



ChoiceOne Financial Services (COFS)

Updated January 24th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	9.8%	Market Cap:	\$309 M
Fair Value Price:	\$41	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	3/13/25
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	3/28/25
Dividend Yield:	3.2%	5 Year Price Target	\$49	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

ChoiceOne Financial Services is the holding company for ChoiceOne Bank, which is headquartered in Sparta, Michigan. Founded in 1898, ChoiceOne Bank has grown to a bank with a full range of financial services. It operates 37 offices and has a market capitalization of \$309 million. The bank offers a variety of deposit, payment, credit and other financial services to all types of customers. These services include time, savings, and demand deposits, safe deposit services, and automated transaction machine services. The bank also offers loans to consumers and corporations.

ChoiceOne Bank faces significant competition from much larger financial institutions in its operating area. Due to competition for deposits, the bank cannot achieve a higher-than-typical net interest margin. On the other hand, ChoiceOne Bank performed better than most regional banks in the downturn caused by the surge of interest rates in 2022-2023. While many banks incurred material losses due to the plunge in their fixed-income securities, ChoiceOne Bank posted record earnings-per-share of \$3.15 in 2022 and incurred just a -10% decrease in 2023.

On July 25th, 2024, ChoiceOne Financial Services agreed to acquire Fentura Financial (FETM) in an all-stock deal valued at \$180.4 million. Each share of Fentura will be converted to 1.35 shares of ChoiceOne Financial Services. The deal, which is expected to close in Q1-2025, will create the 3rd largest bank in Michigan, with 56 offices in the area. As the deal value is 58% of the market cap of ChoiceOne Financial Services, it is likely to prove a major growth driver for the bank.

In late January, ChoiceOne Financial Services reported (1/22/25) results for the fourth quarter of 2024. Net interest income grew 16% over the prior year's quarter, as net interest margin expanded from 2.66% to 2.98%, despite higher costs of deposits. In addition, the bank grew its loans and deposits by 8% and 4%, respectively. As a result, earnings-per-share grew 19%, from \$0.70 to \$0.83, though they missed the analysts' consensus by \$0.01. We expect net interest margin to expand further and thus we expect all-time high earnings-per-share of \$3.60 this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.58	\$1.68	\$1.70	\$2.02	\$1.58	\$2.08	\$2.87	\$3.15	\$2.82	\$3.37	\$3.60	\$4.38
DPS	\$0.60	\$0.62	\$0.64	\$0.71	\$0.80	\$0.82	\$0.94	\$1.01	\$1.05	\$1.09	\$1.12	\$1.36
Shares²	3.6	3.6	3.6	3.6	4.5	7.5	7.7	7.5	7.5	9.0	9.0	15.0

In 2020, ChoiceOne Financial Services acquired Community Shores Bank and became the 12th largest bank holding company in Michigan based on asset size. ChoiceOne Financial Services remains a low-market cap company but it has decent growth prospects. It has grown its earnings-per-share by 8.8% per year on average over the last nine years. Moreover, it is on track to expand significantly thanks to the aforementioned pending merger with Fentura Financial. Nevertheless, we prefer to be conservative, given the small size of the bank. Given our expectations for lower interest rates in the upcoming years and material synergies from the pending merger with Fentura Financial, we expect 4% growth of earnings-per-share on average over the next five years.

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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.7	10.9	11.6	12.1	17.5	13.9	8.9	7.4	8.6	8.6	9.7	11.3
Avg. Yld.	3.2%	3.4%	3.2%	2.9%	2.9%	2.8%	3.7%	4.4%	4.3%	3.8%	3.2%	2.8%

ChoiceOne Financial Services has traded with an average price-to-earnings ratio of 11.3 over the last decade. We assume this as a fair valuation level for the bank. The stock is currently trading at a price-to-earnings ratio of 9.7. We expect the stock to trade at its average valuation level in five years. In such a case, the stock will enjoy a 3.1% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	38%	37%	38%	35%	51%	39%	33%	32%	37%	32%	31%	31%

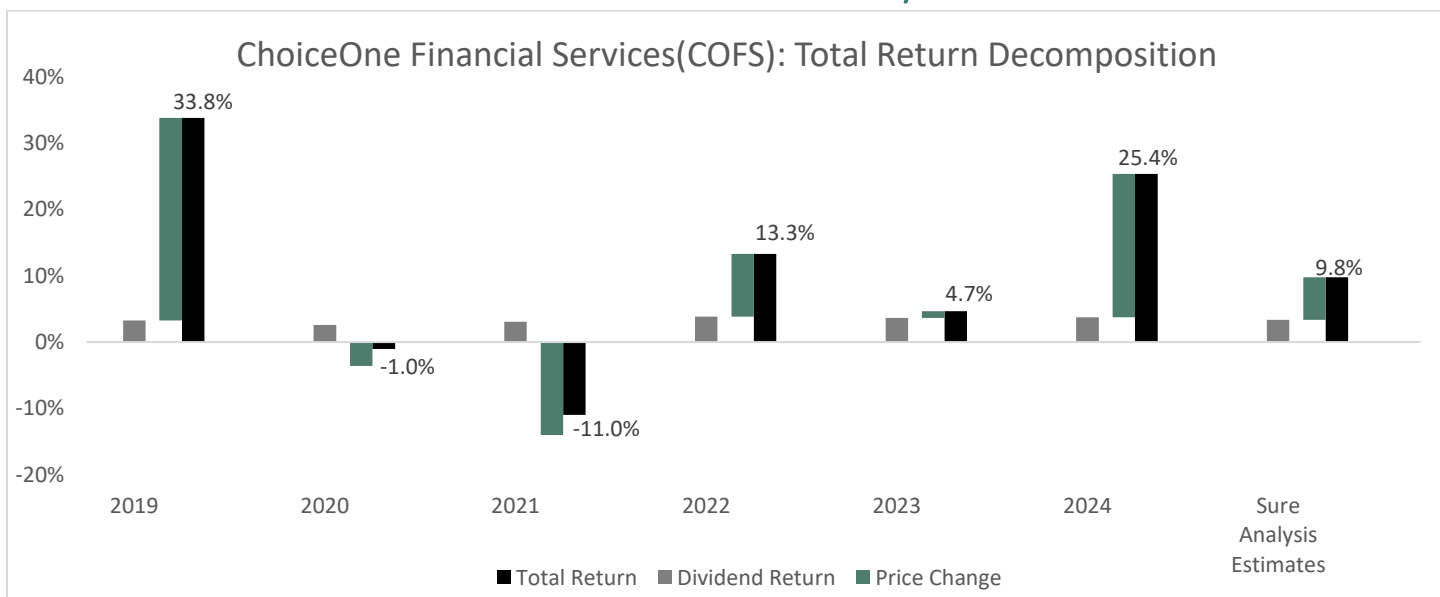
ChoiceOne Financial Services is smaller than many of its competitors while competition has greatly heated among banks for customer deposits. As a result, ChoiceOne Financial Services does not have a meaningful competitive advantage and hence it experiences a typical net interest margin.

The bank has grown its dividend for 13 consecutive years and is offering a 3.2% yield, which is marginally above the 3.1% median yield of the financial sector. In addition, the bank has grown its dividend by 7% per year on average over the last five years and has a healthy payout ratio of 31%, which provides room for meaningful dividend hikes in the upcoming years. Given also the fairly resilient performance of the company in the downturn caused by high interest rates, the stock is suitable for income-oriented investors, though investors should always be aware of the increased risk of small-cap stocks.

Final Thoughts & Recommendation

ChoiceOne Financial Services has doubled in 15 months, but it remains attractive thanks to its expanding net interest margin and its major pending merger. Despite its steep rally, the stock could offer a 9.8% average annual return over the next five years thanks to 4.0% earnings-per-share growth, its 3.2% dividend and a 3.1% annualized valuation tailwind. It thus receives a marginal buy 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	26	27	27	29	37	74	80	81	81	92
SG&A Exp.	10	10	11	11	15	28	31	32	34	36
D&A Exp.	2	3	2	2	3	8	12	13	12	---
Net Profit	6	6	6	7	7	16	22	24	21	27
Net Margin	22.0%	22.4%	22.5%	25.3%	19.4%	21.2%	27.6%	29.0%	26.3%	28.9%
Free Cash Flow	3	9	6	6	8	7	35	44	42	---
Income Tax	2	2	2	1	1	3	4	4	4	6

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	568	607	647	671	1,386	1,919	2,367	2,386	2,577	2,723
Cash & Equivalents	11	15	37	20	60	80	32	44	55	97
Goodwill & Int. Ass.	14	14	14	14	59	66	64	63	62	61
Total Liabilities	498	536	570	590	1,194	1,692	2,145	2,217	2,381	2,463
Long-Term Debt	11	12	20	5	33	12	85	85	236	211
Shareholder's Equity	70	72	77	80	192	227	222	169	196	260
LTD/E Ratio	0.16	0.17	0.26	0.07	0.17	0.05	0.38	0.50	1.20	0.81

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.0%	1.0%	1.0%	1.1%	0.7%	0.9%	1.0%	1.0%	0.9%	1.0%
Return on Equity	8.4%	8.6%	8.3%	9.3%	5.3%	7.4%	9.8%	12.1%	11.7%	11.7%
ROIC	6.9%	7.4%	6.8%	8.0%	4.6%	6.7%	8.1%	8.4%	6.2%	5.9%
Shares Out.	3.6	3.6	3.6	3.6	4.5	7.5	7.7	7.5	7.5	8.2
Revenue/Share	7.17	7.50	7.57	7.99	8.14	9.79	10.36	10.81	10.67	11.24
FCF/Share	0.81	2.51	1.77	1.58	1.86	0.88	4.54	5.83	5.58	---

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

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