



Enterprise Bancorp Inc. (EBTC)

Updated October 25th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	8.3%	Market Cap:	\$456 M
Fair Value Price:	\$41	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/9/2021
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	12/1/2021
Dividend Yield:	1.9%	5 Year Price Target	\$52	Years Of Dividend Growth:	27
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	5.7%

Overview & Current Events

Enterprise Bancorp Inc. was formed in 1996 as the parent holding company of Enterprise Bank and Trust Company, referred to as Enterprise Bank. Enterprise has 26 full-service branches in the North Central region of Massachusetts and Southern New Hampshire. The company's primary business operation is gathering deposits from the general public and investing in commercial loans and investment securities. The Bank offers commercial, residential and consumer loan products, cash management services, electronic banking options, insurance services, as well as wealth management. About half of the company's loan portfolio is in commercial real estate and about a third is in commercial construction loans. Other subsidiaries under Enterprise Bancorp are Enterprise Investment Services and Enterprise Insurance Services, which cater to the bank's target market of business customers. Enterprise Bancorp has a market cap of \$456 million and is an exceptionally managed bank, which has remained profitable in every single quarter since its formation. In late October, Enterprise reported (10/21/21) financial results for the third quarter of fiscal 2021. The bank grew its net interest income 7% over last year's quarter, primarily thanks to Paycheck Protection Program loans. In addition, thanks to continued improvement in its business outlook, the bank nearly eliminated its loan loss provisions. On the other hand, its non-interest income plunged -29%, mostly due to a non-recurring \$1.8 million loss in hedges of interest rates. As a result, earnings-per-share decreased -7%, from \$0.87 to \$0.81. Nevertheless, the record earnings this year and the 5.7% dividend hike are testaments to the high quality of this bank and its resilience to downturns.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.16	\$1.28	\$1.36	\$1.44	\$1.55	\$1.70	\$1.68	\$2.47	\$2.89	\$2.64	\$3.40	\$4.34
DPS	\$0.42	\$0.44	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	\$0.64	\$0.70	\$0.74	\$1.00
Shares¹	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.1	12.5

Enterprise has an outstanding performance record, as it has remained profitable for 128 consecutive quarters. This is a testament to its prudent management and its focus on sustainable long-term growth. The bank has grown its earnings-per-share at a 9.6% average annual rate in the last decade and has grown its earnings-per-share in all but two years throughout this period.

Enterprise opened a new branch in North Andover in January-2021 and expects to open its 27th branch in Londonderry, New Hampshire, in the second quarter of 2022. While the opening of two new branches is not significant for most banks, it is important for Enterprise, as it will increase its branch count by 8%. In the short term, Enterprise is facing a headwind from the coronavirus crisis, but the pandemic has begun to subside thanks to the massive rollout of vaccines. Thanks to the opening of new branches and its steadily growing loan portfolio, we expect Enterprise to grow its earnings-per-share by about 5% per year over the next five years. We have not assumed a higher growth rate due to the high comparison base formed this year by the all-time high expected earnings-per-share of \$3.40. The bank may grow even faster, but we prefer to be conservative due to its small market cap.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.8	12.3	12.9	15.6	17.5	14.7	22.1	16.4	10.5	9.4	11.2	12.0
Avg. Yld.	3.1%	2.8%	2.6%	2.1%	1.8%	2.1%	1.5%	1.4%	2.1%	2.8%	1.9%	1.9%

Enterprise has traded at an average price-to-earnings ratio of 14.3 in the last decade. Given the small market cap of the bank, we consider its fair earnings multiple to be around 12.0. The stock is currently trading at a price-to-earnings ratio of 11.2. If it reaches our fair value estimate over the next five years, it will enjoy a 1.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	36%	34%	34%	33%	32%	30%	32%	23%	22%	27%	22%	23%

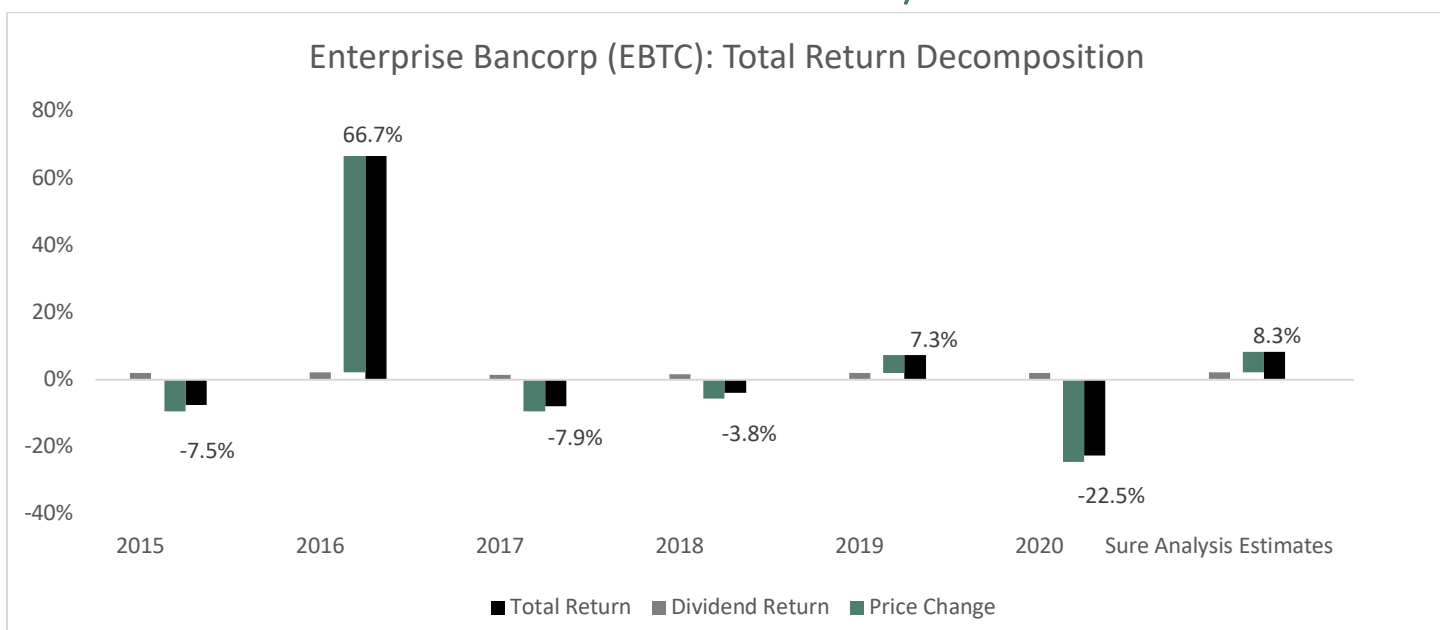
Enterprise has grown its dividend for 27 consecutive years. During the last decade, the bank has grown its dividend at a 5.8% average annual rate. In addition, Enterprise has been named to the Boston Globe's "Top Places to Work in Massachusetts" for nine consecutive years, and was ranked 1st among large companies in 2020. The emphasis of the bank on its work force provides a slight competitive advantage.

During the Great Recession, the stock fell only -3% and its earnings-per-share jumped 37%, from \$0.70 to \$0.96. The outstanding performance in the worst financial crisis of the last 90 years is a testament to the great management of the bank and its resilience to recessions. On the other hand, as the bank was in high-growth mode back then, investors should not expect a similar performance in the next recession, though the bank has remained resilient to the pandemic.

Final Thoughts & Recommendation

The stock of Enterprise has rallied 19% since our last research report, in July, but it remains attractive. We expect Enterprise to recover from the pandemic this year and offer an 8.3% average annual return over the next five years. Despite the risks associated with small-cap stocks, such as low liquidity and increased stock price volatility during downturns, we find the stock attractive, but we lower our rating from "buy" to "hold" due to the steep rally of the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	70	74	79	86	93	101	113	121	132	147
SG&A Exp.	37	41	43	48	51	55	60	64	68	76
D&A Exp.	4	4	5	5	6	6	7	7	6	---
Net Profit	11	12	14	15	16	19	19	29	34	31
Net Margin	15	10	29	8	22	19	30	37	31	---
Free Cash Flow	15	10	29	8	22	19	30	37	31	---
Income Tax	5	6	7	8	8	9	16	9	10	10

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1489	1666	1850	2022	2286	2526	2818	2964	3235	4014
Cash & Equivalents	37	50	52	40	51	50	55	63	64	254
Accounts Receivable	6	6	6	7	8	9	11	11	12	16
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	1362	1526	1699	1855	2105	2311	2586	2709	2938	3680
Accounts Payable	1	1	1	1	0	0	0	1	1	2
Long-Term Debt	15	37	47	70	68	26	104	115	111	79
Shareholder's Equity	127	140	151	167	180	215	232	255	297	334
D/E Ratio	0.12	0.27	0.31	0.42	0.38	0.12	0.45	0.45	0.37	0.23

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.8%	0.8%	0.8%	0.8%	0.7%	0.8%	0.7%	1.0%	1.1%	0.9%
Return on Equity	9.0%	9.3%	9.3%	9.2%	9.3%	9.5%	8.7%	11.9%	12.4%	10.0%
ROIC	7.8%	8.6%	8.7%	8.6%	8.7%	8.8%	8.1%	11.2%	11.8%	7.7%
Shares Out.	9.5	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0
Revenue/Share	6.88	7.09	7.39	8.39	8.35	9.17	9.71	10.28	11.17	12.36
FCF/Share	1.48	0.93	2.73	0.83	1.95	1.76	2.55	3.11	2.63	---

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

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