



Bank OZK (OZK)

Updated July 25th, 2021, by Eli Inkrot

Key Metrics

| | | | | | |
|-----------------------------|------|--|------|---|----------|
| Current Price: | \$41 | 5 Year CAGR Estimate: | 3.3% | Market Cap: | \$5 B |
| Fair Value Price: | \$42 | 5 Year Growth Estimate: | 0.0% | Ex-Dividend Date¹: | 10/08/21 |
| % Fair Value: | 98% | 5 Year Valuation Multiple Estimate: | 0.5% | Dividend Payment Date¹: | 10/19/21 |
| Dividend Yield: | 2.8% | 5 Year Price Target | \$42 | Years Of Dividend Growth: | 25 |
| Dividend Risk Score: | A | Retirement Suitability Score: | A | Last Dividend Increase: | 4.6% |

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 July 1st, 2021, Bank OZK announced a \$0.285 quarterly dividend, representing a 1.8% increase over the last quarter's payment and a 4.6% increase year-over-year. This marks the company's 44th consecutive quarter of raising its dividend to go along with 25 straight years of boosting its payout.

On July 22nd, 2021, Bank OZK reported Q2 2021 results for the period ending June 30th, 2021. For the quarter, total interest income equaled \$264.1 million, representing a -1.1% decline compared to Q2 2020. Net income equaled \$150.5 million or \$1.16 per share compared to \$50.3 million or \$0.39 per share in the year ago period. The substantial improvement was due to a release of credit loss provisions, adding a benefit of \$30.9 million compared to an expense of -\$72.0 million in Q2 2020.

For the quarter, returns on average assets, stockholders' equity and tangible equity equaled 2.24%, 13.65% and 16.10% respectively. Total loans equaled \$18.27 billion, a -5.4% decline. Tangible book value per share equaled \$29.52, up from \$26.53 in Q2 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 | \$3.80 | \$3.80 |
| DPS | \$0.19 | \$0.25 | \$0.36 | \$0.47 | \$0.55 | \$0.63 | \$0.71 | \$0.80 | \$0.94 | \$1.08 | \$1.14 | \$1.32 |
| 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.

We are taking a longer-term view and believe the company will be able to grow once again. Indeed, 2021 is shaping up to be a standout year. 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.

We are forecasting \$3.80 in earnings-per-share this year, after another strong round of credit reserve releases in Q2. We have reduced our intermediate-term growth expectation to 0%, as this short-term tailwind will not be repeated in future years. Even so, this implies improved intermediate-term expectations.

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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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 | 10.7 | 11.0 |
| Avg. Yld. | 1.6% | 1.6% | 1.6% | 1.5% | 1.3% | 1.5% | 1.5% | 1.9% | 3.2% | 4.8% | 2.8% | 3.2% |

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 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 11 times our estimate, this implies little change from the 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% | 30% | 35% |

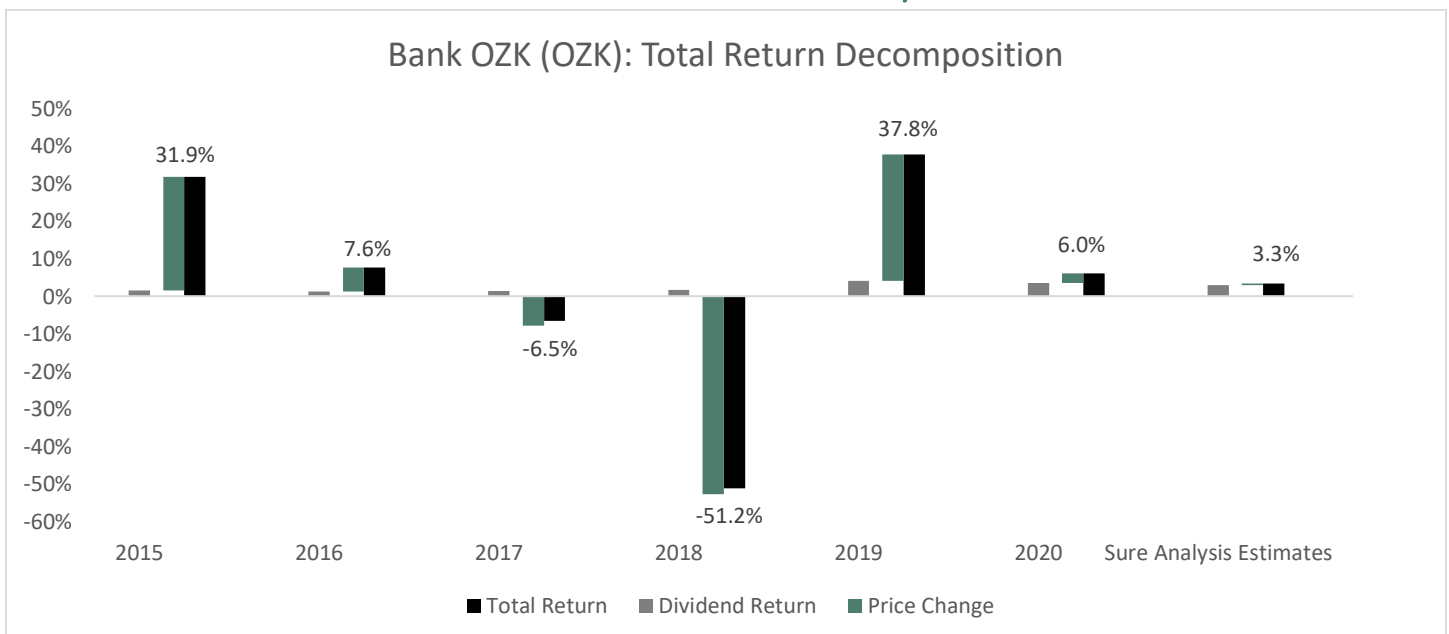
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter dating back to 2010, as an illustration. The payout ratio is still not elevated though, although 2020 saw a temporarily uptick.

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. 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 above-average earnings-per-share and dividend growth rates made Bank OZK an attractive investment. However, total return potential comes in at 3.3% per annum, driven by a 2.8% dividend yield. Shares earn a hold rating.

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.

Disclaimer

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