



Bank of the Ozarks (OZRK)

Updated June 20th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$48	5 Year CAGR Estimate: 14.4%	Quality Percentile: N/A
Fair Value Price: \$52	5 Year Growth Estimate: 11.3%	Momentum Percentile: N/A
% Fair Value: 93%	5 Year Valuation Multiple Estimate: 1.5%	Total Return Percentile: N/A
Dividend Yield: 1.6%	5 Year Price Target: \$88	Valuation Percentile: N/A

Overview & Current Events

Bank of the Ozarks is a regional bank that offers services such as checking, business banking, commercial loans, mortgages, etc. 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 \$6.1 billion.

Bank of the Ozarks reported its most recent quarterly results on April 12th. The company earned \$0.88 per share (a 21% increase year over year) and recorded revenues of \$246 million (an increase of 12% over the prior year's quarter).

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 did not only remain profitable during the last financial crisis, the bank even managed to grow its earnings per share from 2007 to 2008 as well as from 2008 to 2009. The company has increased its profits on a per share basis in almost every year since (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.

Bank of the Ozarks has delivered a strong start into fiscal 2018, as almost everything has been moving into the right direction operationally. The company recorded a strong increase in its deposits as well as in its loan portfolio, which grew 12.2% year over year. Growth in the company's loan portfolio is one key factor for rising interest income, which, in turn, is important for the bank's profitability. Growth in its loan portfolio is not the only way for the bank to grow its interest income, though. The company will benefit from rising interest rates going forward. Generally rising rates allow banks to increase the spread between the rates they pay and the rates at which they invest, which should be a positive for Bank of the Ozarks going forward.

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 (\$30 million during Q1 versus net interest income of \$220 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	13.0	14.0
Avg. Yld.	1.9%	2.2%	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.6%	1.6%

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 at a small discount to the long term median P/E multiple.

Shares of the company offer a 1.6% dividend yield, which is not overly high, but due to consistent dividend growth investors can expect the total payout to grow substantially over the coming years.

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.

Bank of the Ozarks has been increasing its branch count continuously over the last couple of years, partially via acquisitions, which has given the company a strong position in several of the markets it is active in. 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

It is not easy to find negatives about Bank of the Ozarks, as the company looks very strong. The bank has a compelling growth history and the growth outlook remains favorable. the bank performed well during the last financial crisis. Shares are trading at a discount to the historic average, and the balance sheet looks very healthy. The total return outlook for Bank of the Ozarks is very positive, though, as share prices will likely rise substantially going forward. This stock is a buy and long-term hold at current prices.

Total Return Breakdown by Year

