



Auburn National Bancorporation, Inc. (AUBN)

Updated July 25th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	7.9%	Market Cap:	\$67 M
Fair Value Price:	\$20	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	09/10/24
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date¹:	09/24/24
Dividend Yield:	5.7%	5 Year Price Target	\$22	Years Of Dividend Growth:	22
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Auburn National Bancorporation, Inc. is a bank holding company with total assets of approximately \$1.0 billion as of June 30th, 2024. Through its principal subsidiary, AuburnBank, the company provides a full range of banking services to commercial and retail customers. AuburnBank is community-oriented and focuses primarily on offering commercial and consumer loan and deposit services to individuals and small and middle-market businesses in East Alabama, including Lee County and surrounding areas. The bank has 8 offices and 13 ATM locations throughout the communities it serves. The company was founded in 1907 and has 150 employees.

On July 23rd, 2024, Auburn National released its second quarter results for the period ending June 30th, 2024. For the quarter, the company reported net earnings of \$1.7 million compared to net earnings of \$1.9 million for the same quarter last year. Reported earnings per diluted share for the same periods were \$0.50 and \$0.55.

The company's second quarter performance demonstrated continued improvement in the business, particularly in net interest income and credit quality. Net interest income for the quarter was \$6.7 million, consistent with the first quarter of 2024, and the net interest margin improved slightly by 2 basis points to 3.06%. Additionally, the bank demonstrated robust financial health with an annualized loan growth rate of 9%, excellent credit quality with nonperforming assets at just 0.08% of total assets, and a growth in period-end deposits to \$946.4 million, an increase of \$46.7 million from the previous quarter. The allowance for credit losses was \$7.1 million, or 1.24% of total loans, compared to \$7.2 million, or 1.27% of total loans, in the previous quarter, while noninterest income remained steady at \$0.9 million for both of the first two quarters of 2024.

The company is cautiously optimistic for the remainder of 2024, with expectations of a challenging interest rate environment. However, the improvements in net interest margin, credit quality, and loan growth are expected to stabilize the company's financial health. The company did not provide specific guidance figures, but indicated a positive trajectory following the strategic adjustments made earlier at the end of 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.04	\$2.16	\$2.24	\$2.15	\$2.42	\$2.72	\$2.09	\$2.27	\$2.95	\$0.40	\$1.80	\$1.99
DPS	\$0.86	\$0.88	\$0.90	\$0.92	\$0.96	\$1.00	\$1.02	\$1.04	\$1.06	\$1.06	\$1.08	\$1.24
Shares²	4	4	4	4	4	4	4	4	4	4	4	3

The company's earnings have declined by 16.6% per year since 2014 and by 7.9% over the past five years. For the full year 2023, net earnings were \$1.4 million, or \$0.40 per share, compared to \$10.3 million, or \$2.95 per share, for the same period in 2022. As a reference, excluding the loss related to the balance sheet repositioning strategy, net earnings for the full year 2023 would have been \$6.1 million, or \$1.75 per share, compared to \$6.7 million, or \$1.92 per share for the full year 2022. We expect earnings to increase by 2% per year for the next five years and recover from the decline in 2023. The company has been able to increase its dividend for an impressive 22 consecutive years. The annual dividend grew from \$0.80 in 2012 to the most recent full-year payment of \$1.08. This means an average annual dividend growth

¹ Estimated date

² 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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rate of 2.4%. In February 2023, the company increased its quarterly dividend by 1.9% from \$0.265 to \$0.27 per share. The company had no share repurchases during the second quarter of 2024.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.9	11.9	12.6	16.1	17.0	14.3	22.0	16.1	11.0	10.5	10.6	11.0
Avg. Yld.	1.9%	3.4%	3.2%	2.7%	2.3%	2.6%	2.2%	2.9%	4.1%	5.0%	5.7%	5.7%

During the past decade, shares of Auburn National have traded with an average price-to-earnings ratio of about 14.6 and today, it stands at 10.6. We are using 11 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 5.7%, which is well above the average yield over the past decade of 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

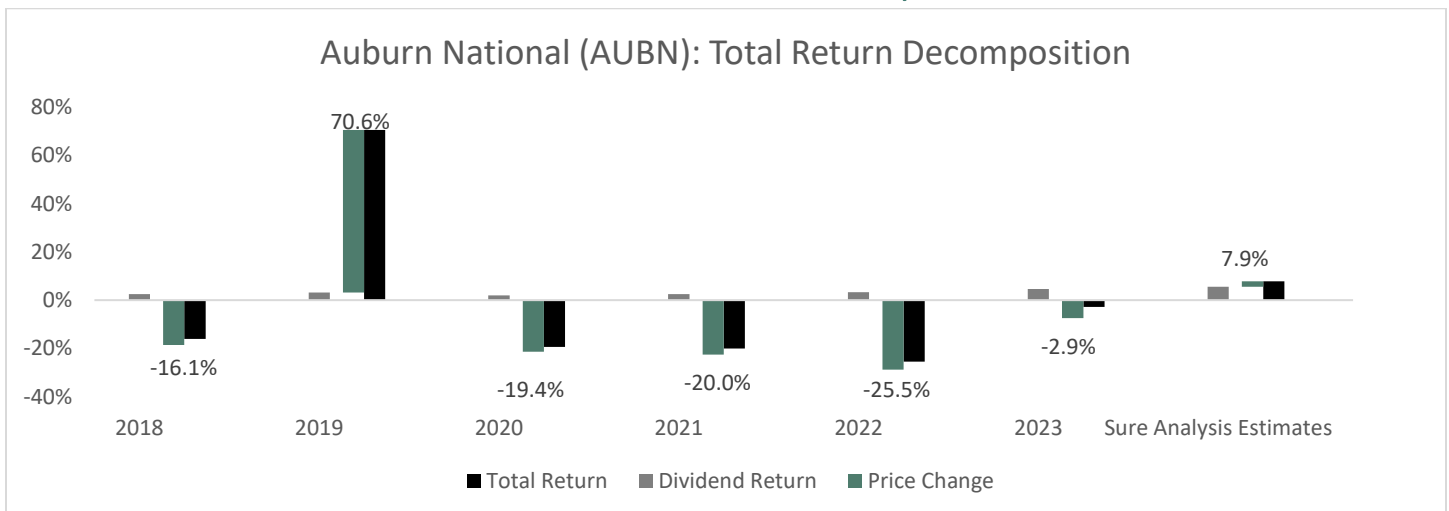
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	42%	41%	40%	43%	40%	37%	49%	46%	36%	265%	60%	62%

During the past five years, the company's dividend payout ratio has averaged around 48%. Auburn National's dividend is comfortably covered by earnings at the moment. It is important to note that Auburn National earnings per share has basically not grown from where it was five years ago, which could mean that the payout ratio will increase further. One should keep an eye on the payout ratio when the dividend growth rate keeps outpacing the earnings per share growth rate. Auburn National Bancorporation's business model is primarily built upon lending money to local businesses and residents within the local communities the bank serves. The funding of those loans is done by gathering local deposits through their community offices. Net interest income representing almost 90% of the total revenues.

Final Thoughts & Recommendation

Auburn National Bancorporation is a small and conservative community bank operating in East Alabama. Investors could be attracted to the stock based on its dividend growth track-record and the above average dividend yield of 6.0%. There are two elements to monitor: firstly, the dividend growth rate, which is currently outpacing the earnings growth rate, and secondly, whether the bank will return to its historical earnings level based on the balance sheet repositioning strategy. The share price is down 10% over the last year. We estimate total return potential of 7.9% per year for the next five years based on an 2% earnings-per-share growth, the dividend yield, and a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	25	27	26	28	29	32	30	28	30	23
SG&A Exp.	9	10	10	10	11	12	12	12	11	13
D&A Exp.	1	1	1	1	1	1	2	1	1.5	1.7
Net Profit	7	8	8	8	9	10	7	8	10	1.4
Net Margin	29.3%	28.8%	31.2%	28.1%	30.6%	30.9%	25.1%	28.4%	33.3%	6.1%
Free Cash Flow	10	9	9	8	12	9	1	(8)	4	11.5
Income Tax	3	3	3	4	2	2	2	1	2.5	(0.8)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	789	817	832	853	818	828	957	1,105	1,042	975
Cash & Equivalents	15	57	79	64	38	66	84	79	18	40
Goodwill & Int.	2	2	-	-	-	-	-	-	-	-
Total Liabilities	713	737	750	766	729	730	849	1,001	956	899
Long-Term Debt	12	7	3	3	-	-	-	-	-	-
Total Equity	76	80	82	87	89	98	108	104	68	76.5
LTD/E Ratio	0.16	0.09	0.04	0.04	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.0%	1.0%	0.9%	1.1%	1.2%	0.8%	0.8%	1.0%	0.1%
Return on Equity	10.6%	10.1%	10.1%	9.3%	10.0%	10.4%	7.2%	7.6%	12.1%	1.9%
ROIC	9.0%	9.0%	9.4%	8.9%	9.9%	10.4%	7.2%	7.6%	12.1%	1.9%
Shares Out.	4	4	4	4	4	4	4	4	3.5	3.5
Revenue/Share	6.97	7.48	7.17	7.68	7.93	8.81	8.33	7.98	8.67	6.67
FCF/Share	2.69	2.56	2.55	2.14	3.27	2.52	0.39	(2.22)	1.12	3.28

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

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