72	$0.76	$0.96	$1.10	$1.13	$1.21	$1.26	$1.30	$1.40	***$1.52***	***$1.68***
Shares[1]	26	26	26	26	26	26	25	25	24	25	***25***	***25***

Earnings-per-share growth has been robust since the bottom in 2009. Recent growth has been fueled by gains in the company's asset base, averaging 5%+ in the past decade. 1st Source's strong balance sheet growth has been accompanied by expanding margins at times and prudent operating expenditures, allowing for a rise in returns on its asset base. We're estimating earnings growth of 0% going forward, as it appears some recent struggles with growing earnings are abating. 1st Source is trying to build more fee revenue, but its business is still heavily dependent upon lending margins, and we think growth will be tough to come by because of the unfavorable interest rate environment with respect to deposit costs against lending rates. 1st Source is set to produce what would be record results in 2025, but that may prove to be the top given current estimates. Expenses are likely to be the key variable in earnings growth for 2025. We note NIM growth has been impressive.

[1] Share count 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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Our expectation for the dividend is now $1.68 in 2030 as we see 1st Source facing headwinds in its ability to grow earnings. However, we don't expect the bank to end its very long streak of dividend increases. We see the bank as being hesitant to boost its payout ratio much higher than it is at the moment.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	13.9	15.3	18.4	16.4	13.1	11.2	9.9	11.0	10.9	10.5	***10.3***	***11.0***
Avg. Yld.	2.2%	2.1%	1.6%	1.9%	2.4%	3.1%	2.6%	2.4%	2.4%	2.4%	***2.5%***	***2.6%***

1st Source's price-to-earnings multiple has been steady, all things considered, for the past decade. It is currently trading for 10.3 times earnings, which is below our estimate of fair value. Therefore, we see a modest positive impact to total returns from the valuation in the coming years. The yield should remain around 2.5% for the foreseeable future. The increase in earnings estimates has the valuation moderating, boosting the attractiveness of the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	32%	34%	30%	30%	31%	35%	26%	26%	26%	25%	***26%***	***28%***

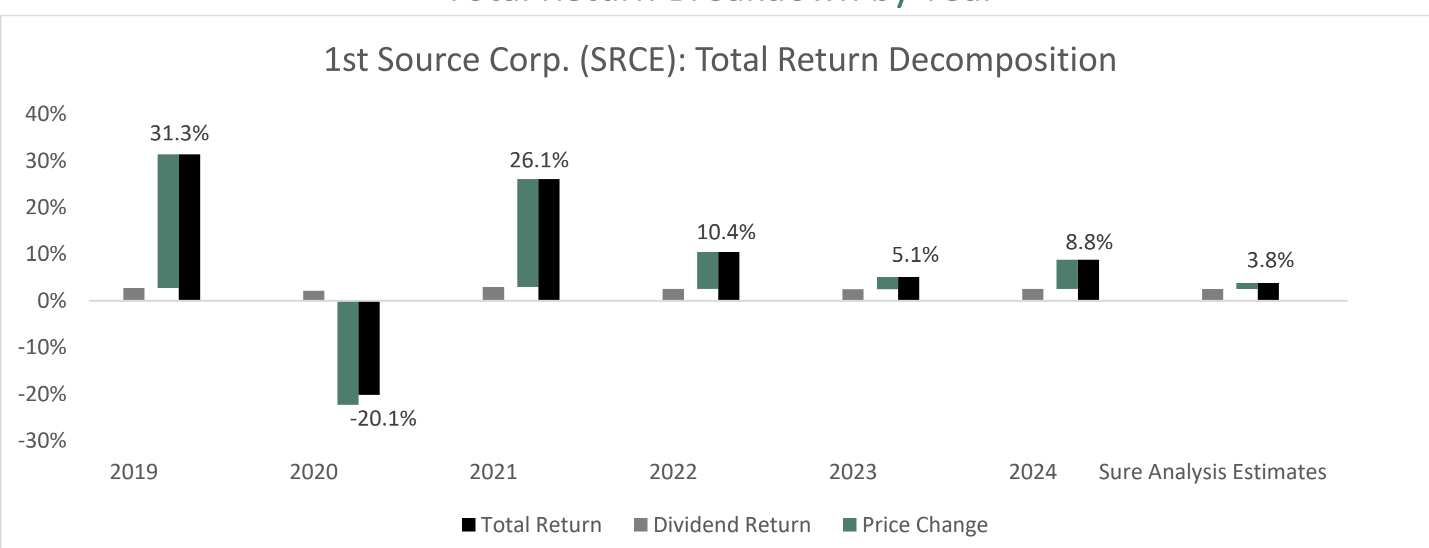
The payout ratio is less than one-third of earnings and dividend raises will likely be somewhat modest in the coming years. We see the dividend as safe and with a lot of room to grow given 1st Source's commitment to raising the payout, as well as the low payout ratio. We see the payout growing even if 1st Source is not able to produce strong earnings growth, and indeed, that is what we're forecasting.

1st Source's competitive advantage is in its clean balance sheet, strong profitability metrics and robust market position in the areas it serves. The advantage of a community or regional bank is that it can generate sizable market share in lots of small markets, creating a sustainable competitive advantage. It is obviously not immune from recessions but did perform well in 2020, all things considered.

Final Thoughts & Recommendation

We believe total returns for 1st Source investors could be 3.8% annually, consisting of the current 2.5% yield and 1.4% valuation tailwind. Given that the bank's growth outlook is modest, and the fact that it has struggled to grow loans and leases organically, we think this will keep a lid on growth rates. We are reiterating the stock at a 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	250	259	284	311	325	330	337	355	369	387
SG&A Exp.	100	100	102	109	112	114	122	137	122	135
D&A Exp.	24	28	32	33	35	31	24	19	15	13
Net Profit	57	58	68	82	92	81	119	121	125	133
Net Margin	23.0%	22.3%	23.9%	26.5%	28.3%	24.7%	35.2%	34.1%	33.9%	34.3%
Free Cash Flow	37	59	88	135	154	152	164	173	182	181
Income Tax	31	31	33	23	28	25	36	36	37	38

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	5188	5486	5887	6294	6623	7316	8096	8339	8728	8932
Cash & Equivalents	65	59	74	95	67	74	54	85	77	77
Goodwill & Int. Ass.	85	84	84	84	84	84	84	84	84	84
Total Liabilities	4544	4814	5169	5530	5774	6386	7127	7416	7660	7750
Long-Term Debt	219	262	119	199	138	127	115	179	342	275
Shareholder's Equity	644	673	719	762	828	887	916	864	990	1111
LTD/E Ratio	0.34	0.39	0.17	0.26	0.17	0.14	0.13	0.21	0.35	0.25

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.1%	1.1%	1.2%	1.4%	1.4%	1.2%	1.5%	1.5%	1.5%	1.5%
Return on Equity	9.1%	8.8%	9.8%	11.1%	11.6%	9.5%	13.1%	13.5%	12.5%	11.8%
ROIC	6.8%	6.4%	7.7%	9.2%	9.3%	7.9%	11.1%	11.0%	10.0%	9.3%
Shares Out.	26	26	26	26	26	26	25	25	25	24
Revenue/Share	9.55	9.99	10.97	11.99	12.70	12.92	13.45	14.40	15.00	15.80
FCF/Share	1.40	2.28	3.40	5.23	6.02	5.94	6.55	7.01	7.39	7.41

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