

Raising Recommendation for CBAN Based on Unforeseen Commercial Loan Growth

Price (10/7/22) (\$):	13.25	Beta:	0.48	FY: Dec	2021A	2022E	2023E	2024E
1-Yr Price Target (\$):	14.30	COE (%):	6.58%	Net Interest Income	66,242	85,614	99,174	104,830
LT Price Target (\$):	18.30	M-Term Net Int Gr Rate Est:	16.53%	Growth (%)	19.9%	29.2%	15.8%	5.7%
52WK H-L (\$):	\$12.89 - 19.42	M-Term EPS Gr Rate Est:	15.25%	Net Income	23,450	31,426	33,493	35,898
Market Cap (Mil):	\$234	Loans/Deposits:	61.7%	Growth (%)	57.9%	34.0%	6.6%	7.2%
Insider Holding (%):	11.57	ROA:	0.8%	Net Interest Margin (%)	3.39	3.25	3.58	3.60
Avg. Daily Vol (3M):	51,840	ROE:	10.3%	EPS:	\$1.70	\$1.37	\$1.78	\$1.91
Short Interest (%):	1.50%	CT1 Capital Ratio:	11.3%	P/E	7.8	9.7	7.5	7.0
Yield (%):	2.40	NPL/Total Loans:	0.4%	P/B	15.9	13.7	15.1	16.5

(\$USD '000)

Conclusion: I am recommending the purchase of Colony Bankcorp (CBAN) because my work suggests there will be a greater origination of commercial purpose and commercial real estate loans among Georgian banks than what consensus anticipates. My view compels me to raise earnings forecasts for next year 8% above consensus. I assume the stock continues to trade at its current P/E multiple relative to the market, and marginally above its historical P/B multiple relative to the market (72% discount to 70%).

Price Target: My price target P/E ratio assumes CBAN's 47% two-year historical discount to the market multiple. Applying this to my NTM +1 year EPS estimate of \$1.75 results in a price target of \$14.30. My price target P/B ratio assumes a 70% discount to the market P/B multiple, which is 2% below its current level, to my NTM +1 year BVPS estimate of \$14.74, which also results in a price target of \$14.30.

Research: Based on my criteria to find commercial loan growth among regional banks, I searched for business application growth between 2020 and 2021 for all counties in the US and determined that new businesses are emerging at the highest rates in the South. Georgia ranks second among all US states by growth in the number of applications for Employee Identification Numbers (EINs) at 26.8%. EINs are necessary for business structures that plan to hire employees and establish themselves as separate legal entities responsible for their own finances; the US Census Bureau publishes monthly Business Formation Statistics (BFS) at the state and county levels for their applications. Missouri ranks first, although there were no regional banks under a \$3B market cap with loan-to-deposit ratios below 1.0x and a core branch footprint within its state.

CBAN ranks 17th among Georgian banks by market share (by total deposits) but has over 10% in six counties where EIN applications total 500 or more and the rate of growth exceeds that of the state average (see appendix). As a regional bank dealing primarily in commercial lending (83% of outstanding loans) with notable market share in counties that have reported some of the nation's highest business applications in 2021, my analysis suggests that CBAN will benefit from an unexpected rise in the number of businesses forming in the South. New business growth bodes well for the bank as loans are likely to be originated for commercial purposes (Commercial & Industrial loans) and office spaces (Commercial Real Estate loans), which is directly reflected on the firm's income statement as interest income. Colony's non-interest income would also benefit from a rise in businesses, as the bank's Small Business Specialty Lending Group makes a spread from originating Small Business Administration (SBA) loans.

Sell-side research among Georgian banks also fails to mention an increase in deposits galvanized by the construction of three manufacturing plants within the next five years and the expansion of two existing plants in 2023 alone. Hyundai Motor Group is planning to build a new EV battery manufacturing plant operational by 1H2025; expecting to create nearly 8,100 new jobs in Bryan county (Colony has three branches in directly adjacent counties). Rivian expects its manufacturing plant to be operational in 2024, with plans to employ over 7,500 workers in the Morgan and Walton counties. Jack Links is building a \$450M plant in Houston county (existing Colony branch location), expecting to create 800 jobs. Roughly 470 new jobs are coming to Dalton county in 1H2023 via Korean solar panel manufacturer, Hanwha Solutions, and 400 more expect to originate in Covington by summer 2023 through semiconductor supplier

SK Group. Non-interest income rises in tandem with total deposits due to service charges (overdraft fees) and interchange fees (debit card transactions).

Change in Estimates: I estimate total net loans to be 2.6% and 5% greater than consensus forecasts by FYE 2023 and 2024, respectively, which translates to increases in net interest income of 2.6% and 1%, holding NIM estimates constant. The impact of my assumptions on net interest income in the next two years results in a \$0.12 and \$0.07 higher EPS forecast than consensus in FY2023 and FY2024, respectively.

How I Differ: The market is not pricing in the relative growth Georgian banks will experience in the next few years. I searched for keywords related to business applications and commercial growth using FactSet and found that sell-side analysts have not mentioned the relative surge in southern business growth compared to the US and its implications on earnings growth. Similarly, there is no mention of job creation via manufacturing plants coming to Georgia. The market will likely adopt my view by 2H2023, when business growth graduates from its latency and into establishment, and as the date of completion for these manufacturing plants draws nearer.

Where I Could Be Wrong: In the case that EIN applications materialize at half my base case rate, loan loss provisions increase 50% from unexpected defaults in a recessionary environment, and deposit betas rise at twice my base case rate, the downside case suggests a one-year price target of \$12.30 based on an NTM forward P/E, 7% below close on October 7th. These estimates result in a long-term downside price target estimate of \$13.20 from my five-year excess equity model, which is 0.4% below close on October 7th. Provided Colony becomes more acquisitive in central and southeastern Georgia, EINs materialize in ~30% more commercial purpose and real estate loans, loan loss provisions diminish by 20%, and deposit betas rise at 80% of my base case scenario, the upside case suggests a one-year price target of \$14.70, 11% above close on October 7th. Bull case estimates result in a long-term price target estimate of \$19.70 from my five-year excess equity model, which is 49% above close on October 7th.

Appendix:

State BA w/ BA Rates > US Avg	10yr CAGR	5yr CAGR	3yr CAGR	1yr CAGR
Missouri	12.5%	21.9%	29.7%	29.7%
Georgia	11.4%	19.7%	26.8%	26.8%
South Carolina	11.7%	18.4%	25.0%	25.0%
Louisiana	9.6%	15.3%	22.9%	22.9%
Alabama	10.0%	17.0%	21.5%	21.5%
North Carolina	9.3%	15.7%	20.3%	20.3%
Illinois		14.7%	19.6%	19.6%
Ohio	7.9%	15.1%	19.4%	19.4%
Wyoming	15.6%	19.4%	19.4%	19.4%
Delaware	11.8%	18.0%	19.2%	19.2%
Indiana		14.1%	18.5%	18.5%
Texas	9.1%	13.7%	18.2%	18.2%
Tennessee	8.1%	15.1%	18.2%	18.2%
Arkansas	8.7%	15.1%	17.2%	17.2%
Florida	9.0%	13.2%	17.1%	17.1%
Pennsylvania	7.8%	13.5%	17.1%	17.1%
Mississippi		13.7%	16.9%	16.9%
US Total	7.7%	12.7%	15.5%	15.5%

BA = Business Applications (EINs)

Counties Over 500 Business Apps w/ Rates > State Avg	10yr CAGR	5yr CAGR	3yr CAGR	1yr CAGR	CBAN Deposits ('000)	1yr Deposit Growth Rate	Market Share	% of Bank
Baldwin County	16.1%	21.1%	36.5%	36.5%				
Barrow County	11.7%	21.0%	29.2%	29.2%				
Bibb County	11.7%	26.7%	43.4%	43.4%				
Bulloch County	11.5%		27.4%	27.4%	7,336	18.9%	0.4%	0.3%
Burke County	15.4%	25.8%	42.0%	42.0%				
Butts County	13.8%	25.2%	32.4%	32.4%				
Carroll County			28.0%	28.0%				
Clayton County	15.6%	26.1%	38.6%	38.6%				
Coffee County		21.3%	35.5%	35.5%	137,128	(7.2%)	13.2%	5.8%
Colquitt County	13.8%	21.9%	40.0%	40.0%	58,661	6.2%	5.8%	2.5%
Crisp County	21.3%	40.2%	63.3%	63.3%	100,840	(6.6%)	20.9%	4.3%
Decatur County	11.9%		30.4%	30.4%				
DeKalb County			27.1%	27.1%				
Dougherty County	16.8%	32.1%	56.8%	56.8%	71,366	20.0%	3.6%	3.0%
Douglas County	14.1%	23.3%	34.7%	34.7%				
Floyd County			28.9%	28.9%				
Harris County			27.5%	27.5%				
Henry County	15.3%	26.6%	35.9%	35.9%				
Houston County	13.7%	26.0%	41.5%	41.5%	64,534	5.6%	2.7%	2.7%
Jones County		22.3%	35.0%	35.0%				
Laurens County	12.4%	22.0%	38.8%	38.8%				
Lee County	14.3%	26.6%	34.0%	34.0%	83,046	18.1%	14.7%	3.5%
Liberty County	14.4%	27.5%	40.3%	40.3%				
Lowndes County	13.4%	25.3%	39.7%	39.7%	53,949	39.9%	1.8%	2.3%
Meriwether County	14.2%	31.3%	48.4%	48.4%	110,799	46.8%	39.9%	4.7%
Monroe County	13.9%	21.8%	40.9%	40.9%				
Muscogee County	14.0%	25.5%	41.1%	41.1%	98,255	5.0%	1.4%	4.2%
Newton County	15.4%	24.9%	37.3%	37.3%				
Paulding County	12.7%	24.1%	30.6%	30.6%				
Peach County	14.7%	26.3%	49.3%	49.3%				
Richmond County	14.2%	23.5%	38.6%	38.6%				
Rockdale County	14.7%	23.8%	34.4%	34.4%				
Spalding County		27.7%	38.5%	38.5%				
Sumter County	13.1%	25.7%	48.5%	48.5%				
Thomas County	12.7%	20.9%	33.0%	33.0%				
Tift County	12.0%	19.8%	42.0%	42.0%	90,333	14.7%	7.2%	3.8%
Troup County	16.2%	29.5%	42.2%	42.2%	155,114	5.9%	10.9%	6.6%
Upson County	15.3%	27.3%	33.4%	33.4%	171,584	24.7%	35.7%	7.3%
Walton County	11.8%	20.5%	28.0%	28.0%				
Ware County	13.1%	21.0%	38.4%	38.4%				
GA Total	11.4%	19.7%	26.8%	26.8%				

Base	Full Year						Full Year						
Fiscal Year & Interim Earnings Model	2015	2016	2017	2018	2019	2020	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Loan Market Sizing													
US GDP (B)	17,390	17,680	18,077	18,609	19,036	18,509	19,610	19,022	18,451	18,820	19,290	19,869	20,465
% growth		1.7%	2.2%	2.9%	2.3%	(2.8%)	5.9%	(3.0%)	(3.0%)	2.0%	2.5%	3.0%	3.0%
Georgia GDP (M)	489,182	506,816	523,805	538,605	557,364	537,616	575,292	587,000	575,260	589,642	607,331	628,587	650,588
% growth		3.6%	3.4%	2.8%	3.5%	(3.5%)	7.0%	2.0%	(2.0%)	2.5%	3.0%	3.5%	3.5%
Estimate of US Composition	2.813%	2.867%	2.898%	2.894%	2.928%	2.905%	2.934%	3.086%	3.12%	3.13%	3.15%	3.16%	3.18%
Total Georgia Deposits (B)	211,467,609	227,771,395	239,065,581	253,356,829	254,883,922	285,222,000	336,700,435	353,464,559					
YoY Growth		7.7%	5.0%	6.0%	0.6%	11.9%	18.0%	5.0%					
Colony Bank Market Share (%)	0.46%	0.43%	0.43%	0.41%	0.51%	0.50%	0.46%	0.68%					
Colony Bank Implied Deposits	972,751	979,417	1,027,982	1,038,763	1,299,908	1,426,110	1,548,822	2,403,559					
YoY Growth		0.7%	5.0%	1.0%	25.1%	9.7%	8.6%	55.2%					
Percentage of US GDP													
Total commercial real estate	9.3%	9.9%	10.2%	10.3%	10.3%	11.0%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Residential real estate	11.2%	11.2%	10.9%	10.6%	10.4%	10.5%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Commercial, financial, and agricultural (C&I)	10.3%	10.9%	10.7%	10.7%	11.0%	12.8%	10.7%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%
Consumer and other	3.5%	3.6%	3.7%	3.8%	3.8%	3.6%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Estimated Georgia Addressable Market (M)													
Total commercial real estate	45,291	50,416	53,667	55,422	57,615	58,930	58,060	59,242	58,057	59,509	61,294	63,439	65,659
Residential real estate	55,011	56,876	57,024	57,287	57,991	56,567	52,653	53,724	52,650	53,966	55,585	57,531	59,544
Commercial, financial, and agricultural (C&I)	50,524	55,429	56,076	57,460	61,137	68,991	61,465	59,980	58,780	60,250	62,057	64,229	66,477
Consumer and other	17,096	18,402	19,252	20,423	21,185	19,421	18,032	18,399	18,031	18,481	19,036	19,702	20,392
Cursory Market Share by Loan Type													
Total commercial real estate	1.01%	0.91%	0.88%	0.90%	1.10%	1.09%	1.64%	1.85%	2.05%	2.17%	2.18%	2.19%	2.20%
Residential real estate	0.36%	0.34%	0.34%	0.33%	0.34%	0.32%	0.40%	0.41%	0.43%	0.44%	0.44%	0.44%	0.44%
Commercial, financial, and agricultural (C&I)	0.13%	0.12%	0.12%	0.13%	0.19%	0.31%	0.25%	0.32%	0.38%	0.46%	0.47%	0.48%	0.49%
Consumer and other	0.22%	0.20%	0.18%	0.12%	0.11%	0.11%	0.10%	0.11%	0.12%	0.13%	0.14%	0.15%	0.16%
Loans Outstanding													
Total loans	758,636	754,283	764,789	781,526	968,814	1,059,503	1,337,977	1,535,645	1,661,506	1,828,126	1,897,209	1,978,348	2,062,843
% Period over Period Growth		(0.57%)	1.39%	2.19%	23.96%	9.36%	26.3%	14.8%	8.2%	10.0%	3.8%	4.3%	4.3%
Total commercial real estate	457,562	458,155	472,431	496,271	636,336	641,484	952,838	1,098,619	1,189,695	1,292,603	1,337,511	1,390,668	1,445,907
% total	60.3%	60.7%	61.8%	63.5%	65.7%	60.5%	71.2%	71.5%	71.6%	70.7%	70.5%	70.3%	70.1%
% Period over Period Growth		0.1%	3.1%	5.0%	28.2%	0.8%	48.3%	15.3%	8.3%	8.7%	3.5%	4.0%	4.0%
Construction, land and land development	49,520	42,188	53,762	60,310	96,097	121,093	165,446						
% Period over Period Growth		(14.81%)	27.43%	12.18%	59.34%	26.01%	36.6%						
Other commercial real estate	408,042	415,967	418,669	435,961	540,239	520,391	787,392						
% Period over Period Growth		1.94%	0.65%	4.13%	23.92%	(3.67%)	51.3%						
Residential real estate	197,002	195,580	193,924	187,592	194,796	183,021	212,527	222,837	224,408	236,367	243,458	251,979	260,798
% total	26.0%	25.9%	25.4%	24.0%	20.1%	17.3%	15.9%	14.5%	13.5%	12.9%	12.8%	12.7%	12.6%
% Period over Period Growth		(0.7%)	(0.8%)	(3.3%)	3.8%	(6.0%)	16.1%	4.9%	0.7%	5.3%	3.0%	3.5%	3.5%
Commercial, financial, and agricultural	66,975	64,105	64,523	74,166	114,360	213,380	154,048	193,921	226,151	275,847	290,328	306,913	324,303
% total	8.8%	8.5%	8.4%	9.5%	11.8%	20.1%	11.5%	12.6%	13.6%	15.1%	15.3%	15.5%	15.7%
% Period over Period Growth		(4.3%)	0.7%	14.9%	54.2%	86.6%	(27.8%)	25.9%	16.6%	22.0%	5.2%	5.7%	5.7%
Consumer and other	37,097	36,443	33,911	23,497	23,322	21,618	18,564	20,268	21,253	23,309	25,912	28,789	31,836
% total	4.9%	4.8%	4.4%	3.0%	2.4%	2.0%	1.4%	1.3%	1.3%	1.3%	1.4%	1.5%	1.5%
% Period over Period Growth		(1.8%)	(6.9%)	(30.7%)	(0.7%)	(7.3%)	(14.1%)	9.2%	4.9%	9.7%	11.2%	11.1%	10.6%
Income Statement ('000)													
Interest Income	44,275	44,589	45,916	49,022	60,483	63,125	70,638	93,167	111,925	121,895	131,465	140,060	146,531
% Period over Period Growth		0.7%	3.0%	6.8%	23.4%	4.4%	11.9%	31.9%	20.1%	8.9%	7.9%	6.5%	4.6%
Loans, including fees	39,716	38,943	38,614	40,682	50,278	55,550	60,113	65,439	80,266	93,235	103,565	109,771	114,560
Calculated average loan yield		5.21%	5.14%	5.31%	5.79%	5.53%	5.07%	5.10%	5.50%	5.65%	5.60%	5.70%	5.70%
Deposits with other banks and short term investments	94	124	232	410	1,056	438	213	493	716	1,061	936	950	910
Calculated average loan yield		0.27%	0.67%	0.82%	1.19%	0.26%	0.12%	0.56%	0.66%	0.78%	0.78%	0.95%	0.91%
Investment securities	4,343	5,391	6,920	7,743	8,917	7,137	10,312	27,235	30,944	27,600	26,964	29,339	31,061
Calculated average loan yield		1.74%	2.04%	2.19%	2.55%	1.96%	1.56%	4.50%	3.00%	3.00%	2.82%	2.82%	2.82%
Interest Expense	(6,569)	(6,483)	(6,873)	(8,226)	(12,638)	(7,880)	(4,396)	(7,552)	(12,752)	(17,066)	(22,541)	(24,956)	(24,830)
% Period over Period Growth		(1.3%)	6.0%	19.7%	53.6%	(37.6%)	(44.2%)	71.8%	68.8%	33.8%	32.1%	10.7%	(0.5%)
Deposits	(4,857)	(4,781)	(4,758)	(6,057)	(10,050)	(5,599)	(2,600)	(3,032)	(6,652)	(10,966)	(18,541)	(20,956)	(20,830)
Calculated average loan yield		0.47%	0.45%	0.56%	0.84%	0.41%	0.14%	0.16%	0.31%	0.48%	0.70%	0.75%	0.71%
Federal Home Loan Bank advances	0	0	0	0	0	(743)	(652)	(3,092)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Calculated average loan yield		0.00%	0.00%	0.00%	0.00%	0.00%	1.76%	2.01%	2.05%	2.09%	2.13%	2.17%	2.17%
Paycheck Protection Program liquidity facility	0	0	0	0	0	(205)	(93)	0	0	0	0	0	0
Other borrowings	(1,713)	(1,702)	(2,112)	(2,163)	(2,587)	(2,281)	(1,051)	(1,428)	(2,100)	(2,100)	0	0	0
Net Interest Income	37,706	38,106	39,044	40,797	47,845	55,245	66,242	85,614	99,174	104,830	108,923	115,104	121,701
% Period over Period Growth		1.1%	2.5%	4.5%	17.3%	15.5%	19.9%	29.2%	15.8%	5.7%	3.9%	5.7%	5.7%
Provision for loan losses	(866)	(1,062)	(390)	(201)	(1,104)	(6,558)	(700)	(2,750)	(3,600)	(6,000)	(5,654)	(5,901)	(6,158)
% total net loans	0.12%	0.14%	0.05%	0.03%	0.11%	0.63%	0.05%	0.18%	0.22%	0.33%	0.30%	0.30%	0.30%
Net interest income after provision for loan losses	36840.733	37,044	38,654	40,596	46,741	48,687	65,542	82,864	95,574	98,830	103,269	109,203	115,543
Noninterest Income	9,045	9,554	9,735	9,621	14,762	24,244	36,580	38,875	42,322	47,733	52,215	57,233	63,282
% Period over Period Growth		5.6%	1.9%	(1.2%)	53.4%	64.2%	50.9%	6.3%	8.9%	12.8%	9.4%	9.6%	10.6%
Service charges on deposits	4,268	4,307	4,467	4,374	4,783	5,293	6,213	7,743	7,797	8,226	8,862	9,305	9,771
% of total deposits	0.42%	0.41%	0.42%	0.40%	0.37%	0.37%	0.26%	0.33%	0.32%	0.32%	0.33%	0.33%	0.33%
Mortgage fee income	527	682	859	652	3,199	9,149	13,213	11,275	12,069	13,359	14,022	14,635	15,272
% of residential RE loans	0.27%	0.35%	0.44%	0.35%	1.64%	5.00%	6.22%	5.06%	5.38%	5.65%	5.00%	5.00%	5.00%
Gain on sales of SBA loans	0	0	0	0	0	1,600	7,546	7,599	9,295	11,026	11,687	12,272	12,763
% growth							371.6%	0.7%	22.3%	18.6%	6.0%	5.0%	4.0%
Gain (loss) on sales of securities	(11)	385	0	116	97	926	(87)	24	0	0	0	0	0
Gain on sales of assets	0	0	0	0	0	1,082	0	0	0	0	0	0	0
Interchange fees	0	0	0	0	0	4,988	6,930	8,306	8,894	9,844	10,883	12,091	13,371
% of consumer & other loans	0.0%	0.0%	0.0%	0.0%	0.0%	23.1%	37.3%	41.0%	41.8%	42.2%	42.0%	42.0%	42.0%
BOLI income	0	0	0	0	0	743	1,041	1,480	2,181	3,193	4,674	6,843	10,020
% growth							40.1%	42.2%	47.3%	46.4%	46.4%	46.4%	46.4%
Other	1,633	0	0	0	0	463	1,724	2,448	2,086	2,086	2,086	2,086	2,086
Noninterest Expense	(33,725)	(34,073)	(33,860)	(35,300)	(48,894)	(58,301)	(78,970)	(92,992)	(98,169)	(104,166)	(110,444)	(115,679)	(121,706)
% Period over Period Growth		1.0%	(0.6%)	4.3%	38.5%	19.2%	35.5%	17.8%	5.6%	6.1%	5.6%	5.1%	5.2%
Salaries and													