



The First Bancorp (FNLC)

Updated November 1st, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	9.7%	Market Cap:	\$288 M
Fair Value Price:	\$26	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	1/3/25
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	1/17/25
Dividend Yield:	5.5%	5 Year Price Target	\$33	Years Of Dividend Growth:	12
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

The First Bancorp, which is headquartered in Damariscotta, Maine, is the holding company for First National Bank, a full-service community bank that was founded in 1864. First National Bank is a regional bank with 18 branches along Maine's coast and 2 branches in the greater Bangor area. It provides a wide range of commercial and retail banking services; it has total assets of \$3.1 billion and a market capitalization of only \$288 million.

The First Bancorp benefits from the economic growth of Maine's coastal counties and downtown Bangor. However, in a similar fashion to most regional banks, The First Bancorp generates about 80% of its earnings from net interest income and hence it is highly sensitive to the spread between the interest rates it charges on its loans and the interest rate it pays on its deposits. Due to the surge of interest rates to nearly 23-year highs, the net interest margin of The First Bancorp has pronouncedly contracted in recent quarters.

In late October, The First Bancorp reported (10/23/24) financial results for the third quarter of fiscal 2024. Loans grew 3% and deposits grew 5% sequentially. Net interest margin expanded from 2.21% to 2.32%, as higher yields more than offset high deposit costs amid intense competition among banks. As a result, net interest income grew 8% and earnings-per-share grew 24%, from \$0.55 to \$0.68. Notably, the net interest margin of The First Bancorp is among the lowest in the entire financial sector. However, the bank just began to recover from the headwind of high interest rates. As a result, we have raised our forecast for earnings-per-share in 2024 from \$2.10 to \$2.30.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.37	\$1.51	\$1.66	\$1.81	\$2.17	\$2.34	\$2.48	\$3.30	\$3.53	\$2.66	\$2.30	\$2.94
DPS	\$0.83	\$0.87	\$0.91	\$0.95	\$1.11	\$1.18	\$1.22	\$1.26	\$1.32	\$1.38	\$1.44	\$1.64
Shares²	10.7	10.8	10.8	10.8	10.9	10.9	10.9	11.0	11.0	11.1	11.1	11.4

The First Bancorp grew its earnings-per-share every single year during 2014-2022. Unfortunately, its earnings-per-share decreased -25% last year due to the impact of high interest rates and an inverted yield curve on net interest margin. If the bank meets our forecast for earnings-per-share of \$2.30 this year, it will have grown its earnings-per-share by 5.3% per year on average over the last decade. On the bright side, the Fed intends to reduce interest rates from 4.75%-5.0% to 2.75%-3.0% in 2026. As a result, the net interest margin of The First Bancorp is likely to recover from next year. Given also the somewhat low comparison base formed by the 6-year low expected earnings this year, we expect 5.0% average annual growth of earnings-per-share until 2029, roughly in line with the historical growth rate of the bank.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.2	12.2	13.3	15.3	13.1	11.4	9.2	8.8	8.5	9.7	11.3	11.4
Avg. Yld.	5.0%	4.7%	4.1%	3.4%	3.9%	4.5%	5.4%	4.4%	4.5%	5.4%	5.5%	4.9%

¹ Estimated date.

² In millions.

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The First Bancorp has traded at an average price-to-earnings ratio of 11.4 over the last decade. We assume this valuation level as fair for this stock. The stock is currently trading at a price-to-earnings ratio of 11.3, which is almost equal to the historical average valuation level. If the stock trades at its fair valuation level in five years, it will enjoy a marginal 0.2% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	61%	58%	55%	52%	51%	50%	49%	38%	37%	52%	63%	56%

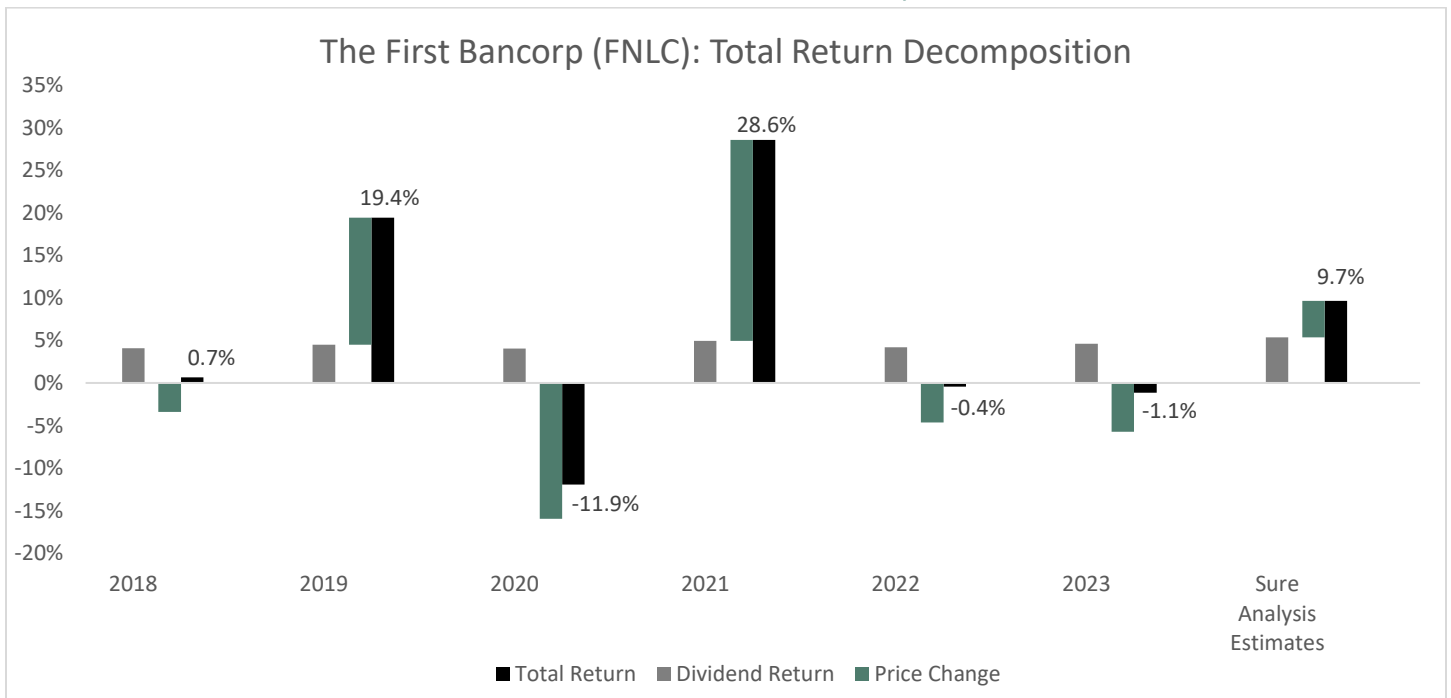
The First Bancorp has raised its dividend for 12 consecutive years. It is also offering a nearly 10-year high dividend yield of 5.5%, which is much higher than the 3.1% median dividend yield of the financial sector. The high dividend yield has resulted from the low stock price, which has been caused by the material decrease in earnings in 2023-2024. This has also caused the payout ratio to surge to a nearly decade-high level of 63%. Nevertheless, as the Fed has provided guidance for lower interest rates in the upcoming years, the worse seems to be behind the bank in reference to the ongoing downturn. Therefore, the dividend appears safe in the absence of a severe downturn.

The First Bancorp is a well-managed bank, with a conservative business model. It has consistently posted a low ratio of non-performing loans. This ratio is currently standing at 0.08%. In addition, the bank proved resilient to the pandemic, as it kept growing its earnings in 2020 and 2021. Nevertheless, just like most regional banks, The First Bancorp has been hurt by high interest rates and an inverted yield curve. Overall, the stock is suitable for income-oriented investors but it bears the risks related to its small market cap and its sensitivity to the downturns of the financial sector.

Final Thoughts & Recommendation

The First Bancorp has just begun to recover from the impact of high interest rates on its net interest margin. We expect the company to remain in recovery mode next year. The stock has rallied 8% since our last research report, in August, but it can still offer a 9.7% average annual return over the next five years thanks to 5.0% growth of earnings-per-share, a 5.5% starting dividend yield and a 0.2% valuation tailwind. We marginally lower our rating from “buy” to “hold”.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	51	53	55	60	63	67	78	86	93	81
SG&A Exp.	16	16	16	18	19	19	21	22	24	24
D&A Exp.	2	2	2	2	2	2	2	2	2	2
Net Profit	15	16	18	20	24	26	27	36	39	30
Net Margin	29.0%	30.5%	32.5%	32.7%	37.5%	38.3%	34.8%	42.3%	41.9%	36.6%
Free Cash Flow	19	20	19	20	32	24	20	53	40	34
Income Tax	5	6	6	7	4	5	5	8	8	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,482	1,565	1,713	1,843	1,945	2,069	2,361	2,527	2,739	2,947
Cash & Equivalents	17	18	18	20	31	26	82	87	26	35
Goodwill & Int. Ass.	30	30	30	30	30	30	31	31	31	31
Total Liabilities	1,321	1,397	1,540	1,662	1,753	1,856	2,138	2,281	2,510	2,704
Long-Term Debt	280	337	279	229	210	185	262	55	39	20
Shareholder's Equity	162	167	173	181	192	213	224	246	229	243
LTD/E Ratio	1.73	2.01	1.62	1.26	1.10	0.87	1.17	0.22	0.17	0.08

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.1%	1.1%	1.1%	1.2%	1.3%	1.2%	1.5%	1.5%	1.0%
Return on Equity	9.6%	9.9%	10.6%	11.1%	12.6%	12.6%	12.4%	15.5%	16.4%	12.5%
ROIC	3.4%	3.4%	3.8%	4.5%	5.8%	6.4%	6.1%	9.2%	13.7%	11.1%
Shares Out.	10.7	10.8	10.8	10.8	10.9	10.9	10.9	11.0	11.0	11.1
Revenue/Share	4.73	4.94	5.12	5.53	5.79	6.12	7.13	7.80	8.43	7.28
FCF/Share	1.73	1.84	1.76	1.82	2.98	2.25	1.84	4.82	3.61	3.09

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

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