

Potomac Bancshares, Inc. (OTC Pink - PTBS)

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Price:	\$14.24	EPS *	2018A:	\$ 0.94	P/E	2018A:	15.1x
52 Wk. Range:	\$13.75 - \$14.75	(FY: DEC)	2019A:	\$ 0.78		2019A:	18.3x
Div/Div Yld:	\$0.28 /2.0%		2020E:	\$0.85		2020E:	16.8x
Shrs/Mkt Cap:	4.1 mm / \$59 mm	Book Value:		\$12.56	Price/Book Value:		1.13x

* Diluted.

Background

Founded in 1871, Potomac Bancshares, Inc. (the “Company”) is a Charles Town, West Virginia bank holding company for the Bank of Charles Town. With approximately \$516 million in assets as of December 31, 2019, the Company conducts operations through its main office and branch office facilities in Jefferson and Berkeley Counties (WV), Washington County (MD) and Loudoun County (VA). The Bank provides various banking products and services for individuals, businesses, and local governments. Deposit products include noninterest-bearing and interest-bearing checking accounts, savings accounts, certificates of deposits, money market accounts, and individual retirement accounts. The Bank also offers loan products comprising commercial, financial, and agricultural loans; mortgage loans on real estate properties; secondary market and adjustable rate mortgage loans; equipment loans and construction financing products; and retail loan products consisting of home equity lines of credit. In addition, the Bank provides financial management, investment, trust, and brokerage services, as well as online banking services. The Company’s shares are quoted on the OTC Pink Sheet marketplace under the symbol “PTBS.”

Fourth Quarter Earnings Were Up 29%, Profitability and Efficiency Ratios Improved

Potomac Bancshares, Inc. reported excellent growth in earnings for the fourth quarter of 2019, with earnings per share that were right in line with our projections. Total revenue growth was strong, especially in terms of noninterest income. Balance sheet growth was also excellent, with a notable increase in loans. Moreover, Potomac’s asset quality continued to improve, with nonperforming assets declining on a linked quarter basis.

For the fourth quarter of 2019, the Company reported net income of \$859,000, or \$0.21 per diluted share, which was up 29% from \$668,000, or \$0.16 per diluted share, in the year-ago quarter. As can be seen in the adjacent table, essentially all of the Company’s key performance metrics improved. Both annualized return on average assets and average equity increased, while its efficiency ratio decreased (improved). Moreover, both components of revenue, net interest income and noninterest income, increased as a percentage of average assets (on an annualized basis), while net operating expense (noninterest expense less noninterest income) as a percentage of average assets declined from the fourth quarter of 2018.

**PROFITABILITY AND EFFICIENCY RATIO
IMPROVEMENT (% ANNUALIZED)**

	<u>Q4 18</u>	<u>Q4 19</u>
ROAA	0.55	0.66
ROAE	5.39	6.54
Net Int. Margin	3.34	3.37
Efficiency Ratio	79.9	78.6
Net Int. Inc./AA*	3.26	3.29
Nonint. Inc./AA*	0.97	1.20
Net Op. Expenses/AA*	2.41	2.33

*Average Assets

Net interest income grew 7% to \$4,204,000 in 2019’s fourth quarter from \$3,939,000 in the year-ago quarter, primarily due to 5% growth in average earning assets, though the margin did improve modestly. Noninterest income was up 30% to \$1,531,000 in 2019’s fourth quarter from \$1,179,000 in the year-ago quarter, benefiting from increases in trust and wealth advisory services and secondary market mortgage income. Noninterest expense increased 10% to \$4,508,000 in 2019’s fourth quarter,

ASSETS: \$516 MM

HQ: CHARLES TOWN, WV

CONTACT:
ALICE FRAZIER, CEO
DEAN J. COGNETTI, CFO

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4TH QUARTER HIGHLIGHTS:

**EPS WAS RIGHT IN LINE WITH
ESTIMATES**

**ESSENTIALLY ALL OF THE KEY
PERFORMANCE BENCHMARKS
IMPROVED**

EPS: \$0.21 vs. \$0.16

**NET INTEREST INCOME
INCREASED 7%**

**AVERAGE EARNING ASSETS
WERE UP 5%**

**NONINTEREST INCOME GREW
30%**

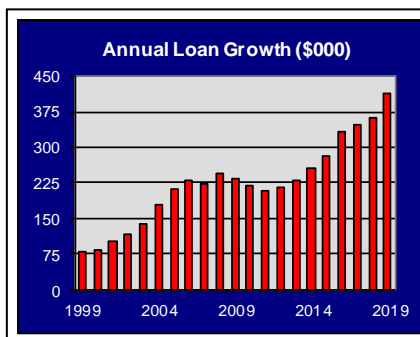
from \$4,091,000 in the year-ago quarter, reflecting one-time expenses in salaries and benefits and other operating expense. The provision for loan losses totaled \$132,000 for the fourth quarter of 2019, versus \$168,000 in the year-ago quarter.

For the twelve months ended December 31, 2019, the Company reported earnings of \$3,213,000, or \$0.78 per diluted share, as compared to \$3,392,000, or \$0.94 per diluted share, in the year-ago period. The modest decrease in earnings was partly due to a higher provision, which was \$474,000 in 2019 versus \$312,000 in 2018, as well as significant expansion related costs. Net interest income was up 10%, noninterest income grew 17% while noninterest expense increased 15% from the year 2018 to 2019.

Gross Loans Increased 13% and Accelerated from September 30, 2019

As was stated earlier, balance sheet growth has been solid, particularly in terms of loans. From December 31, 2018 to December 2019, deposits and total assets increased 6%, while loans were up an impressive 13% to \$412 million at December 31, 2019.

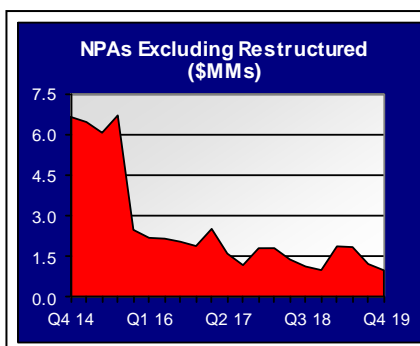
That growth has been fairly consistent throughout the year, with the annualized linked quarter growth (i.e., from September 30, 2019 to December 31, 2019) being 12%. Potomac has actually had excellent loan growth for the past several years, as they are up 9% on an annualized basis since the year 1999. (The only time that loans contracted was during the Great Recession, when loan loss exposure was being contained.) Potomac's strong loan growth has important implications for its earnings performance, as they are obviously among the Bank's highest yielding assets.



Potomac Bancshares continues to maintain a strong capital position, and had shareholders' equity of \$51.9 million, or 10.1% of total assets, at December 31, 2019, up from \$49.5 million, or 10.2%, at the year-ago date. The strong capital position provides a number of options to the Company, such as pursuing acquisitions, maintaining high organic growth, increasing the cash dividend or even pursuing selective stock buybacks.

Nonperforming Assets Decreased 19% From September 30, 2019

As displayed in the adjacent chart, Potomac's nonperforming assets have decreased drastically over the past five years. More recent improvement was evident as well, as NPAs were down from September 30, 2019. NPAs (which include nonaccruing loans, over 90 day past due loans that are still accruing and OREO) were \$980,000, or 0.19% of total assets, at December 31, 2019, versus \$1,212,000, or 0.24% of total assets, at September 30, 2019 and \$987,000, or 0.18% total assets, at year-end 2018. We would note that the Company's NPAs/assets ratio of 0.19% compares quite favorably to a ratio of 0.45% for the median of its peer group. The allowance for loan losses was \$3.7 million, or 0.90% of gross loans, at December 31, 2019, which was up 14% from \$3.3 million, or 0.90% of gross loans at the year-ago date.



Projections Maintained

We are maintaining our projections for the year 2020 for Potomac to have net income of \$3.5 million, or \$0.85 per diluted share. These projections could vary widely depending on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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TWELVE MONTHS HIGHLIGHTS:

EPS: \$0.78 vs. \$0.94

NET INTEREST INCOME WAS UP 10%

FROM 12/31/18 TO 12/31/19:

BOTH DEPOSITS AND TOTAL ASSETS INCREASED 6%

LOAN GROWTH WAS EXCELLENT, UP 13% OVER THE PAST YEAR

HISTORICAL LOAN GROWTH HAS BEEN STRONG AS WELL

EQUITY/ASSETS: 10.1%

NPAs WERE UNCHANGED FROM THE YEAR-AGO DATE BUT DOWN 19% FROM 9/30/19

NPAs/ASSETS: 0.19%, COMPARED TO 0.45% FOR THE COMPANY'S PEER GROUP MEDIAN

RESERVES/LOANS: 0.90%

EPS:
2018A: \$ 0.94
2019A: \$ 0.78
2020E: \$ 0.85