



COMPANY UPDATE/ ESTIMATE CHANGES/ PRICE TARGET CHANGE

Key Metrics

CTBI - NASDAQ (as of 07/20/17)	\$42.85
Price Target	\$42.00
52-Week Range	\$34.43-\$51.35
Shares Outstanding (mm)	17.7
Market Cap. (\$mm)	\$757
3-Mo. Average Daily Volume (000)	34.4
Institutional Ownership	57.9%
Tangible Equity/ Tangible Assets	9.5%
ROE	9.6%
Tangible Book Value Per Share	\$25.43
Price/Tangible Book Value	168.5%
Dividend Yield	3.0%
Price/LTM Earnings	16.1x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.66	\$0.64A	\$0.64A	\$0.72	\$0.71
2Q	\$0.66	\$0.69	\$0.63A	\$0.78	\$0.78
3Q	\$0.68	\$0.72	\$0.72	\$0.83	\$0.80
4Q	\$0.67	\$0.73	\$0.73	\$0.84	\$0.81
Year	\$2.67	\$2.78	\$2.71	\$3.17	\$3.10
P/E	16.0x		15.8x		13.8x

Figures may not add up due to rounding

Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.31	\$0.32A	3.2	\$0.33
2Q	\$0.31	\$0.32A	3.2	\$0.33
3Q	\$0.32	\$0.33	3.1	\$0.37
4Q	\$0.32	\$0.33	3.1	\$0.37
Year	\$1.26	\$1.30	3.2	\$1.40

Company Description – Community Trust Bancorp, Inc. (CTBI) is a commercial banking organization headquartered in Pikeville, Kentucky. The company's footprint encompasses central and eastern Kentucky, northeastern Tennessee and southern West Virginia. In addition to traditional retail and commercial banking services, CTBI offers wealth management, trust, investment brokerage and mortgage banking services.

Banks

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Community Trust Bancorp, Inc.

CTBI – NASDAQ – Neutral – 3

Robust Loan Growth; Stable NIM; Reiterating Neutral

- **Earnings Results:** Excluding a \$0.02 gain on the repurchase of \$2.0 million in trust preferred securities, CTBI reported Q2 operating EPS of \$0.63, which were \$0.06 and \$0.05 below our estimate and the Street consensus, respectively.
- **Positive Highlights:** Growth in end-of-period loans was stellar at 4.0% linked-quarter (LQ), while average loans rose 2.5%.

Net interest income increased 3.5% LQ to \$34.2 million driven by a 2.1% rise in average earning assets and an extra day in the quarter. The net interest margin (NIM) remained flat at 3.68%. We had projected net interest income of \$34.2 million and a 3.69% margin.

- **Negative Highlights:** The provision for loan losses increased \$1.5 million LQ to \$2.8 million, which was above our estimate of \$2.0 million. Excluding restructured assets, Nonperforming Assets/Assets declined two bps to 1.28%, while the net charge-off ratio decreased two bps to 0.18%.

Operating noninterest income rose 1.3% LQ to \$11.7 million. The primary drivers of the increase were deposit service charges (4.0%) and trust revenue (2.4%). Results were below our estimate of \$12.3 million.

Noninterest expense decreased 0.3% LQ to \$27.6 million primarily due to lower personnel expense (5.9%). We had modeled noninterest expense of \$27.3 million.

- **Estimates:** We are reducing our 2017 and 2018 operating EPS estimates to \$2.71 and \$3.10 from \$2.78 and \$3.17, respectively. Given these declines, we are trimming our 12-month price target by \$1.00 to \$42.00. We reaffirm our Neutral rating.

Note Important Disclosures on pages 4 and 5
Note Analyst Certification on page 4

OTHER TAKEAWAYS & VALUATION

- The strong loan growth was primarily driven by gains in commercial lending (\$79.7 million) and indirect auto (\$25.7 million). Management noted economic conditions have improved in all of their markets.
- The increased provision expense was a function of the robust loan growth, as well as the establishment of a reserve that was placed on nonaccrual during the quarter.
- Management noted the loan pipeline remains solid following Q2's exceptional growth.
- CTBI's NIM remained flat LQ at 3.68%, as the yield on average earning assets and the cost of funds both increased by five bps.
- Our price target is derived through our discounted dividend model and the application of a 13X forward multiple to our 3Q18-2Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

SUITABILITY

Our suitability rating on CTBI is 3 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in a few states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

COMMUNITY TRUST BANCORP, INC.										CTBI: NEUTRAL					
\$Millions, Except for Per Share Data										FY 2016 A	FY 2017 E	FY 2018 E			
Balance Sheet Data:										YOY Change					
Assets	3,879.8	3,895.3	3,930.2	3,932.2	4,034.2	4,081.1	4,121.9	4,163.1	4,163.1	3,932.2	4,163.1	4,340.7	0.7%	5.9%	4.3%
Gross Loans	2,892.0	2,933.1	2,933.4	2,939.6	2,972.5	3,092.0	3,122.9	3,154.1	3,154.1	2,939.6	3,154.1	3,288.6	2.2%	7.3%	4.3%
Average Earning Assets	3,620.3	3,634.9	3,664.6	3,690.5	3,704.7	3,782.5	3,828.0	3,860.8	3,860.8	3,652.6	3,794.0	3,953.5	3.6%	3.9%	4.2%
Deposits	3,034.2	3,042.0	3,054.0	3,081.3	3,159.8	3,105.6	3,136.7	3,168.0	3,168.0	3,081.3	3,168.0	3,303.2	3.4%	2.8%	4.3%
Equity	485.6	493.6	500.1	500.6	507.5	514.9	521.8	528.8	528.8	500.6	528.8	558.9	5.3%	5.6%	5.7%
Statement of Operations:															
Net Interest Income	33.3	33.1	33.2	33.4	33.1	34.2	35.1	35.4	35.4	132.2	137.7	143.7	0.6%	3.5%	4.4%
Provision for Loan Losses	1.8	1.9	2.2	2.0	1.2	2.8	2.3	2.3	2.3	8.7	8.6	10.7	-9.0%	9.8%	23.7%
Non-Interest Income:															
Service charges on deposit accounts	5.8	6.3	6.6	6.3	6.0	6.2	6.5	6.5	6.5	24.3	25.1	25.2	2.8%	0.4%	0.6%
Gains on sales of loans, net	0.3	0.4	0.6	0.5	0.3	0.3	0.3	0.5	0.5	2.0	1.3	1.3	-7.4%	-29.0%	0.2%
Trust and wealth management income	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.7	2.7	9.3	10.6	11.1	3.2%	10.8%	4.7%
Loan related fees	0.6	0.7	1.3	1.5	1.0	0.8	1.1	1.1	1.1	3.8	4.1	4.3	6.9%	-4.8%	11.7%
Other noninterest income	1.9	1.9	1.9	1.8	1.8	2.4	2.0	2.0	2.0	7.5	8.1	8.0	-1.6%	9.2%	-1.3%
Securities Gains	0.1	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	-592.5%	-98.1%	-100.0%
Total Non-Interest Income	11.0	11.8	13.2	12.5	11.6	12.3	12.4	12.7	12.7	46.8	49.0	50.0	3.4%	1.2%	2.0%
Non-Core Adjustment	-0.1	0.0	-0.5	0.0	0.0	-0.6	0.0	0.0	0.0	(0.1)	(0.6)	0.0	455.3%	16.9%	-100.0%
Adjusted Non-Interest Income	10.9	11.8	12.7	12.5	11.6	11.7	12.4	12.7	12.7	46.7	48.4	50.0	2.5%	1.0%	3.3%
Non-Interest Expense:															
Salaries & Benefits	14.1	14.3	14.2	14.4	14.9	14.0	14.5	14.8	14.8	54.6	58.2	59.8	4.6%	2.0%	2.8%
Occupancy & Equipment	2.8	2.7	2.7	2.8	2.8	2.7	2.7	2.7	2.7	10.9	11.0	11.0	0.7%	0.4%	0.0%
Data processing	1.6	1.6	1.6	1.6	1.8	1.8	1.8	1.8	1.8	6.7	7.1	7.2	-3.6%	8.7%	1.4%
FDIC insurance	0.6	0.6	0.5	0.2	0.3	0.3	0.3	0.3	0.3	2.4	1.2	1.3	-24.9%	-30.3%	5.6%
Other noninterest expense	7.2	8.0	7.7	7.9	7.8	8.7	8.0	8.0	8.0	30.9	32.6	32.9	-0.2%	5.8%	0.9%
Total Non-Interest Expense	26.2	27.2	26.7	27.0	27.6	27.6	27.3	27.6	27.6	105.4	110.1	112.2	1.6%	2.8%	1.9%
Non-Core Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	NA	NA
Adjusted Non-Interest Expense	26.2	27.2	26.7	27.0	27.6	27.6	27.3	27.6	27.6	105.4	110.1	112.2	1.6%	2.8%	1.9%
Pretax Income	16.2	15.8	17.1	16.9	15.8	15.5	17.8	18.1	18.1	64.9	67.3	70.8	1.6%	2.1%	5.1%
Income Taxes	4.7	4.2	5.1	5.0	4.5	4.5	5.2	5.3	5.3	18.5	19.4	15.9	2.4%	2.5%	-17.9%
Operating Net Income	11.6	11.6	12.0	11.8	11.3	11.1	12.7	12.9	12.9	46.4	47.9	54.8	1.3%	2.0%	14.5%
Share & Per Share Data:															
Diluted EPS	0.66	0.66	0.70	0.67	0.64	0.65	0.72	0.73	0.73	2.66	2.74	3.10	1.5%	1.4%	13.3%
Operating EPS	0.66	0.66	0.68	0.67	0.64	0.63	0.72	0.73	0.73	2.65	2.71	3.10	0.8%	1.4%	14.4%
Dividends Per Share	0.31	0.31	0.32	0.32	0.32	0.32	0.33	0.33	0.33	1.22	1.26	1.40	3.3%	3.2%	7.7%
Tangible Book Value	23.92	24.37	24.67	24.67	25.02	25.43	25.82	26.22	26.22	23.37	24.67	27.92	5.6%	6.3%	6.5%
Common Shares Outstanding	17,553	17,560	17,608	17,629	17,661	17,671	17,671	17,671	17,671	17,537	17,629	17,671	0.5%	0.2%	0.0%
Average Diluted Shares	17,533	17,542	17,569	17,617	17,638	17,645	17,690	17,690	17,690	17,516	17,666	17,690	0.6%	0.3%	0.1%
Key Financial Statistics:															
Return on Assets	1.19%	1.19%	1.25%	1.20%	1.13%	1.14%	1.23%	1.23%	1.23%	1.22%	1.18%	1.29%	-2	-2	11
Return on Equity	9.57%	9.41%	9.87%	9.46%	8.89%	8.95%	9.70%	9.72%	9.72%	9.97%	9.32%	10.08%	-40	-26	77
Net Interest Margin	3.76%	3.71%	3.66%	3.66%	3.68%	3.68%	3.69%	3.69%	3.69%	3.81%	3.69%	3.69%	-12	-1	1
Operating Non-Int. Inc./Operating Rev.	24.65%	26.26%	27.70%	27.21%	25.94%	25.49%	26.41%	26.41%	26.41%	26.10%	26.47%	25.80%	37	-48	-19
Efficiency Ratio	58.63%	59.98%	57.45%	58.15%	61.18%	59.32%	56.81%	56.81%	56.81%	58.21%	58.54%	57.31%	35	-2	-123
Tangible Common Ratio	11.01%	11.17%	11.24%	11.13%	11.13%	11.19%	11.31%	11.31%	11.31%	11.25%	11.31%	11.54%	6	6	23
Reserves/Loans	1.26%	1.22%	1.22%	1.22%	1.20%	1.20%	1.20%	1.20%	1.20%	1.26%	1.20%	1.20%	-3	-3	0
NCOs/Average Loans	0.21%	0.34%	0.28%	0.26%	0.20%	0.18%	0.25%	0.27%	0.27%	0.19%	0.22%	0.28%	7	-4	6

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Community Trust Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

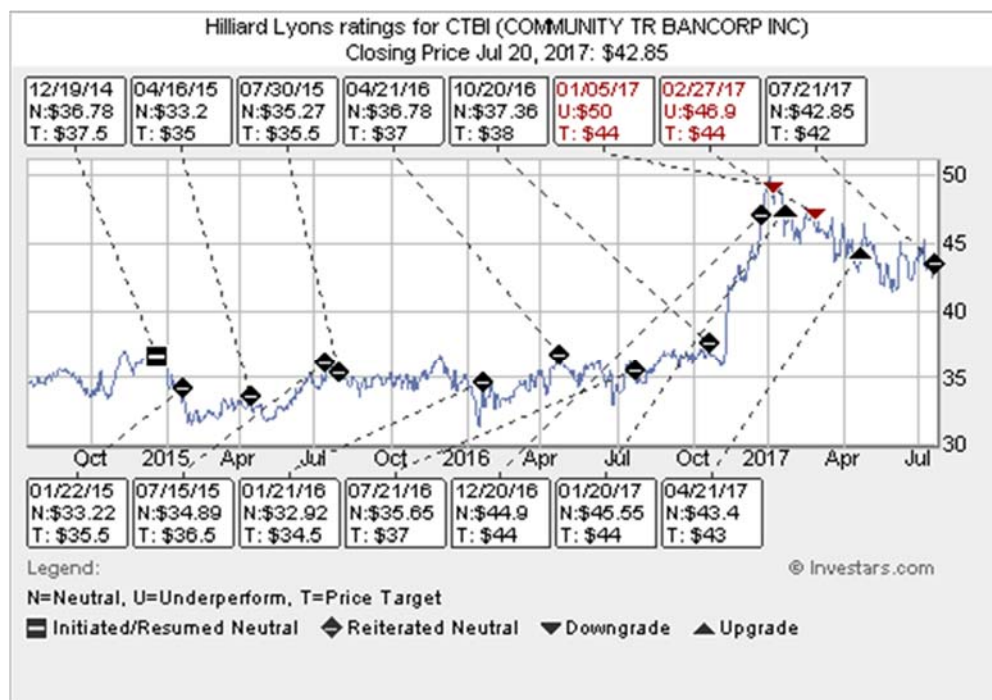
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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