



LCNB Corp. (LCNB)

Updated November 28th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$17.38	5 Year CAGR Estimate:	6.5%	Market Cap:	\$243 M
Fair Value Price:	\$14.00	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	12/02/24
% Fair Value:	124.1%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date¹:	12/16/24
Dividend Yield:	5.1%	5 Year Price Target	\$19	Years Of Dividend Growth:	7
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

LCNB Corp. (LCNB) is a Ohio-based financial holding company providing banking and insurance services through its subsidiaries, LCNB National Bank and Dakin Insurance Agency, Inc. The company reported \$2.35 billion in total assets as of September 30th, 2024. LCNB National Bank offers consumer and commercial banking services, including checking and savings accounts, certificates of deposit, and loans for residential mortgages, commercial real estate, and personal needs. Dakin Insurance Agency provides personal and commercial insurance products and annuity services.

LCNB also offers trust administration, estate settlement, and investment management services, as well as financial products like mutual funds, annuities, and life insurance. LCNB Corp. expanded its market presence through two strategic acquisitions: the merger with Cincinnati Bancorp, Inc., completed in November 2023, and the acquisition of Eagle Financial Bancorp, Inc., finalized in April 2024. LCNB Corp. is a \$243 million company, was founded in 1877 and has about 380 employees.

On October 21st, 2024, LCNB Corp. released its third-quarter results for the period ending September 30th, 2024. For the quarter, the company reported a net income of \$4.5 million, or \$0.31 per diluted share, compared to \$4.1 million, or \$0.37 per diluted share, in the same quarter last year. Net interest income grew to \$15.0 million, up from \$13.6 million year-over-year. The net interest margin for the reporting quarter was 2.84%, down from 2.96% in the previous quarter and 3.04% in the year-ago quarter. Non-interest income saw a significant increase to \$6.4 million, compared to \$3.6 million in Q3 2023, driven by expanded fee-based services.

Total deposits increased 18.6% to \$1.92 billion, compared to \$1.62 billion at September 30th, 2023. Not including the Cincinnati Federal and Eagle acquisitions, total deposits increased 8.5% organically, or by \$138 million, from September 30th, 2023. Asset quality remained strong, with nonperforming loans accounting for just 0.16% of total loans, compared to 0.20% a year ago, reflecting effective credit risk management. Total assets grew by 18.4% year-over-year to \$2.35 billion, with LCNB Wealth Management assets reaching \$1.37 billion, a 24.4% increase.

Operating metrics showed strength in income diversification and asset growth, though the decline in the net interest margin highlighted ongoing profitability pressures. Expenses related to recent acquisitions, such as Eagle Financial Bancorp and Cincinnati Bancorp, contributed to the company's expansion and increased customer base. Management continues to focus on realizing operational efficiencies and expanding services through its recent acquisitions, which are expected to bolster future growth. No specific guidance was provided for earnings or loan portfolio growth, but the company remains optimistic about its long-term financial performance and community banking focus.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.05	\$1.17	\$1.25	\$1.29	\$1.24	\$1.44	\$1.55	\$1.66	\$1.93	\$1.10	\$1.00	\$1.34
DPS	\$0.64	\$0.64	\$0.64	\$0.64	\$0.65	\$0.69	\$0.73	\$0.77	\$0.81	\$0.85	\$0.88	\$1.12
Shares²	9	10	10	10	12	13	13	13	11	11	14	14

¹ Estimated date

² In millions.

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The company has grown earnings by 0.5% per year over the past decade and -7% over the past five years. We expect earnings to increase by 6% per year for the next five years. This is based on the assumption of net interest income growth, supported by loan and deposit growth and controlled expenses. The company has been able to increase its yearly dividend payout for 7 consecutive years. Over the last five years, the average annual dividend growth rate is 5%. In February 2024, the company increased its quarterly dividend by 4.8% from \$0.21 to \$0.22 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.4	9.5	13.2	11.6	10.0	10.5	7.8	10.1	8.4	13.2	17.4	14.0
Avg. Yld.	4.3%	3.9%	2.8%	3.1%	4.3%	3.6%	5.0%	3.9%	4.5%	5.4%	5.1%	6.0%

During the past decade shares of LCNB Corp. have traded with an average price-to-earnings ratio of 10.4 times earnings and today, it stands at 17.4. We are using 14.0 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 5.1%, which is above the average yield over the past decade of 4.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	61%	55%	51%	50%	52%	48%	47%	46%	42%	77%	88%	84%

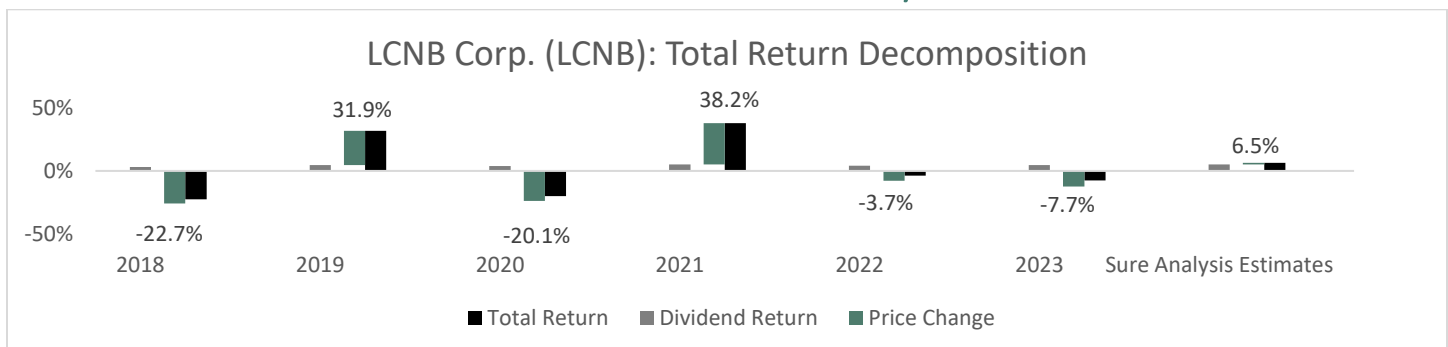
During the past five years, the company's dividend payout ratio has averaged around 53%. LCNB Corp's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

LCNB Corp. demonstrates a competitive advantage through its strong community banking model, longstanding customer relationships, and diversified revenue streams, which include both traditional banking services and wealth management. Its recent acquisitions, including Eagle Financial Bancorp and Cincinnati Bancorp, further enhance its market presence and broaden its customer base, driving both organic and inorganic growth. LCNB's performance in economic downturns has historically been resilient due to its conservative credit policies and focus on maintaining a high-quality loan portfolio. Asset quality remains a strong point, with nonperforming loans accounting for just 0.16% of total loans as of September 30, 2024, down from 0.20% the previous year. From a safety standpoint, the bank's ability to grow deposits organically by 8.5%, excluding acquisition impacts, signals customer trust and robust liquidity. However, its declining net interest margin, raises some concerns about sustained profitability in a rising cost environment.

Final Thoughts & Recommendation

LCNB Corp. is a community bank stock with an above average dividend yield of 5.1% and a sound dividend payout ratio. We estimate total return potential of 6.5% per year for the next five years, based on 6% earnings-per-share growth, the dividend, and a valuation headwind. Shares earn a hold rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	44	49	50	51	59	66	71	72	74	71
SG&A Exp.	18	20	20	21	23	28	29	29	30	31
D&A Exp.	3	3	3	3	4	3	2	3	3	3
Net Profit	10	11	12	13	15	19	20	21	22	13
Net Margin	22.2%	23.5%	24.8%	25.6%	25.3%	28.6%	28.3%	29.2%	29.9%	17.9%
Free Cash Flow	15	13	6	12	19	18	11	16	24	18
Income Tax	3	4	4	4	3	4	4	5	5	3

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,108	1,281	1,307	1,296	1,637	1,639	1,746	1,904	1,919	2,292
Cash & Equivalents	16	15	19	25	21	21	32	18	23	40
Acc. Receivable						4	8	8	7	8
Goodwill & Int.	32	36	35	34	64	63	63	62	61	89
Total Liabilities	982	1,140	1,164	1,145	1,418	1,411	1,505	1,665	1,719	2,056
Long-Term Debt	16	29	26	47	103	41	22	10	91	211
Total Equity	126	140	143	150	219	228	241	239	201	235
LTD/E Ratio	0.13	0.21	0.18	0.31	0.47	0.18	0.09	0.04	0.45	0.89

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.0%	1.0%	1.0%	1.0%	1.2%	1.2%	1.1%	1.2%	0.6%
Return on Equity	8.1%	8.6%	8.8%	8.8%	8.0%	8.5%	8.6%	8.7%	10.1%	5.8%
ROIC	7.2%	7.4%	7.4%	7.1%	5.7%	6.4%	7.5%	8.2%	8.2%	3.4%
Shares Out.	9	10	10	10	12	13	13	13	11	11
Revenue/Share	4.72	4.97	5.05	5.07	4.91	5.06	5.49	5.71	6.48	6.19
FCF/Share	1.58	1.30	0.60	1.15	1.60	1.38	0.84	1.26	2.13	1.58

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

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