

# Fat Pitch Investments

Where Seeking Out Superior Risk Adjusted Return on Investment is Our Passion

**\*\*\*INQUIRE ABOUT MEMBERSHIP\*\*\***  
**CALL: 949-278-9391**  
**RECEIVE ACCESS TO THE PORTFOLIO, DAILY ACTION UPDATES, AND OTHER PROFITABLE BENEFITS!**

November 2013  
 Volume 1, Number 7



## Welcome Back!

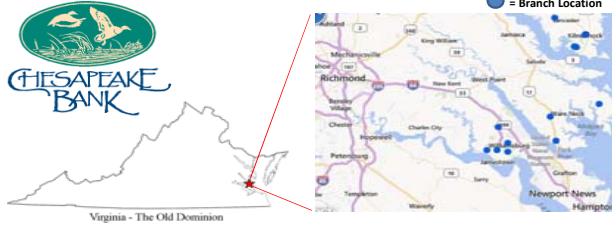
In this edition, we will be reviewing Chesapeake Financial Shares Inc. It is traded on the over the counter market under the symbol: CPKF. In brief here are the 5 major discussion points of why CPKF is our pick in this edition:

- 1) Current stock price undervaluation and outstanding growth track.
- 2) Superior diversification of revenue streams compared to industry competitors.
- 3) Management's ability "plow back" earnings into the company at high rates of return.
- 4) Superior financial ratios that prove management has shareholder value in mind.
- 5) Consistent growth in Free Cash Flow and Increasing Operating Margins.

## Business Description

Chesapeake Financial Shares Inc. is a one bank holding company that was originally chartered in 1900. It operates two divisions; the first an 11 branch bank with a focus on small business (SBA loans, Cash Flow Management, POS management systems) and personal banking products (Mortgages, Savings, Checking, CDs). The second, an investment group division offering estate and trust management services for high net worth individuals.

What is most important to note is the diversification of revenue streams. All too often regional banks rely solely on their interest on loan income to fuel revenues. Chesapeake's mainstay is that it not only has a highly profitable loan revenue stream; but it continues to grow its non-interest revenue stream. This clearly gives Chesapeake an advantage over competitors as interest rates rise and new membership grows.



## Compelling Valuation



Our DFCF valuation model indicates that there is a current opportunity to purchase Chesapeake Financial Shares at 55 cents on the dollar. On top of this we also forecast intrinsic value to grow 12% per year. Our investment horizon for CPKF is targeted at three to four years so consider this move to be "parking" your capital while waiting for the market to "catch up" or reappraise the value of CPKF to its true intrinsic value.

While 12% per year [intrinsic value] seems lackluster, since you are purchasing CPKF for 55 cents on the dollar; an investor's true yield will be: 21.8% per year. This is why we see CPKF to be a superior investment.

## Report Card

	[Current] 11/2013	[Anticipated] 11/2014
Management Team	A	A
Company Strength Vs Industry	A	A
Insider Holdings	B	B
Debt	A	A
Industry Outlook	B	A-
Operating Cash Flows	B	A-
Institutional Ownership	B-	B-
Earnings Trend	B+	B+
Operating Margins	B	B+
Competitive Landscape	B+	B
Revenue Growth	B	B+

Chesapeake's solid management team is one of the most important qualitative factors that makes this company so strong. We also forecast that in the next year industry outlook will improve dramatically; while also fostering a more competitive landscape. Other large improvements will be seen in the company's operating cash flows and increasing operating margins. A minor concern may present itself in the near future: insider holdings. Due to the lack of insider selling in recent years; we believe that some management members may begin selling minor positions. We will continue to monitor this with

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

Copyright © 2014 Dennes Lupastean and Jonathan Ruffalo. All Rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned in articles past, present or future. Fat Pitch Investments is a firm involved with equity research and valuations. The information contained herein has been obtained from sources that we believe are reliable but in no way is guaranteed by us. Furthermore, this report contains forward looking statements and projections that are based on certain assumptions and expectations that are generated by our proprietary research process. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's SEC filings. Any non-factual information in the report is our opinion and is subject to change without notice.

## Stock Metrics

### Chesapeake Financial Shares Inc CPKF:OTCQB

Market Capitalization	\$58.3M	52 Week Range	\$16.76 - \$20.00	Quarterly Dividend	\$0.135
Shares Outstanding	3.24M	Average Volume (10 Day)	1,029	Annual Yield	3.00%
				Next Ex-Date	Nov 26, 2013
				Next Pay Date	Dec 13, 2013



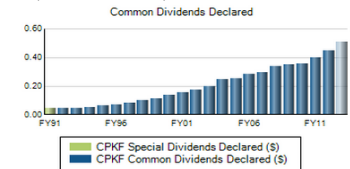
By overlaying Price and Volume we are able to explore relationships between price and: major ownership changes, liquidity (consistency and solid growth), as well as price supports/fallouts. We see the current trading price to be a solid entry point to build a first position in the company with an ownership outlook of around 3 to 4 years.

### STOCK SPLITS

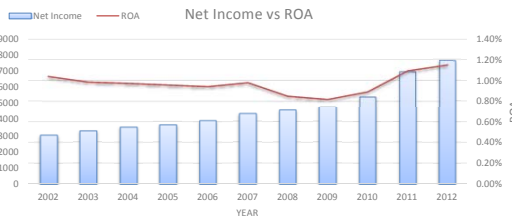
Record Date	Type of Dividend
4/1/2011	6-for-5 stock split
10/15/2007	6-for-5 stock split
11/15/2005	2-for-1 stock split
10/1/1998	6-for-5 stock split
10/1/1997	6-for-5 stock split

\*\*\*100 shares in 1995 = 415 shares in 2013\*\*\*

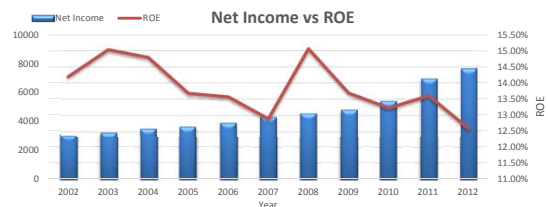
Most important to note about the stock splits and dividend structure is the commitment by management to provide consistent dividend payouts as well as provide increased liquidity for shareholders with its split technique. We foresee dividends to remain at 3% per year as well as another stock split to occur in the next year or two.



## Income & Profitability Metrics

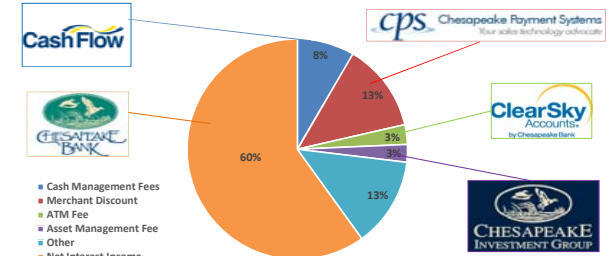


ROA, known as Return on Assets, is a financial metric to measure asset efficiency. Higher ROA means that the company is better at translating assets into profits. The typical ROA ratio for a financial institution resides around .8%. Chesapeake has an average ROA of 1.1% which is the result of having other sources of income aside from traditional lending. We expect ROA to remain at 1.1% for the foreseeable future but as lending restrictions loosen we foresee ROA levels increase.



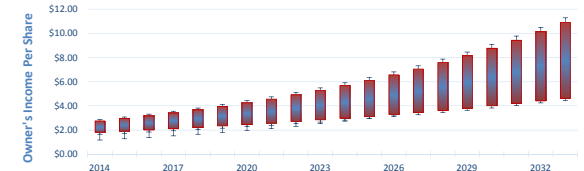
ROE, Return on Equity, is found by multiplying ROA by financial leverage. High ROE levels should not be sought after without knowledge of the leverage factor. It can be used to understand how much of a return a shareholder earned on their investment. We like to think of it in terms of a bond coupon. Lets use this "bond" theme to consider CPKF to be a bond that pays a 11% coupon, but trades at a 45% discount. ROE as a % is declining due to the higher income levels; again we expect it to level at 11%.

## Revenue and Cash Flow Metrics



Chesapeake's mainstay is its diversified revenue streams. Each "non interest income" business segment has seen rising revenues and record profits levels over the past couple years. This low reliance on net interest income lowers investor risk and provides long term "tailwind" for shareholder wealth creation when lending becomes more profitable as interest rates rise.

### Forecasted Future Cash Flows



We are forecasting cash flows for the next 20 years with a 30% margin of safety. An ode to value investing theory in order to find the company's intrinsic value. In conclusion of this analysis we found that currently Chesapeake trades for 55 cents on the dollar. The gradient bars represent the yearly range of OIPS, the center blue being the most likely result. It should be noted that forecasting future cash flows should only be applied to businesses that have a "moat" otherwise known as a durable competitive advantage.

denneslupastean@fatpitchinvestments.com      jonathanruffalo@fatpitchinvestments.com