Bank of the Ozarks (OZRK)

Updated July 12th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	17.3%	**Volatility Percentile:**	85.1%
Fair Value Price:	$52	**5 Year Growth Estimate:**	11.3%	**Momentum Percentile:**	27.7%
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	4.2%	**Valuation Percentile:**	78.2%
Dividend Yield:	1.8%	**5 Year Price Target**	$88	**Total Return Percentile:**	92.2%

Overview & Current Events

Bank of the Ozarks is a regional bank that offers services such as checking, business banking, commercial loans, and mortgages, to its customers in Arkansas, Florida, North Carolina, Texas, Alabama, South Carolina, New York and California. The company was founded in 1903, is headquartered in Little Rock, AR, and is currently valued at $5.4 billion.

Bank of the Ozarks' most recent quarterly earnings were announced on July 11. The company reported earnings per share of $0.89, an increase by 22% over the prior year's second quarter. The company managed to increase its ROE to 12.9%. Revenues grew by 8% year over year, reaching $250 million.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.51	$0.55	$0.94	$1.47	$1.11	$1.21	$1.52	$2.09	$2.58	$3.35	***$3.68***	***$6.29***
DPS	$0.13	$0.13	$0.15	$0.19	$0.25	$0.36	$0.47	$0.55	$0.63	$0.71	***$0.78***	***$1.37***

Bank of the Ozarks has increased its profits on a per share basis in almost every year since the financial crisis (except for 2011-2012), which is a strong feat for a bank. Since 2008 earnings per share grew at an annual rate of 23%. The growth rate over the last five years as well as over the last year is even higher.

After a strong start into 2018, Bank of the Ozarks continued to perform well during the second quarter. The company managed to grow its loans and its deposits by 10.4% and 10.2%, respectively. This, combined with a healthy net interest margin of 4.66%, allowed for double-digits net interest income growth compared to the second quarter of 2017.

A tax rate cut to ~25%, combined with the compelling operational performance, allowed for very attractive net income growth of 27%. Earnings per share growth was a bit lower due to a higher share count.

Bank of the Ozarks has not only been growing organically, but over the last decade the bank has repeatedly made acquisitions where management deemed them suitable. The company has, for example, purchased a total of seven failed banks in Georgia during 2010 and 2011, and there were several other acquisitions since. As Bank of the Ozarks is in a strong position financially it will be able to continue with its strategy of acquiring smaller local banks in order to grow its presence in attractive markets.

Non-interest income makes up just a small amount of the company's earnings ($27 million during Q2 versus net interest income of $225 million), which makes Bank of the Ozarks relatively independent from factors such as market movements (whereas bigger banks, where trading revenues are more important, are more dependent on such factors). Bank of the Ozarks is operating very well whilst the bank is very lean, its efficiency ratio is 38%, whereas the biggest banks in the country are struggling with efficiency ratios of ~60% (lower is better).

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	11.2	11.0	9.6	8.1	14.2	18.8	21.3	20.6	15.9	14.4	***11.4***	***14.0***
Avg. Yld.	1.9%	2.2%	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	***1.8%***	***1.6%***

Disclosure: This analyst has no position in the security discussed in this article, and no plans to initiate one in the next 72 hours.

Bank of the Ozarks has been valued at a relatively high valuation during 2013-2016, but since then the valuation has come down, and right now shares are trading about 20% below the long term median PE multiple.

Shares of the company offer a 1.8% dividend yield, which is about on par with the broad market's dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	89.9%	90.2%	90.1%	88.9%	87.4%	86.8%	86.5%	85.1%	85.2%	83.7%	***83.0%***	***81.0%***
Payout	25.5%	23.6%	16.0%	12.9%	22.5%	29.8%	30.9%	26.3%	24.4%	21.1%	***21.2%***	***21.8%***
Std. Dev.	62.0%	43.1%	21.9%	29.4%	19.2%	18.3%	26.3%	27.2%	40.8%	23.1%	***25.0%***	***25.0%***

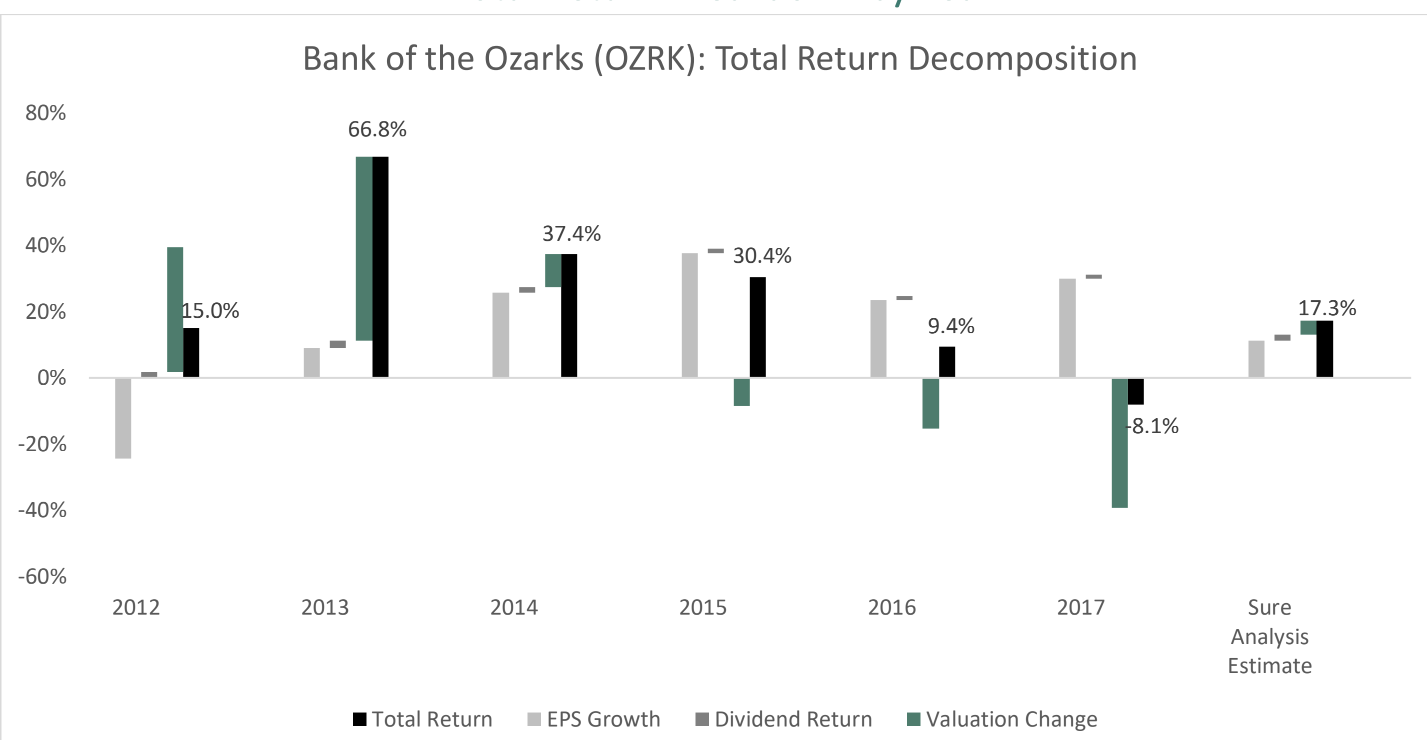
Like other banks Bank of the Ozarks does not produce gross profits, and since net interest income is always positive there also is no interest coverage ratio in the above table. The leverage ratio is relatively high compared to the broad market, but low compared to other banks. Since their business consists of borrowing money and lending it to someone else, banks usually are highly leveraged, with liabilities to assets ratios around 90%. Compared to its industry, Bank of the Ozarks has low leverage, which makes the bank safe as an investment and which makes the bank's high returns on equity (13%) even more compelling.

The bank is well positioned in its key markets, due to the opening of new branches and inorganic growth. Bank of the Ozarks is, for example, the biggest bank in its home state Arkansas. This, combined with a long history and no problems during the last financial crisis, makes Bank of the Ozarks attractive for its customers, which is why customers tend to stick with the bank. Unlike many of its peers, including larger banks, Bank of the Ozarks performed very well throughout the last financial crisis. Its recession performance is therefore outstanding relative to its industry.

Final Thoughts & Recommendation

Bank of the Ozarks combines a lot of positives: A strong balance sheet, attractive growth rates and an excellent recession performance. With shares trading at a discount to the historic average despite growth rates remaining high, Bank of the Ozarks looks like a buy here. We believe that the bank's shares will offer mid-to-high-teens total returns over the next five years, which we deem highly attractive.

Total Return Breakdown by Year



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