

Bank OZK (OZK)

Updated October 23rd, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	10.5%	Market Cap:	\$3 B
Fair Value Price:	\$30	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	01/16/21
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date¹:	01/24/20
Dividend Yield:	4.4%	5 Year Price Target	\$35	Years Of Dividend Growth:	24
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	10.0%

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 billion market cap bank was founded in 1903 and is headquartered in Little Rock, AR.

On October 22nd, 2020 Bank OZK reported Q3 2020 results for the period ending September 30th, 2020. For the quarter, total interest income equaled \$268.3 million, representing a -7.3% decrease compared to Q3 2019, as declines were seen across the board in non-purchased loans, purchased loans and investment securities. However, net income increased by 5.2% from \$103.9 million (\$0.81 per share) to \$109.3 million (\$0.84 per share).

Returns on average assets, stockholders' equity and tangible equity for Q3 2020 equaled 1.63%, 10.48% and 12.52% compared to 1.81%, 10.22% and 12.33% in Q3 2019. Total loans equaled \$19.36 billion, a 9.2% increase. Meanwhile, tangible book value per share increased 3.2% from \$26.30 to \$27.13.

On October 1st, 2020 Bank OZK announced a \$0.275 quarterly dividend, representing a 0.9% increase over the last quarter's mark and a 10% increase year-over-year. This marks the company's 41st consecutive quarter of raising its dividend to go along with 24 straight years of boosting its payout.

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	\$2.00	\$3.48
DPS	\$0.15	\$0.19	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	\$0.94	\$1.10	\$1.28
Shares²	68	69	71	74	80	90	121	128	129	129	129	140

Bank OZK had 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. Moreover, Bank OZK has not only been growing organically, but over the last decade the bank has repeatedly made acquisitions where management deemed them suitable. For example, the company purchased a total of seven failed banks in Georgia during 2010 and 2011, and there were several other acquisitions since.

Today, the industry and global economy faces a great deal of uncertainty related to the COVID-19 pandemic. This has already shown up in Bank OZK results, as the company took a -\$117.7 million credit provision charge in Q1 and a -\$72 million charge in Q2. As a point of reference, this number had typically been under -\$10 million. This year's earnings are apt to be substantially lower as liquidity and prudence are front and center; although Q3 results were encouraging.

With that being said, we are taking a longer-term view, and believe the company will be able to grow once again. Factors like general economic growth, the potential for higher rates in the long-term, a low payout ratio and coming off a conservative base should help results. 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.

¹ Estimate.

² In millions.

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We are using \$3 in underlying earnings power for valuation and fair value purposes. In addition, we have reduced our growth rate estimate to 3% annually over the intermediate term.

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	9.0	8.3	10.0
Avg. Yld.	1.7%	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.9%	3.2%	4.4%	3.7%

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. Our fair value estimate is 10 times earnings, in-line with your typical bank. With shares trading at 8.3 times our \$3 per share earnings power estimate, this implies the potential for a valuation tailwind. Moreover, the 4%+ dividend yield ought to aid in shareholder returns as well.

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%	37%	37%

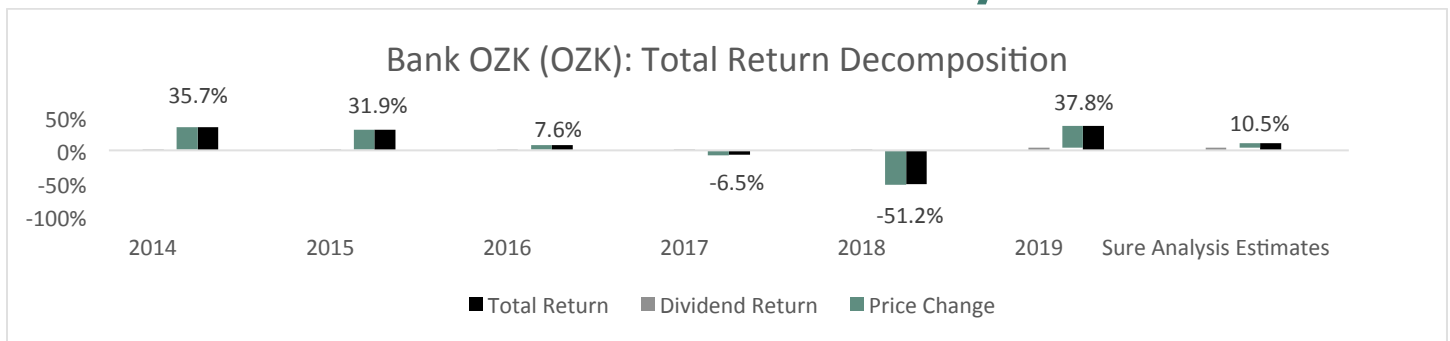
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter dating back to 2010, as an illustration. The payout ratio is still not elevated though, when compared to underlying earnings power; although this year will see a temporarily uptick.

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

After being down -36% and up 32% in our last two reports, shares are more or less unchanged in the last three months. 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, which may very well continue. Still, shares appear to be offering an interesting value proposition. Total return potential comes in at 10.5% per annum, driven by 3% growth, a 4.4% dividend yield and the potential for a valuation tailwind. Shares continue to earn a buy rating.

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	984
SG&A Exp.	55	75	78	84	100	111	163	212	242	264
D&A Exp.	5	7	9	10	13	17	25	34	35	43
Net Profit	64	101	77	91	119	182	270	422	417	426
Net Margin	41.5%	48.0%	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%	43.3%
Free Cash Flow	24	-1	-62	49	79	184	197	346	619	326
Income Tax	27	50	34	40	54	94	154	159	137	138

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	23556
Cash & Equivalents	49	59	208	196	150	91	866	440	291	1496
Accounts Receivable	14	13	13	14	20	25	52	65	82	75
Goodwill & Int. Ass.	8	12	12	19	106	152	721	709	696	685
Total Liabilities	2950	3414	3529	4159	5855	8412	16095	17812	18615	19402
Accounts Payable	N/A	46	28	17	37	52	73	186	216	222
Long-Term Debt	347	367	346	346	256	322	383	364	439	695
Shareholder's Equity	320	425	508	629	908	1465	2792	3461	3770	4150
D/E Ratio	1.08	0.86	0.68	0.55	0.28	0.22	0.14	0.11	0.12	0.17

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%	1.9%
Return on Equity	21.7%	27.2%	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%	10.8%
ROIC	9.5%	13.8%	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%	9.4%
Shares Out.	68	69	71	74	80	90	121	128	129	129
Revenue/Share	2.26	3.06	3.26	3.57	4.43	5.49	6.63	7.39	7.70	7.63
FCF/Share	0.35	-0.01	-0.89	0.68	1.01	2.11	1.88	2.75	4.80	2.53

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

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