



Bank OZK (OZK)

Updated January 17th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	11.0%	Market Cap:	\$3.8B
Fair Value Price:	\$34	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/16/20
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.8%	Dividend Payment Date:	01/24/20
Dividend Yield:	3.5%	5 Year Price Target	\$43	Years Of Dividend Growth:	23
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	4.0%

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 \$3.8 billion market cap company was founded in 1903, is headquartered in Little Rock, AR. On January 16th, 2020 Bank OZK reported Q4 and full year results for the period ending December 31st, 2019. For the quarter, total interest income equaled \$280.9 million, representing a -3.8% decline compared to Q4 2018, as an improvement in non-purchased loans was more than offset by a decline in purchased loans and investment securities. Net income decreased to \$100.8 million, from \$115.0 million in the prior year period, while earnings-per-share came in at \$0.78 against \$0.89 previously. For the year total interest income was up 5.6% to \$1.162 billion. Net income equaled \$425.9 million for 2019 compared to \$417.1 million in 2018, while earnings-per-share equaled \$3.30 against \$3.24 prior. Returns on average assets, stockholders' equity and tangible equity for 2019 equaled 1.87%, 10.72% and 12.98% compared to 1.90%, 11.59% and 14.41% in 2018. Total loans equaled \$17.53 billion, a 2.4% increase. Meanwhile, tangible book value per share increased 12.5% from \$23.90 to \$26.88.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.94	\$1.47	\$1.11	\$1.21	\$1.52	\$2.09	\$2.58	\$3.35	\$3.24	\$3.30	\$3.40	\$4.34
DPS	\$0.15	\$0.19	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	\$0.94	\$1.04	\$1.54
Shares¹	68	69	71	74	80	90	121	128	129	129	129	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 11% 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 5% 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 42%, indicating that each additional dollar in revenue increases Bank OZK's profits considerably.

¹ In millions.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	9.6	8.1	14.2	18.8	21.3	20.6	15.9	14.4	12.8	8.6	8.7	10.0
Avg. Yld.	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.9%	3.3%	3.5%	3.5%

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	16%	13%	23%	30%	31%	26%	24%	21%	25%	28%	31%	35%

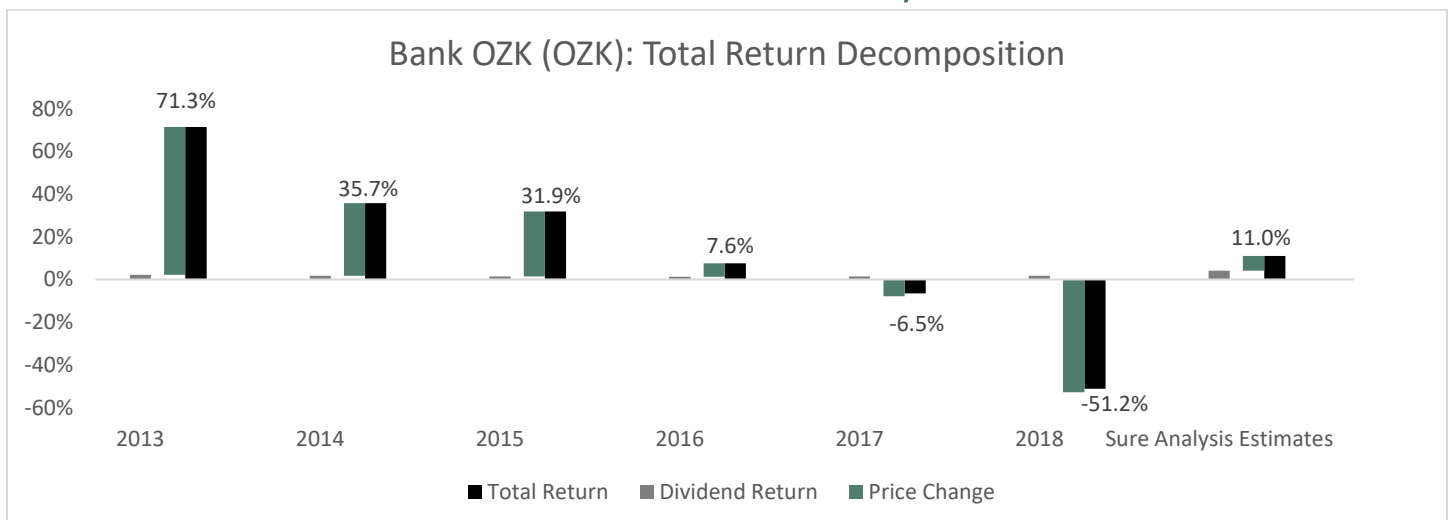
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter during 2018, as an illustration. The payout ratio is still not elevated though, which is why we believe that the dividend continues to look safe.

The bank is well positioned in its key markets, due to the opening of new branches and inorganic growth. Bank OZK is 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 up 3% 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 above-average earnings-per-share and dividend growth rates 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 11.0% per annum, driven by 5% growth, a 3.5% 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	154	211	228	258	346	479	695	930	992	
SG&A Exp.	55	75	78	84	100	111	163	212	242	
D&A Exp.	5	7	9	10	13	17	25	34	35	
Net Profit	64	101	77	91	119	182	270	422	417	
Net Margin	41.5%	48.0%	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%	
Free Cash Flow	24	-1	-62	49	79	184	197	346	619	
Income Tax	27	50	34	40	54	94	154	159	137	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3274	3842	4040	4791	6766	9879	18890	21276	22388	
Cash & Equivalents	49	59	208	196	150	91	866	440	291	
Accounts Receivable	14	13	13	14	20	25	52	65	82	
Goodwill & Int. Ass.	8	12	12	19	106	152	721	709	696	
Total Liabilities	2950	3414	3529	4159	5855	8412	16095	17812	18615	
Accounts Payable	N/A	46	28	17	37	52	73	186	216	
Long-Term Debt	347	367	346	346	256	322	383	364	439	
Shareholder's Equity	320	425	508	629	908	1465	2792	3461	3770	
D/E Ratio	1.08	0.86	0.68	0.55	0.28	0.22	0.14	0.11	0.12	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.1%	2.8%	2.0%	2.1%	2.1%	2.2%	1.9%	2.1%	1.9%	
Return on Equity	21.7%	27.2%	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%	
ROIC	9.5%	13.8%	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%	
Shares Out.	68	69	71	74	80	90	121	128	130	
Revenue/Share	2.26	3.06	3.26	3.57	4.43	5.49	6.63	7.39	7.70	
FCF/Share	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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