Prosperity Bancshares Inc. (PB)

Updated May 30th, 2019 by Noah Horwood

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	8.8%	**Volatility Percentile:**	61.8%
Fair Value Price:	$70	**5 Year Growth Estimate:**	6.2%	**Momentum Percentile:**	35.6%
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Growth Percentile:**	63.2%
Dividend Yield:	2.2%	**5 Year Price Target**	$99	**Valuation Percentile:**	56.4%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	49.9%

Overview & Current Events

Prosperity Bancshares Inc. was formed in 1983 as a vehicle to acquire former Allied Bank which was chartered in 1949 as the First National Bank of Edna, Texas which is now known as Prosperity Bank. The bank's main operation is receiving deposits from the general public and using the capital to originate commercial and consumer loans. The bank operates 230 branches in the greater Houston area and some neighboring counties in Texas and 15 more branches in Oklahoma. The company also has the following operations: wealth management, retail brokerage, and mortgage banking investment services. The banks main lending focus is commercial mortgages, which makes up 33% of their loan portfolio, followed by residential mortgages which make up 24%. Prosperity Bank's other lending activities include: credit cards, business, auto, consumer and home equity loans. This $4.7 billion market capitalization company is listed on the New York Stock Exchange under the ticker 'PB'.

On May 7th, 2019 Prosperity Bank released Q1 results for the period ending March 31st, 2019 and full year results for the period ending December 31, 2018. Operating earnings for Q1 2019 totaled $104 million ($1.49 per share) against $92 million ($1.32 per share) in Q1 of 2018. For the year operating earnings totaled $403 million ($5.77) against $406 million ($5.84) in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.42	$2.73	$3.01	$3.23	$3.65	$4.32	$4.09	$3.94	$3.92	$4.61	***$4.97***	***$6.70***
DPS	$0.57	$0.64	$0.72	$1.00	$0.65	$0.99	$1.12	$1.24	$1.38	$1.49	***$1.64***	***$2.40***
Shares	46.5	46.7	46.9	56.5	66.1	69.8	70.0	69.5	69.5	69.9	***69.9***	***70.1***

Prosperity Bank's EPS has been growing at a 7.8% per year rate for the last decade, which has almost doubled their EPS in that time. The company's EPS in the last decade was rising early in the decade, then started to decline from 2014-2017. The Bank had a terrific year in 2018 and was able to achieve over 17% growth rate from 2017-2018. To keep up their impressive historic growth, the banks main growth objective is to increase deposits and loans through internal growth, as well as through acquisition opportunities while maintaining efficiency, individualized customer service, and maximizing profitability. From our calculations it appears that Prosperity Bank will have a five-year price target of roughly $99 per share which would be exceptional growth from their current price of just under $69, we expect growth to help improve their total returns by 6.2 percentage points annually over the next 5 years.

Prosperity Bank has been consistently increasing their dividend since the company first issued it in January of 1999 for $0.025 per share, their last dividend payment was $0.41. In the last decade alone, Prosperity was able to almost triple their yearly dividend per share. The Bank's dividend has already grown into the start of 2019, the company has increased their dividend per share by almost 14% to $0.41 each payment this year. The company's average dividend growth rate in the last 5-years has been an outstanding 11%, and does not seem appear like it will slow in the foreseeable future. We expect Prosperity Bank to continue to increase their dividend as the company grows, by the year 2024 we expect their dividend per share to be roughly $2.40.

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

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	16.4	14.4	13.4	12.7	17.2	12.9	11.8	18.3	17.7	13.5	***14.5***	***14.8***
Avg. Yld.	1.5%	1.8%	1.8%	2.3%	1.2%	1.7%	2.1%	2.4%	2.1%	2.1%	***2.4%***	***2.4%***

Prosperity's average price-to-earnings ratio has deviated lots in the past decade it is currently roughly 14.5. Comparing current P/E levels with the 10-year historical average of 14.8, it seems that Prosperity is slightly undervalued at this point in time. We expect valuation multiple growth to improve total returns by 0.4 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	23%	23%	24%	25%	24%	23%	27%	31%	35%	32%	***34%***	***39%***

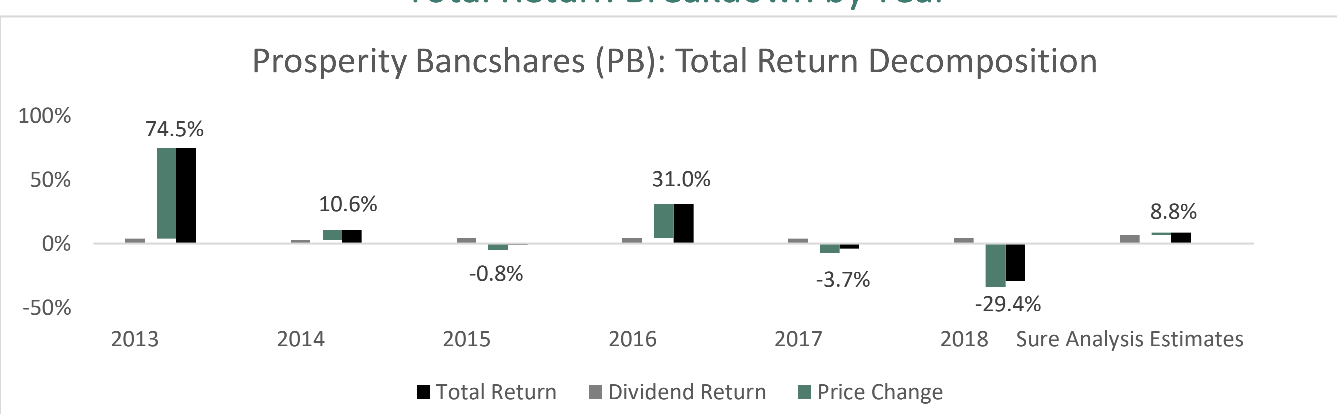
Prosperity believes their competitive advantage is in its market areas and excellent growth opportunities through acquisitions, new banking center locations and additional business development.

A risk for Prosperity is a downturn in the U.S. economy. The company could experience higher loan and lease charge-offs and higher operating costs in the event of a recession. Other markets also affect the company's operating results, for example, real estate market conditions directly affect performance of the company's loans secured by real estate. Although an economic downturn is a risk for Prosperity Bank, the company was able to grow immensely during the last recession. During the most recent economic downturn, The Great Recession in 2008-2009, Prosperity Bank's stock price increased over 36% throughout the year despite a declining market. The company was also able to grow their EPS by an outstanding 29% and their book value per share increased by nearly 7%.

Final Thoughts & Recommendation

Prosperity had a terrific year in 2018, the company was able to grow their EPS and dividend very well. Despite this, the company has had a 12-month total return of roughly -6%. From our calculations using the average price to earnings ratio Prosperity is slight undervalued at current prices. The company has growth potential which is the main driver of our total return estimate of 8.8% annually. We'd like to see total returns of 10% or higher before recommending this security as a buy. As a result, we rate Prosperity Bancshares as a hold 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	367	372	376	447	582	776	736	734	716	728
SG&A Exp.	91	104	112	138	177	236	228	232	227	241
D&A Exp.	18	17	16	16	17	24	22	22	19	18
Net Profit	112	128	142	168	221	297	287	274	272	322
Net Margin	30.5%	34.3%	37.7%	37.6%	38.0%	38.3%	39.0%	37.4%	38.0%	44.2%
Free Cash Flow	39	164	208	197	284	336	301	329	379	305
Income Tax	57	64	72	84	108	148	144	134	134	81

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	8850	9477	9823	14584	18642	21508	22037	22331	22587	22693
Cash & Equivalents	195	159	213	326	381	677	563	436	392	411
Accounts Receivable	31	30	29	42	49	52	52	53	56	57
Goodwill & Int. Ass.	912	953	946	1243	1714	1933	1918	1947	1940	1934
Total Liabilities	7499	8024	8255	12494	15855	18263	18574	18689	18763	18641
Accounts Payable	7	4	3	2	3	3	2	2	3	4
Long-Term Debt	118	467	98	342	135	176	491	991	505	1031
Shareholder's Equity	1351	1452	1567	2089	2787	3245	3463	3642	3824	4053
D/E Ratio	0.09	0.32	0.06	0.16	0.05	0.05	0.14	0.27	0.13	0.25

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.2%	1.4%	1.5%	1.4%	1.3%	1.5%	1.3%	1.2%	1.2%	1.4%
Return on Equity	8.6%	9.1%	9.4%	9.2%	9.1%	9.9%	8.5%	7.7%	7.3%	8.2%
ROIC	7.3%	7.5%	7.9%	8.2%	8.3%	9.4%	7.8%	6.4%	6.1%	6.8%
Shares Out.	46.5	46.7	46.9	56.5	66.1	69.8	70.0	69.5	69.5	69.9
Revenue/Share	7.92	7.94	7.99	8.60	9.61	11.26	10.50	10.53	10.31	10.42
FCF/Share	0.83	3.50	4.43	3.80	4.68	4.88	4.30	4.73	5.46	4.37

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