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# Old Point Financial Corporation

## (OPOF – NASDAQ GLOBAL MARKET)

**John A. (Buddy) Howard, CFA**
**April 26, 2019**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Price:** | $21.29 | **EPS *** | **2017A:** | $(0.01) | **P/E** | **2017A:** | NMF |
| **52 Wk. Range:** | $19.00 - $29.90 | (FY: DEC) | **2018A:** | $ 0.96 | | **2018A:** | 22.2 x |
| **Div/Div Yld:** | $0.48 / 2.3% | | **2019E:** | $ 1.35 | | **2019E:** | 15.8 x |
| **Shrs/Mkt Cap:** | 5.2 mm / $110 mm | **Book Value:*** | | $ 20.25 | **Price/Book Value:** | | 1.05 x |

* EPS are diluted. 2017 EPS includes multiple non-operating items. 2018 EPS includes $0.14 in merger-related costs.

** Tangible book value is $19.86 per share.

**SYMBOL: OPOF**

**ASSETS: $1.0 BB**

**HQ: HAMPTON, VA**

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### Background

Old Point Financial Corporation ("the Company" or "Old Point") is a Hampton, Virginia-based bank holding company with two bank subsidiaries, The Old Point National Bank of Phoebus ("Old Point National Bank") and Old Point Trust & Financial Services, N.A. ("Old Point Trust"). As of March 31, 2019, the Company had total assets of approximately $1.0 billion and was serving the Hampton, Newport News, Williamsburg/James City County, Norfolk, Chesapeake, Virginia Beach and Isle of Wight County areas through 18 active branch offices. Through Old Point National Bank, the Company offers a broad range of banking services to retail and commercial customers, including mortgage and insurance. Through Old Point Trust, the Company provides a full range of trust services, including retirement, estate, tax and financial planning and investment management services. The Company's stock trades on the Nasdaq Global Market under the symbol "OPOF."

**1ST QUARTER HIGHLIGHTS:**

**NET INCOME WAS QUITE STRONG AND WAS BETTER THAN EXPECTED**

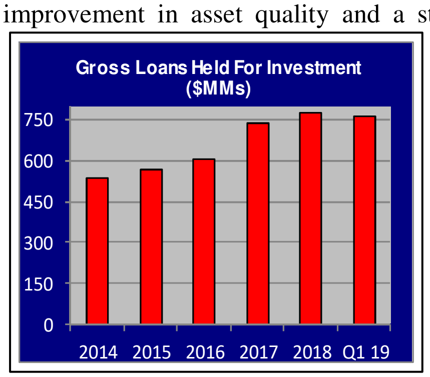
**EPS: $0.39 VS. $0.19**

**NET INTEREST INCOME WAS UP 8%, DUE TO VOLUME GROWTH AND IMPROVEMENT IN MARGINS**

**A DECLINE IN THE PROVISION ALSO BENEFITTED EARNINGS**

### First Quarter Earnings More Than Doubled

Old Point reported a much stronger quarter than we had expected, particularly from an earnings standpoint. While some of that strength came from a lower provision for loan losses (reflecting improvement in asset quality and a strong reserve position), it also came from excellent revenue growth in conjunction with impressive cost containment. From a balance sheet standpoint, it was a somewhat mixed bag in that growth relative to the year-ago figures was strong, although rapid loan paydowns led to a contraction in total loans on a linked quarter basis. That being said, the Bank continues to have a favorable *long-term* record of growing its balance sheet, as can be seen in the adjacent chart, and we expect that to continue. We would also note that asset quality improved, both relative to the linked quarter end and to the year-ago date. In part reflecting the strength of the operating results, the Board of Directors increased the cash dividend. So all in all, it was an encouraging quarter.



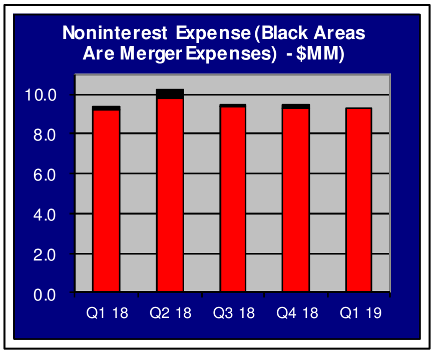

Net income for the first quarter of 2019 was $2,027,000, or $0.39 per diluted share, more than double the $942,000, or $0.19 per diluted share, earned in the year-ago quarter. As was implied above, the earnings improvement came from strength in most income statement categories. For example, net interest income increased 8% to $8,359,000 in 2019's first quarter from $7,745,000 in the year-ago quarter, benefitting from both growth in average earning assets (up 3%) and a 15 basis point increase in the margin. Earnings also benefitted from a drop in the provision for loan losses, as it declined to

**NONINTEREST INCOME, EXCLUDING SECURITY GAINS, INCREASED 11%**

**NONINTEREST EXPENSE WAS DOWN 1% FROM THE YEAR-AGO QUARTER, OR UP LESS THAN 1% EXCLUDING MERGER RELATED EXPENSES IN THE YEAR-AGO QUARTER**

**CORE ROAA, ROAE AND THE EFFICIENCY RATIO IMPROVED**

$226,000 in 2019's first quarter from $525,000 in the year-ago quarter. Lastly, noninterest income was strong, with core noninterest income (i.e., excluding gains on the sale of securities) growing 11% to $3,390,000 in the first quarter of 2019 from $3,062,000 in the year-ago quarter, with notable increases in deposit service charges (+30%) and mortgage banking income (+53%). Finally, we would note that the Bank did an excellent job of expense containment. Whereas revenues were up 8%, total noninterest expenses were down 1% and were up less than 1% excluding year-ago merger-related expenses, which totaled $205,000. Annualized core ROAA was 0.80% in 2019's first quarter, versus 0.47% in 2018's first quarter, while core ROAE increased to 7.94% from 4.83% for the same respective periods. The operating efficiency ratio was 78.3% in 2019's first quarter, versus 83.8% in the year-ago quarter.




**FROM MARCH 31, 2018 TO MARCH 31, 2019:**

**NET LOANS GREW 4%**
**DEPOSITS WERE UP 6%**
**TOTAL ASSETS INCREASED 3%**

In terms of balance sheet growth, net loans increased 4%, deposits were up 6% and total assets grew 3% from March 31, 2018 to March 31, 2019. The Company remains well capitalized, with shareholders' equity of $105 million, or 10.2% of total assets, up from $95 million, or 9.6% of total assets, at the year-ago date the (tangible equity-to-tangible assets ratio was 10.1% at March 31, 2019). All of the Bank's regulatory capital ratios comfortably exceed "well capitalized" minimums.

**CASH DIVIDEND INCREASED TO $0.12 PER SHARE, OR $0.48 ANNUALLY, UP FROM $0.11 PER SHARE, OR $0.44 ANNUALLY IN 2018**

## Old Point Financial Corporation Increases Cash Dividend

As we have mentioned in previous reports, a large amount of the long-term return from owning OPOF shares has come from the cash dividends. During the first quarter of 2019, the Board of Directors increased the quarterly cash dividend to $0.12 per share, which is up 9% from $0.11 per share previously. Based on our 2019 earnings estimate, the dividend payout ratio is roughly 36%, which is fairly conservative. Given the reasonable payout ratio and strong capital position, we expect the Company to maintain this record of dividend increases.

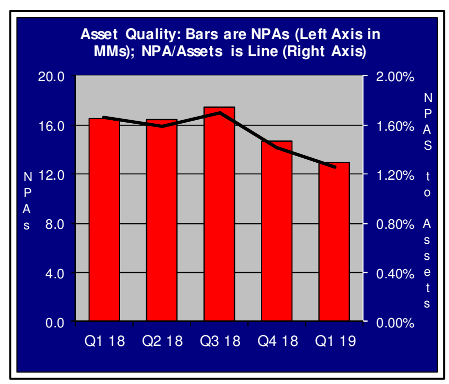
**NONPERFORMING ASSETS DECREASED FOR THE SECOND QUARTER-END IN A ROW**

**NPAS/ASSETS: 1.26%**

**RESERVES/GROSS LOANS: 1.32%**

## Nonperforming Assets Continue to Decline

The level of nonperforming assets (which exclude performing restructured loans) continued to improve, decreasing for the second quarter-end in a row. NPAs were $12.9 million, or 1.26% of total assets, at March 31, 2019, down from $14.7 million, or 1.42% of assets, at December 31, 2018 and down from $16.5 million, or 1.66% of assets, at the year-ago date. Approximately $1.4 million of loans more than 90 days past due were government guaranteed student and small business loans. At March 31, 2019, the allowance for loan losses was $10.1 million, or 1.32% of total loans, up from $9.7 million, or 1.33% of total loans, at the year-ago date.




**EPS:***
**2017A: $(0.01)**
**2018A: $0.96 (INCLUDES $0.14 IN NONRECURRING MERGER CHARGES)**
**2019E: $1.35**

*** 2017 EPS INCLUDES MULTIPLE NON-OPERATING ITEMS**

## Projections Increased

Due to the strong first quarter results, we are increasing our earnings projections to $7.2 million, or $1.35 per diluted share, up from $6.2 million, or $1.18 per diluted share estimated previously. These projections are subject to wide variation and could increase or decrease significantly based on changing conditions.

ADDITIONAL INFORMATION UPON REQUEST