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| **August Peterson** | **Colony Bankcorp (CBAN)** | **Domestic Financials** |

**Raising Recommendation for CBAN Based on Unforeseen Commercial Loan Growth**

Table

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**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:**

Chart, timeline

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