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FQ1 2021 Earnings Call Transcripts

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Call Participants

EXECUTIVES

Gregory A. Dufour
President, CEO & Director

Gregory A. White
Executive VP & CFO

ANALYSTS

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Jacob F. Civiello
Janney Montgomery Scott LLC, Research Division

William Jefferson Wallace
Raymond James & Associates, Inc., Research Division

Presentation

Operator

Good day, and welcome to Camden National Corporation's First Quarter 2021 Earnings Conference Call. My name is Garret Kolar, and I will be your operator for today's call. [Operator Instructions] Please note that this presentation contains forward-looking statements which will involve significant risks and uncertainties that may cause the actual results to vary materially from those projected in the forward-looking statements.

Additional information concerning factors that could cause actual results to differ materially from those in such forward-looking statements are described in the company's earnings press release, the company's 2020 annual report on Form 10-K and other filings with the SEC. The company does not undertake any obligation to update any forward-looking statements to reflect circumstances or events that occur after the forward-looking statements are made. Any references in today's presentation to non-GAAP financial measures are included to provide meaningful insights and are reconciled with GAAP in your press release.

Today's presenters are Greg Dufour, President, Chief Executive Officer; and Greg White, Executive Vice President, Chief Financial Officer. Please note that this event is being recorded. At this time, I would like to turn the conference over to Greg Dufour. Please go ahead, sir.

Gregory A. Dufour
President, CEO & Director

Thank you, Garret, and welcome, everyone, to Camden National Corporation's First Quarter 2021 Earnings Call. I'm pleased to share that earlier today, we announced record quarterly earnings for the first quarter 2021 of $19.7 million or $1.31 per diluted share. This continued the trend we saw in the latter half of 2020, strong residential mortgage activity and PPP lending. We also released $2 million of pretax provision, reflecting our solid asset quality position and improving economic data. You may recall that we adopted the current expected credit losses of CECL model as of December 31, 2020. Greg White will review our performance in a few moments, but I would like to first provide some background and observations.

Staying with the asset quality theme, we recorded approximately $10 million of nonperforming assets on March 31, 2020 (sic) [2021] or just 0.2% of total assets. Loans past due 30 to 89 days were just 0.05% of total loans on that date. After our provision release, our allowance for credit losses on loans on March 31, 2021 was 1.11%, down from 1.18% at 12/31/2020, but higher than the 0.4% level we recorded on March 31, 2020, prior to the impact of the pandemic.

Preliminary discussions around our market areas indicate a strong upcoming summer season, which we'll expect to benefit our local economies. Overall levels of people being vaccinated, along with the Governor of Maine proactively outlining a plan for people visiting our state, has caused a significant increase in reservations in the hospitality industry, which we expect will also drive other parts of the local economy.

We continue to expect loan growth in the single-digit range as loan pipelines are showing positive trends. And we also have the lever of holding additional residential mortgages if needed. I would also like to note that since we last met, we were named in the S&P Global list of top community banks and named a Raymond James Community Cup award recipient, which recognizes the top 10% of community banks.

I'll now turn the discussion over to our Executive Vice President and Chief Financial Officer, Greg White.

Gregory A. White
Executive VP & CFO

Thank you, Greg, and good afternoon, everyone. As Greg Dufour mentioned, we had record net income of $19.7 million for the first quarter, an increase of $1.5 million compared to our previous quarterly earnings record in the fourth quarter last year of $18.3 million.

Our diluted earnings per share was $1.31 compared to $1.22 in the prior quarter. Our return on tangible common equity was 18.47% for the quarter compared to 17.27% in the fourth quarter last year. During the first quarter, our Board approved a quarterly dividend of $0.36, which is 9% higher than the $0.33 approved in the prior quarter. In both quarters, the payout ratio was 27% of earnings. Our capital position remains strong as evidenced by the 60 basis point increase in our total risk-based capital ratio, to 16% at the end of the first quarter compared to 15.4% at the end of the prior quarter.

Our tangible book value per share grew to $29.12 during the quarter compared to $28.96 at the end of the prior quarter. Our net interest margin decreased to 2.88% for the first quarter of this year from 3.06% the prior quarter. But adjusting for the impact of both PPP loan income and excess liquidity, our margin declined by 8 basis points to 2.91% from 2.99% quarter-over-quarter on this basis.

We continue to focus on driving down our cost of deposits and our overall cost of funds, both of which declined by 4 basis points compared to the prior quarter. Our efficiency ratio declined to 52% for the first quarter of this year from 54% in the fourth quarter of last year. Our core efficiency ratio fell to 51% from 53% during the same period.

Total assets were $5.1 billion at March 31 of this year, an increase of $191 million or 4% since the end of last year. Total loans increased $17 million during the quarter. Excluding PPP loans, total loans at March 31 were down $17 million compared to the prior quarter. The commercial real estate portfolio grew by 2% during the quarter, partially offsetting the decrease across other core loan portfolios. As Greg mentioned earlier, we do have the option to hold more residential real estate loans, and that is something we continue to monitor.

Total deposits grew by $206 million or 5% -- in the fourth -- since the fourth quarter of last year, while noninterest-bearing checking grew by $67 million or 9% during the same period. Asset quality remains strong, with nonperforming loans at 0.31% at the end of the quarter -- I'm sorry, nonperforming loans to total loans at 0.31% at the end of the quarter, down 2 basis points from 0.33% at the end of the fourth quarter of last year. Annualized net charge-offs for the quarter were 3 basis points of average loans, and our ratio of past due loans 30 to 89 days to total loans fell by 5 basis points, down from 10 basis points the prior quarter.

Due to improving economic forecasts and continued strong asset quality, we did release $2 million provision during the quarter, $1.9 million related to loans and $0.1 million related to unfunded commitments. Our allowance for credit losses on loans to total loans ended the quarter at 1.11%, down from 1.18% at the end of the prior quarter. Our coverage ratio of ACL on loans to nonperforming loans was 3.52x at the end of the quarter, down slightly from 3.62x as of December 31, 2020, but continues to be well above the level of 2.57x at March 31, 2020, the start of the pandemic.
This concludes our comments on the first quarter results. We will now open up the call for questions. Thank you.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Damon DelMonte from KBW.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

So first question, just looking for a little perspective on the outlook for the provision going forward, just given the health of the overall portfolio and the current level of the reserve, would you foresee taking additional negative provisions? Or do you think things will go back to a normal level of provisioning? Or what can you provide us on that?

Gregory A. White
Executive VP & CFO

Yes. So Damon, as you know, CECL is very forecast-based, and that's the reason we did have the negative provision first quarter. So if forecasts continue to improve unless there is a change in the asset quality because then you can make an argument that either at the loan level or a pooled level to hold on to some of those reserves, if the forecast keeps improving, we'll be -- that will be a challenge to continue to hold all the reserves that we currently have, unless we have significantly more loan growth than we've been experiencing.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. And then just on that point of loan growth, I think, Greg, you had said you thought maybe mid-single digit for the year was still a reasonable outlook for growth. Is that correct?

Gregory A. Dufour
President, CEO & Director

Yes. I would probably work that in there, Damon. We've been seeing the pipelines improve, as I mentioned, on the commercial side, really from a pretty diverse source, from manufacturing to some business lines. Our real estate is also picking up as well. And so we've been pleased with what we're seeing there. And again, the real estate production activity is still very strong. So we can always augment that by holding more than what we have been.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. Is that something -- you guys have mentioned the holding of residential real estate a couple of times on the call. Is that something you guys are strongly considering to do in order to keep balances moving in the right direction versus selling production?

Gregory A. Dufour
President, CEO & Director

Yes. I'll let Greg give his view. But I think, Damon, it's -- we look at it in a couple of different ways, obviously, not just to have the loans, but more importantly, have the recurring income of holding those loans. But we balance that against the interest rate outlook as well as the gains that we will get from selling now. So it's something that we run through, both pricing and ALCO, as a management team. I don't know, Greg, if you want to weigh in as well.

Gregory A. White
Executive VP & CFO

Yes. The only thing I would add, Damon. So excess cash, we had been running in the $150 million to $200 million of excess cash, and so if we start to hold more residential, we're also looking at what we could do on the security side, mortgage-backed securities, and kind of prudent investments for the bank and looking at the pickup on the loan versus the investment yield, too.

Damon Paul DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. So rather than buy mortgage-backed securities, just hold residential mortgages themselves?

Gregory A. White
Executive VP & CFO

That's what we're -- that's part of the assessment that we're looking at, correct.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Got you. Okay. And then, I guess, just last question. When you look at the kind of the core margin and directionally, how it's shaping up here as we go into 2021, do you think you're able to keep it kind of flat at this level? Or do you expect that the liquidity is going to continue to weigh on it and put a little bit more modest downward pressure?

Gregory A. White
Executive VP & CFO

Well, even if it's not liquidity-based, I think we'll continue to see some asset yield compression here. The cost of fund side, we did bring down 4 basis points last quarter, but that's getting -- prospectively, that's going to be a little more challenging than it has been given the low level already. We're going to continue to keep doing that and probably be able to be successful, but not to the extent we have in the previous quarters.

So I think asset yield thus, unfortunately, will probably compress more than we're able to bring cost of funds down at least for the next few quarters here, if rates stay here.

Operator

[Operator Instructions] Our next question comes from William Wallace of Raymond James.

William Jefferson Wallace
Raymond James & Associates, Inc., Research Division

Look, just kind of to keep the line on the net interest margin, does your expectation for some kind of continued downward pressure, does that include any anticipation that you might be able to deploy some of the excess liquidity into the securities portfolio? Or...

Gregory A. White
Executive VP & CFO

I mean it does. We could certainly, tomorrow, invest the excess liquidity and obviously get our stated margin up. And it's more just the -- certainly, it's kind of that consumer, callable, the residential portfolio and the mortgage-backed securities, that's where we've seen the compression. So again, I qualify that by rates staying here in prepayment levels, staying at the levels that they have been, then we would probably continue to see little asset compression.

And then we're always looking at whether or not to -- it's a prudent time to invest that excess liquidity as well. And we have gotten a little more active there with the back-up of the 10-year recently.

William Jefferson Wallace
Raymond James & Associates, Inc., Research Division

Okay. Okay. And the residential mortgage loans that you might supplement loan growth with, what's the nature of those from a structural perspective? Are they mostly fixed rate, or do you -- would you only balance-sheet arms, et cetera?

Gregory A. White
Executive VP & CFO

We would look to do both, but probably, the majority of the pipeline right now is fixed rate. So that's kind of the short answer, not really too much activity in the hybrid arm market at this point. But certainly, if there is, that would be a good balance sheet product for us.

William Jefferson Wallace

Raymond James & Associates, Inc., Research Division

Okay. And so it's safe to assume that, that would also then add some pricing pressures in the loan portfolio if the demand on the commercial front slows?

Gregory A. White
Executive VP & CFO

Yes. I mean right, exactly. So if we don't have the pickup in demand on the commercial side, that's where we would probably look to book more of the residential.

William Jefferson Wallace
Raymond James & Associates, Inc., Research Division

Okay. And so as it stands today, almost 1/3 through the quarter, has the commercial pipelines, have they picked up? And is the payoff activity slowed or stabilized on the commercial side?

Gregory A. White
Executive VP & CFO

I could -- certainly, the former part of that question, the portfolio -- the pipelines are at record levels. I mean they're robust on the commercial side. With that said, we do still continue to have a little bit of pressure, obviously, with refinancings. And so at least near-term, we're still going to have that pressure as well. But the pipelines are -- I spoke with our senior lenders yesterday and quoting them when I say it's -- they're at record levels.

William Jefferson Wallace
Raymond James & Associates, Inc., Research Division

Okay. All right. On the PPP front, I apologize if this was in the release, but how much did you all originate in the most recent round?

Gregory A. White
Executive VP & CFO

I'm sorry. Ask that again, I'm sorry. I...

William Jefferson Wallace
Raymond James & Associates, Inc., Research Division

The most recent round of PPP loans that started funding in February, how much did you all end up? How much did you end up?

Gregory A. White
Executive VP & CFO

Yes. So the supplemental is as of March 31, we have $85 million out there, but we've done another 15 million cents. We're at $100 million on the most recent round of originations.

William Jefferson Wallace
Raymond James & Associates, Inc., Research Division

Okay. All right. And then one last question, if I can. The expense in the quarter was $24.9 million. Assuming that you don't get gains in your REO portfolio every quarter, is that a good run rate? Or were there some deferred costs associated with PPP or anything else that might come out or come back in?

Gregory A. White
Executive VP & CFO

That's a reasonable run rate, with the raises going in toward the latter part of the quarter there. But it's -- that's a good starting point.

Operator

Our next question comes from Jake Civiello of Janney.

Jacob F. Civiello
Janney Montgomery Scott LLC, Research Division

What -- can you identify the amount of impact on sequential tangible book value per share? Is that, I'm assuming, the negative hit to AOCI had in the quarter?

Gregory A. White
Executive VP & CFO

Yes. I haven't calculated that. Let me do a back-of-the-envelope for you. Yes. Probably, Jake, you could ask your next question, and I'll -- I have an answer, but I just kind of want to double-check it here.

Jacob F. Civiello
Janney Montgomery Scott LLC, Research Division

Yes. Yes. No, I'm happy to ask my other question, too. Does -- do you think that the first quarter probably represents the high watermark for mortgage banking income that you record through fee income, especially if you decide to portfolio more production?

Gregory A. White
Executive VP & CFO

Yes. I believe that is the case. It's very close to a record, which was second quarter last year. It's about 95% of that. So yes, that's probable. With that said, April has been strong. But -- so we wouldn't expect much of a dip there for Q2, but it's likely.

Jacob F. Civiello
Janney Montgomery Scott LLC, Research Division

Are you seeing any changes in geography in terms of where the originations are coming from?

Gregory A. Dufour
President, CEO & Director

No. I would say that it's pretty much held consistent and which tends to be more Southern Maine as well as our production office out of Massachusetts and picking up in between New Hampshire. And again, it's not to say the other markets that we operate in aren't doing well, it's just the further south you go, the average deal size is larger and more of them.

Gregory A. White
Executive VP & CFO

And then, Jake, on your AOCI, let me give you just a back-of-the-envelope reasonable estimate there that it's probably in the $0.50 to $0.70 range.

Operator

As we have no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Greg Dufour for any closing remarks.

Gregory A. Dufour
President, CEO & Director

Great. Well, thank you, Garret. Thank you, everyone, for attending the call and for our analysts, for the questions, and for all of you, for the support and interest that you've shown the company. We're looking forward to talking to you next quarter. Take care.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.