



Bank OZK (OZK)

Updated April 23rd, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	2.0%	Market Cap:	\$5 B
Fair Value Price:	\$36	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	07/10/21
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date¹:	07/20/21
Dividend Yield:	2.7%	5 Year Price Target	\$39	Years Of Dividend Growth:	25
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	3.7%

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 \$5 billion market cap bank was founded in 1903 and is headquartered in Little Rock, AR.

On April 1st, 2021 Bank OZK announced a \$0.28 quarterly dividend, representing a 0.9% increase over the last quarter's payment and a 3.7% increase year-over-year. This marks the company's 43rd consecutive quarter of raising its dividend to go along with 25 straight years of boosting its payout.

On April 22nd, 2021 Bank OZK reported Q1 2021 results for the period ending March 31st, 2021. For the quarter, total interest income equaled \$264.1 million, representing a -2.9% decline compared to Q1 2020. Net income equaled \$148.4 million or \$1.14 per share compared to \$11.9 million or \$0.09 per share in the year ago period. The substantial improvement was due to a release of credit loss provisions, adding a benefit of \$31.6 million compared to an expense of -\$117.6 million in Q1 2020.

For the quarter, returns on average assets, stockholders' equity and tangible equity equaled 2.23%, 13.97% and 16.57% respectively. Total loans equaled \$18.72 billion, a 2.7% increase. Tangible book value per share equaled \$28.60, up from \$26.30 in Q1 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.47	\$1.11	\$1.21	\$1.52	\$2.09	\$2.58	\$3.35	\$3.24	\$3.30	\$2.26	\$3.25	\$3.59
DPS	\$0.19	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	\$0.94	\$1.08	\$1.12	\$1.30
Shares²	69	71	74	80	90	121	128	129	129	129	130	140

Bank OZK had increased its profits on a per share basis in almost every year since the financial crisis, which was a strong feat for a bank. In the 2011 through 2019 stretch earnings-per-share grew by nearly 11% per year. Moreover, Bank OZK had not only been growing organically, but over the last decade the bank has repeatedly made acquisitions where management deemed them suitable. Of course, 2020 proved to be a challenge with earnings down materially.

Today, the industry and global economy faces a great deal of uncertainty related to the COVID-19 pandemic, although results have been looking better as of late.

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 Estimated date.

² 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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We are forecasting \$3.25 in earnings-per-share this year, after a strong Q1 2021 showing, to go along with a 2% annual growth rate coming off a higher base.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	8.1	14.2	18.8	21.3	20.6	15.9	14.4	12.8	9.0	10.0	12.7	11.0
Avg. Yld.	1.6%	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.9%	3.2%	4.8%	2.7%	3.3%

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 11 times earnings, in-line with your typical bank. With shares trading at nearly 13 times our estimate, this implies the potential for a valuation headwind. The near 3% dividend yield will continue to aid in shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	13%	23%	30%	31%	26%	24%	21%	25%	28%	48%	34%	36%

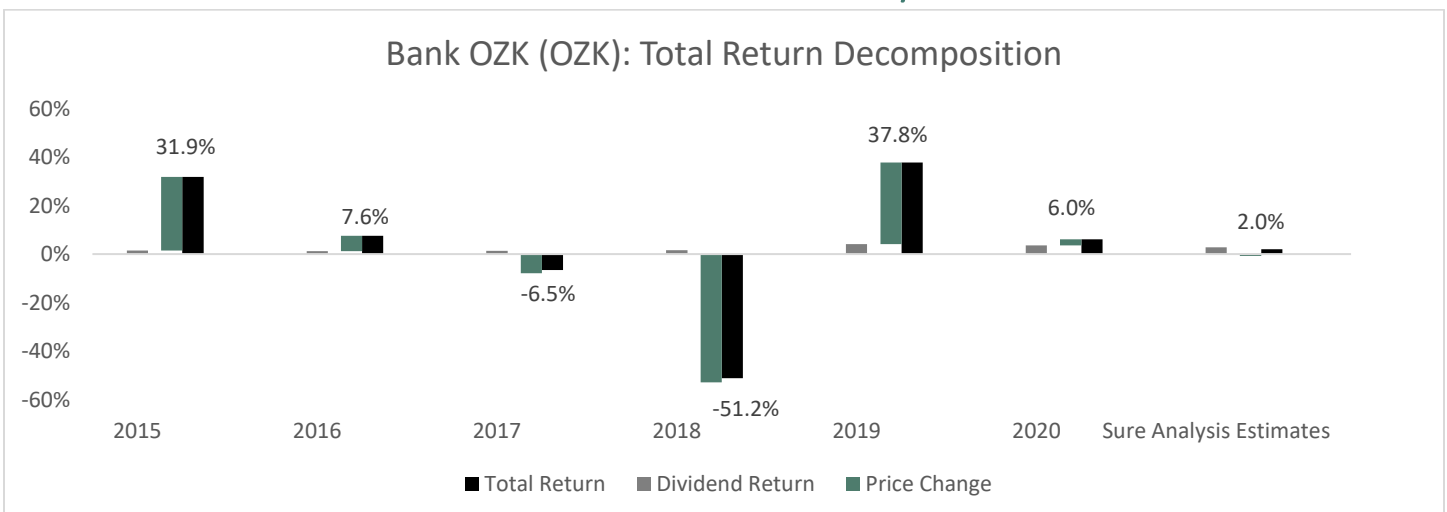
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter dating back to 2010, as an illustration. The payout ratio is still not elevated though, although 2020 saw a temporarily uptick.

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 of 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 up 44% in our last report, shares are up another 15% 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. However, total return potential comes in at 2.0% per annum, driven by 2% growth and a 2.7% dividend yield offset by the potential for a valuation headwind. As a result of the higher valuation, we are reducing our rating to sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	211	228	258	346	479	695	930	992	984	985
SG&A Exp.	75	78	84	100	111	163	212	242	264	270
D&A Exp.	7	9	10	13	17	25	34	35	43	44
Net Profit	101	77	91	119	182	270	422	417	426	292
Net Margin	48.0%	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%	43.3%	29.6%
Free Cash Flow	-1	-62	49	79	184	197	346	619	326	502
Income Tax	50	34	40	54	94	154	159	137	138	84

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3842	4040	4791	6766	9879	18890	21276	22388	23556	27160
Cash & Equivalents	59	208	196	150	91	866	440	291	1496	2394
Accounts Receivable	13	13	14	20	25	52	65	82	75	88
Goodwill & Int. Ass.	12	12	19	106	152	721	709	696	685	675
Total Liabilities	3414	3529	4159	5855	8412	16095	17812	18615	19402	22890
Accounts Payable	46	28	17	37	52	73	186	216	222	252
Long-Term Debt	367	346	346	256	322	383	364	439	695	1095
Shareholder's Equity	425	508	629	908	1465	2792	3461	3770	4150	4272
D/E Ratio	0.86	0.68	0.55	0.28	0.22	0.14	0.11	0.12	0.17	0.26

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.8%	2.0%	2.1%	2.1%	2.2%	1.9%	2.1%	1.9%	1.9%	1.2%
Return on Equity	27.2%	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%	10.8%	6.9%
ROIC	13.8%	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%	9.4%	5.7%
Shares Out.	69	71	74	80	90	121	128	129	129	129
Revenue/Share	3.06	3.26	3.57	4.43	5.49	6.63	7.39	7.70	7.63	7.61
FCF/Share	-0.01	-0.89	0.68	1.01	2.11	1.88	2.75	4.80	2.53	3.88

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

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