



# Bank OZK (OZK)

Updated October 18<sup>th</sup>, 2019 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$29	<b>5 Year CAGR Estimate:</b>	11.7%	<b>Volatility Percentile:</b>	94.9%
<b>Fair Value Price:</b>	\$39	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	12.6%
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.5%	<b>Growth Percentile:</b>	57.4%
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$43	<b>Valuation Percentile:</b>	95.2%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	94.2%

## 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 \$4 billion market cap company was founded in 1903, is headquartered in Little Rock, AR.

On October 17<sup>th</sup>, 2019 Bank OZK reported Q3 results for the period ending September 30<sup>th</sup>, 2019. For the quarter, total interest income equaled \$289.5 million, representing a 4.3% increase compared to Q3 2018, with non-purchased loans leading the way. Net income increased to \$103.9 million, from \$74.2 million in the prior year period, while earnings-per-share came in at \$0.81 against \$0.58 previously. Returns on average assets, stockholders' equity and tangible equity for Q3 2019 equaled 1.81%, 10.22% and 12.33% against 1.33%, 8.07% and 9.99% respectively for Q3 2018. Total loans equaled \$17.73 billion, a 6.0% increase. Meanwhile, tangible book value per share increased 14.5% from \$22.97 to \$26.30.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$0.55	\$0.94	\$1.47	\$1.11	\$1.21	\$1.52	\$2.09	\$2.58	\$3.35	\$3.24	<b>\$3.40</b>	<b>\$4.34</b>
<b>DPS</b>	\$0.13	\$0.15	\$0.19	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	<b>\$0.96</b>	<b>\$1.48</b>
<b>Shares<sup>1</sup></b>	68	68	69	71	74	80	90	121	128	129	<b>129</b>	<b>130</b>

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 in the long-term, 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 annual basis, we believe the company's underlying earnings power is closer to \$3.40 per share. We are forecasting 6% annual growth over the intermediate-term.

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 41%, 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
<b>Avg. P/E</b>	11.0	9.6	8.1	14.2	18.8	21.3	20.6	15.9	14.4	12.8	<b>8.8</b>	<b>10.0</b>
<b>Avg. Yld.</b>	2.2%	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.9%	<b>3.4%</b>	<b>3.4%</b>

<sup>1</sup> In millions.

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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 under 7 times 2018's profits at the end of 2018. The valuation has expanded since, but shares continue to trade at a discount compared to how Bank OZK was valued in the past. Even when we factor in a fair value multiple that is below the long-term median going forward, in this case 10 times earnings, shares could still see moderate 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%	25%	<b>30%</b>	<b>34%</b>

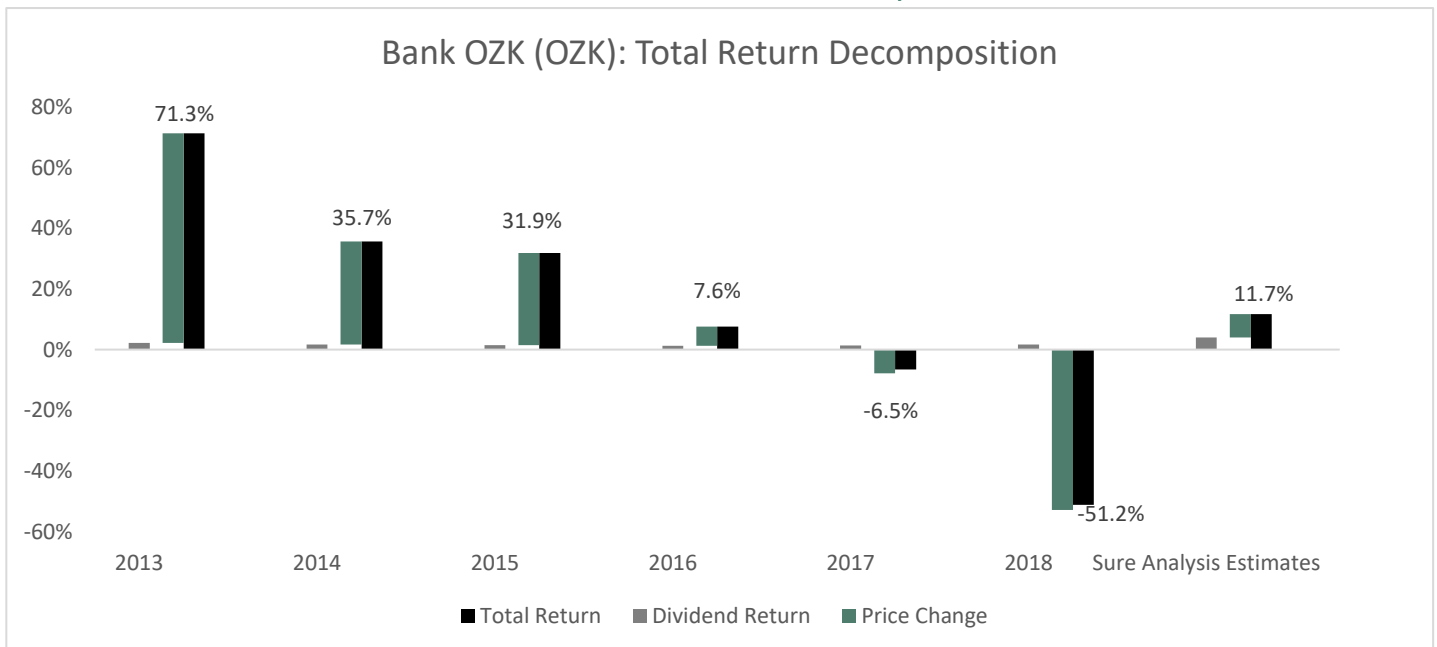
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter during 2018, as an illustration. The payout ratio is still not elevated though, which is why we believe that the dividend continues to look safe.

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

Shares are more or less unchanged since our last report. 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. Total return potential comes in at 11.7% per annum, driven by 6% growth, a 3.4% dividend yield and a moderate valuation tailwind. Bank OZK continues to earn 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
<b>Revenue</b>	169	154	211	228	258	346	479	695	930	992
<b>SG&amp;A Exp.</b>	59	55	75	78	84	100	111	163	212	242
<b>D&amp;A Exp.</b>	4	5	7	9	10	13	17	25	34	35
<b>Net Profit</b>	43	64	101	77	91	119	182	270	422	417
<b>Net Margin</b>	25.4%	41.5%	48.0%	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%
<b>Free Cash Flow</b>	39	24	-1	-62	49	79	184	197	346	619
<b>Income Tax</b>	13	27	50	34	40	54	94	154	159	137

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	2771	3274	3842	4040	4791	6766	9879	18890	21276	22388
<b>Cash &amp; Equivalents</b>	78	49	59	208	196	150	91	866	440	291
<b>Accounts Receivable</b>	15	14	13	13	14	20	25	52	65	82
<b>Goodwill &amp; Int. Ass.</b>	6	8	12	12	19	106	152	721	709	696
<b>Total Liabilities</b>	2498	2950	3414	3529	4159	5855	8412	16095	17812	18615
<b>Accounts Payable</b>	N/A	N/A	46	28	17	37	52	73	186	216
<b>Long-Term Debt</b>	408	347	367	346	346	256	322	383	364	439
<b>Shareholder's Equity</b>	269	320	425	508	629	908	1465	2792	3461	3770
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	1.4%	2.1%	2.8%	2.0%	2.1%	2.1%	2.2%	1.9%	2.1%	1.9%
<b>Return on Equity</b>	16.5%	21.7%	27.2%	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%
<b>ROIC</b>	5.8%	9.5%	13.8%	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%
<b>Shares Out.</b>	68	68	69	71	74	80	90	121	128	130
<b>Revenue/Share</b>	2.51	2.26	3.06	3.26	3.57	4.43	5.49	6.63	7.39	7.70
<b>FCF/Share</b>	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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