



Bank OZK (OZK)

Updated January 21st, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	21.6%	Volatility Percentile:	88.4%
Fair Value Price:	\$46	5 Year Growth Estimate:	11.3%	Momentum Percentile:	6.0%
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.6%	Growth Percentile:	95.7%
Dividend Yield:	2.7%	5 Year Price Target	\$79	Valuation Percentile:	92.2%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	96.5%

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 \$4.1 billion.

Bank OZK reported its fourth quarter and fiscal 2018 earnings results on January 17. The company grossed revenues of \$256 million during the fourth quarter, which represents a revenue increase of 4.4% compared to the prior year's quarter. Analysts had forecasted flat revenues, thus Bank OZK's top line performed substantially better than expected. Bank OZK's revenue growth was primarily based on growth in the company's loan portfolio. Total loans, including purchased loans, totaled \$17.1 billion at the end of the fourth quarter, which represents a 6.7% increase versus the previous year's quarter. The strong growth in Bank OZK's loan balance was the driver for a 6.3% net interest income, which, in turn, was the most important factor for Bank OZK's revenue performance. The bank earned \$0.89 per share during Q4, which was the highest quarterly profit during fiscal 2018. The weak performance during Q3 (due to one-time expenses for credit charge-offs) did not repeat, and Bank OZK's profitability was substantially better than what analysts and the market had expected. Bank OZK's share price reacted very positively to the better-than-expected results for the top line as well as for the bottom line. Shares rose by 16% on the day following the earnings release.

Separately, Bank OZK raised its dividend by 4.8% in early January. The new quarterly payout is \$0.22 per share.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.55	\$0.94	\$1.47	\$1.11	\$1.21	\$1.52	\$2.09	\$2.58	\$3.35	\$3.24	\$3.56	\$6.08
DPS	\$0.13	\$0.15	\$0.19	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.83	\$0.96	\$1.70
Shares	68	68	69	71	74	80	90	121	128	130	132	136

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%. Bank OZK's earnings-per-share declined slightly during 2018, but that can be explained by one-time charges for faulty credits during the third quarter. Q4's profits were substantially higher than those in Q3, and when we annualize Bank OZK's profits during Q4, we get to annual net profits of close to \$3.60 per share.

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%, which means that each additional dollar in revenues increases Bank OZK's profits considerably.

Disclosure: This analyst has a long position in Bank OZK (OZK).



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.0	9.6	8.1	14.2	18.8	21.3	20.6	15.9	14.4	7.1	9.0	13.0
Avg. Yld.	2.2%	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	3.1%	2.7%	1.8%

Bank OZK's valuation has moved in a relatively wide range over the last decade. Shares traded at more than 20 times net profits at one point, whereas Bank OZK was valued at just above 7 times 2018's profits at the end of 2018. The valuation has expanded since, but shares continue to trade at a massive discount compared to how Bank OZK was valued in the past. Even when we factor in that the multiple will be a bit below the long-term median going forward, shares could still see a lot of upside towards a low-teens price to earnings multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	23.6%	16.0%	12.9%	22.5%	29.8%	30.9%	26.3%	24.4%	21.1%	25.6%	27.0%	28.0%

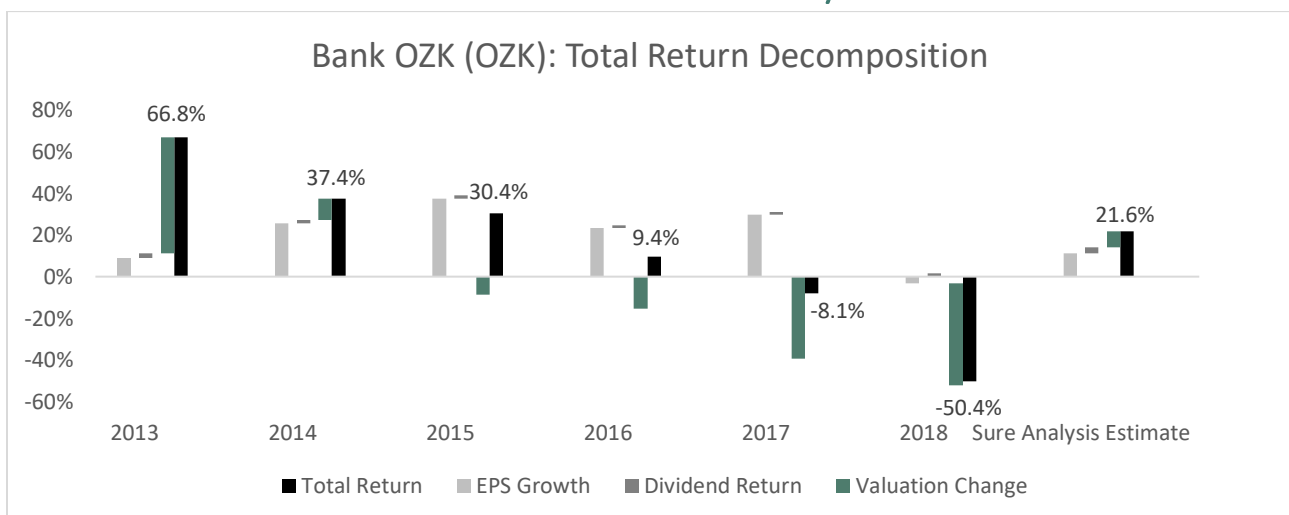
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased 4 times during 2018, for example. The payout ratio is still not high at all, though, which is why we believe that the dividend continues to look safe.

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 largest 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. Bank OZK was very stable during the last financial crisis, as one of just a few banks it managed to grow its profits.

Final Thoughts & Recommendation

Bank OZK is not the largest bank by far, but one that has generated strong results during the last several years. Strong fundamentals and an above-average earnings-per-share and dividend growth rate made Bank OZK an attractive investment. Credit charge-offs during Q3 spooked the market, and even though Q4 results were a lot better than expected, shares continue to trade at a very low valuation. Because of this, Bank OZK earns a buy recommendation from Sure Dividend at current prices.

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	169	154	211	228	258	346	479	694	929
SG&A Exp.	30	59	55	75	78	84	100	111	163	212
D&A Exp.	4	4	5	7	9	10	13	17	25	34
Net Profit	34	43	64	101	77	91	119	182	270	422
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	39	24	-1	-62	49	79	184	197	346
Income Tax	10	13	27	50	34	40	54	94	154	159

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	41	78	49	59	208	196	150	91	866	440
Accounts Receivable	19	15	14	13	13	14	20	25	52	65
Goodwill & Int. Ass.	6	6	8	12	12	19	106	152	721	709
Total Liabilities	2906	2498	2950	3414	3529	4159	5855	8412	16095	17812
Accounts Payable	N/A	N/A	N/A	46	28	17	37	52	73	186
Long-Term Debt	490	408	347	367	346	346	256	322	383	364
Shareholder's Equity	252	269	320	425	508	629	908	1465	2792	3461
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.	67.50	67.60	68.18	68.96	69.78	72.40	78.06	87.35	104.70	125.81
Revenue/Share	1.75	2.51	2.26	3.06	3.26	3.57	4.43	5.49	6.63	7.39
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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