



Bank OZK (OZK)

Updated October 19th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	20.3%	Volatility Percentile:	83.5%
Fair Value Price:	\$48	5 Year Growth Estimate:	11.3 %	Momentum Percentile:	8.8%
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.7%	Growth Percentile:	95.3%
Dividend Yield:	2.3%	5 Year Price Target	\$82	Valuation Percentile:	90.0%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	96.8%

Overview & Current Events

Bank OZK 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 \$4.5 billion.

Bank OZK reported its third quarter results on October 18. The company grossed revenues of \$245 million, 1% more than during the prior year's quarter. Earnings-per-share totaled \$0.58, a wide miss of expectations, and a steep decline from earnings-per-share of \$0.75 during the prior year's quarter. The earnings decline can be explained by two factors. First, Bank OZK had additional expenses of \$11 million due to the name change (previously Bank OZK was known as Bank of the Ozarks). Additionally Bank OZK recorded a \$46 million charge-off on two real estate credits. Those were made in 2007 and 2008, and Bank OZK had previously classified them as substandard. Operationally the bank performed relatively well during the quarter, as Bank OZK's loan portfolio as well as its deposits grew by 6%, respectively.

Despite the one-time costs during the third quarter, Bank OZK's net profits during the first nine months of 2018 are still up 10% year over year, and Q4 results, which will most likely not include one-time items such as those mentioned above, should be stronger again. We have lowered our estimate for this year's profits to reflect Q3's special costs.

Bank OZK has raised its dividend by 5% at the beginning of October. The new quarterly dividend payout is \$0.21.

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	\$3.45	\$5.89
DPS	\$0.13	\$0.13	\$0.15	\$0.19	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	\$1.37
Shares	67	68	68	69	71	74	80	90	121	128	130	135

Bank OZK has increased its profits on a per share basis in almost every year since the financial crisis, 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, the bank saw its profits decline during Q3. As explained above, that was due to two one-time items. It is likely that Q4's profits will come in at a substantially higher level. A tax rate cut to ~25%, combined with the compelling operational performance, will allow for solid net earnings growth during 2018, despite the one-time charges. Earnings-per-share have been impacted by a rising share count.

Bank OZK 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 OZK is in a strong position financially (it has a high equity ratio relative to most other banks), 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 profits. This makes Bank OZK relatively independent from factors such as market movements, whereas bigger banks, where trading revenues are more important, are more dependent on such factors. Bank OZK is operating a very lean business. Its efficiency ratio is 38%, whereas the biggest banks in the country are struggling with efficiency ratios of ~60%.

Disclosure: This analyst has a long position in the security discussed in this research report.



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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	10.1	14.0
Avg. Yld.	1.9%	2.2%	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	2.3%	1.6%

Bank OZK trades at 10 times this year's expected earnings, which is the lowest valuation the company has traded at in several years. Worries about its real estate exposure have pressured its valuation. Apart from the loans on which Bank OZK took a charge during Q3, its asset quality looks strong, though, as net-charge offs remain at a very low level.

The increase in its dividend yield could make the bank attractive for dividend growth investors with a long-term horizon.

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%

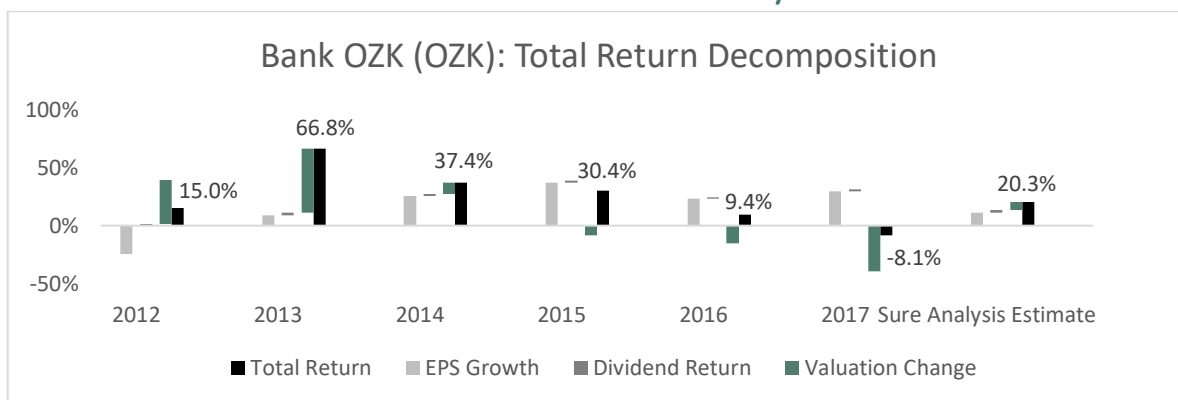
Since their business consists of borrowing money and lending it to someone else, banks usually are highly leveraged, with liabilities to assets ratios around 90%. Compared to its industry, Bank OZK has low leverage, which makes the bank safe as an investment, and which makes the bank's high returns on 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 OZK 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 OZK attractive for its customers, which is why customers tend to stick with the bank. Unlike many of its peers, including larger banks, Bank OZK performed very well throughout the last financial crisis. Today, the company's dividend history and payout ratio allow it to earn C ratings for both Dividend Safety and Retirement Suitability.

Final Thoughts & Recommendation

Bank OZK has been volatile over the last couple of months, and its Q3 results, which included a charge-off on two older loans, will likely increase the volatility and uncertainty further. Bank OZK has a convincing history, though, and its year-to-date profits are still up substantially. It is likely that Bank OZK will grow its profits going forward, and thanks to a low valuation the stock could produce high total returns. Bank OZK looks like a buy for those who can stomach volatility.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	118.1	169.4	154.1	211.2	227.8	258.5	345.9	479.3	693.8	929.4
SG&A Exp.	30.1	58.9	54.6	75.4	77.9	84.0	100.1	111.4	162.6	211.6
D&A Exp.	3.8	4.3	4.9	7.0	8.8	10.0	13.0	17.5	25.0	34.1
Net Profit	34.2	43.1	64.0	101.3	77.0	91.2	118.6	182.3	270.0	421.9
Net Margin	29.0%	25.4%	41.5%	48.0%	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%
Free Cash Flow	18.2	38.8	24.0	-0.6	-61.8	49.2	78.7	184.4	196.8	345.6
Income Tax	9.926	12.859	26.614	50.208	33.935	40.149	53.859	94.455	154.27	158.59

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	3233	2771	3274	3842	4040	4791	6766	9879	18890	21276
Cash & Equivalents	40.98	78.29	49.03	58.93	207.97	195.98	150.20	90.99	866.36	440.39
Accounts Receivable	18.88	14.76	13.90	12.87	13.20	14.36	20.19	25.50	51.92	64.61
Goodwill & Int. Ass.	5.66	5.55	7.93	12.00	11.83	19.16	105.58	152.34	720.95	709.04
Total Liabilities	2906	2498	2950	3414	3529	4159	5855	8412	16095	17812
Accounts Payable	N/A	N/A	N/A	45.51	27.61	16.77	36.89	52.17	72.62	186.16
Long-Term Debt	489.9	407.50	347.09	366.80	345.71	345.85	255.81	322.23	382.66	364.02
Shareholder's Equity	252.3	269.03	320.36	424.55	507.66	629.06	908.39	1464.6	2791.6	3460.7
D/E Ratio	1.51	1.51	1.08	0.86	0.68	0.55	0.28	0.22	0.14	0.11

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	1.2%	1.4%	2.1%	2.8%	2.0%	2.1%	2.1%	2.2%	1.9%	2.1%
Return on Equity	15.5%	16.5%	21.7%	27.2%	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%
ROIC	4.8%	5.8%	9.5%	13.8%	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%
Shares Out.	58.34	57.83	60.82	61.65	59.00	57.72	56.93	55.53	49.92	47.68
Revenue/Share	67	68	68	69	71	74	80	90	121	128
FCF/Share	0.27	0.57	0.35	-0.01	-0.89	0.68	1.01	2.11	1.88	2.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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