



Bank OZK (OZK)

Updated April 18th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	16.5%	Volatility Percentile:	17.1%
Fair Value Price:	\$42	5 Year Growth Estimate:	8.0%	Momentum Percentile:	94.3%
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.7%	Growth Percentile:	4.3%
Dividend Yield:	2.8%	5 Year Price Target	\$62	Valuation Percentile:	75.7%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	94.1%

Overview & Current Events

Bank OZK, previously 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 \$4 billion.

On April 17th, 2019 Bank OZK reported Q1 2019 results for the period ending March 31st, 2019. For the quarter, total interest income equaled \$295.2 million, representing a 14.7% increase compared to Q1 2018, with non-purchased loans leading the way. However, net income fell 2.2% to \$110.7 million, as expenses grew faster than revenue. Earnings-per-share came in at \$0.86, a 2.3% decline compared to \$0.88 in the year ago period. Returns on average assets, stockholders' equity and tangible equity for Q1 2019 equaled 1.99%, 11.77% and 14.40%, against 2.16%, 13.17% and 16.53% respectively for Q1 2018. Total loans equaled \$17.48 billion, a 5.2% increase. Meanwhile, tangible book value per share increased 21.8% from \$21.93 to \$24.73.

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	\$3.50	\$5.14
DPS	\$0.13	\$0.15	\$0.19	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.83	\$0.88	\$1.40
Shares	68	68	69	71	74	80	90	121	128	130	130	130

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 2011 earnings-per-share have grown by nearly 12% per year. We believe strong – albeit not quite as robust - growth can continue, owing to general economic growth, the potential for higher rates, a low payout ratio and coming off a conservative base. Bank OZK's earnings-per-share declined slightly during 2018, but that can be explained by one-time charges for faulty credits. On an annualized basis, the company's underlying earnings power is closer to \$3.50 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.

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 lean business. As of the most recent quarter, its efficiency ratio was 38.5%, indicating that each additional dollar in revenue increases Bank OZK's profits considerably.

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	10.2	9.1	12.0
Avg. Yld.	2.2%	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	2.3%	2.8%	2.3%

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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 a multiple that is a bit below the long-term median going forward, shares could still see a lot of valuation upside from this juncture.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	24%	16%	13%	23%	30%	31%	26%	24%	21%	26%	25%	27%

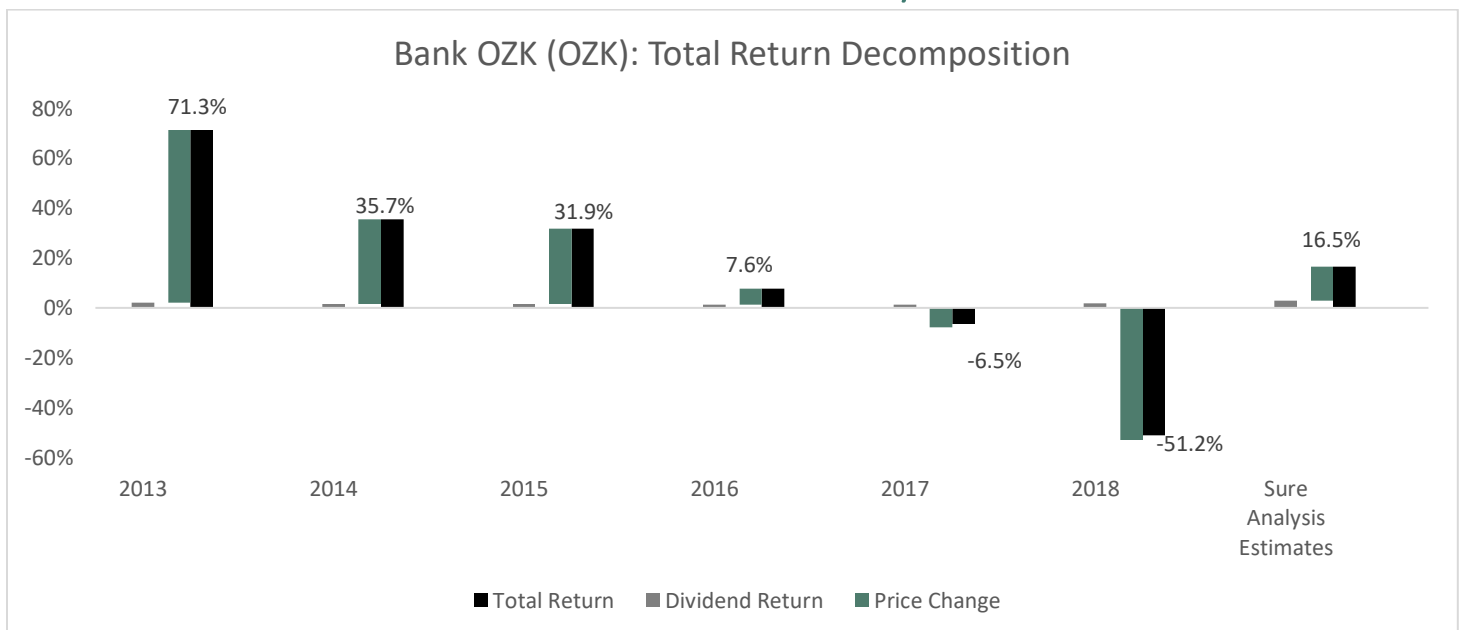
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter during 2018, for example. The payout ratio is still not elevated though, which is why we believe that the dividend continues to look safe.

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 strong performance 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 which managed to grow its profits.

Final Thoughts & Recommendation

Since our last update shares are more or less unchanged, while earnings came in slightly below expectations. Bank OZK is not the largest bank by far, but it is a company that has demonstrated strengths in its niche. In the past, strong fundamentals and an above-average earnings-per-share and dividend growth rate made Bank OZK an attractive investment. In the last few years the bank has run into some issues, including recent charge-offs. As a result, the share price is materially lower and shares once again appear to be offering a compelling value proposition. When coupled with solid dividend and earnings growth expectations, Bank OZK earns a buy rating from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	169	154	211	228	258	346	479	695	930	992
SG&A Exp.	59	55	75	78	84	100	111	163	212	242
D&A Exp.	4	5	7	9	10	13	17	25	34	35
Net Profit	43	64	101	77	91	119	182	270	422	417
Net Margin	25.4%	41.5%	48.0%	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%
Free Cash Flow	39	24	-1	-62	49	79	184	197	346	619
Income Tax	13	27	50	34	40	54	94	154	159	137

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2771	3274	3842	4040	4791	6766	9879	18890	21276	22388
Cash & Equivalents	78	49	59	208	196	150	91	866	440	291
Accounts Receivable	15	14	13	13	14	20	25	52	65	82
Goodwill & Int. Ass.	6	8	12	12	19	106	152	721	709	696
Total Liabilities	2498	2950	3414	3529	4159	5855	8412	16095	17812	18615
Accounts Payable	N/A	N/A	46	28	17	37	52	73	186	216
Long-Term Debt	408	347	367	346	346	256	322	383	364	439
Shareholder's Equity	269	320	425	508	629	908	1465	2792	3461	3770
D/E Ratio	1.51	1.08	0.86	0.68	0.55	0.28	0.22	0.14	0.11	0.12

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.4%	2.1%	2.8%	2.0%	2.1%	2.1%	2.2%	1.9%	2.1%	1.9%
Return on Equity	16.5%	21.7%	27.2%	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%
ROIC	5.8%	9.5%	13.8%	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%
Shares Out.	68	68	69	71	74	80	90	121	128	130
Revenue/Share	2.51	2.26	3.06	3.26	3.57	4.43	5.49	6.63	7.39	7.70
FCF/Share	0.57	0.35	-0.01	-0.89	0.68	1.01	2.11	1.88	2.75	4.80

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

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