



# Bank OZK (OZK)

Updated January 21<sup>st</sup>, 2022, by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$48	<b>5 Year CAGR Estimate:</b>	2.6%	<b>Market Cap:</b>	\$6 B
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	01/13/22
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.0%	<b>Dividend Payment Date:</b>	01/21/22
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$48	<b>Years Of Dividend Growth:</b>	26
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	8.1%

## 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 \$6 billion market cap bank was founded in 1903 and is headquartered in Little Rock, AR.

On January 3<sup>rd</sup>, 2022, Bank OZK announced a \$0.30 quarterly dividend, representing a 3.4% increase over the last quarter's payment and an 8.1% increase year-over-year. This marks the company's 46<sup>th</sup> consecutive quarter of raising its dividend to go along with 26 straight years of boosting its payout.

On January 20<sup>th</sup>, 2022, Bank OZK reported Q4 and full year 2021 results for the period ending December 31<sup>st</sup>, 2021. For the quarter, total interest income equaled \$280.5 million, a 2.6% increase compared to Q4 2020. Net income equaled \$149.8 million or \$1.17 per share compared to \$120.5 million or \$0.93 per share in the year ago period.

For the year Bank OZK generated total interest income of \$1.071 billion, a -0.9% decline compared to 2020. Net income equaled \$579.0 million or \$4.49 per share compared to \$291.9 million or \$2.26 per share in 2020. The company continued to benefit from a release of credit loss provisions throughout the year.

Tangible book value per share equaled \$30.52, up from \$27.81 in Q4 2020.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.11	\$1.21	\$1.52	\$2.09	\$2.58	\$3.35	\$3.24	\$3.30	\$2.26	\$4.49	<b>\$3.75</b>	<b>\$4.35</b>
<b>DPS</b>	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	\$0.94	\$1.08	\$1.13	<b>\$1.20</b>	<b>\$1.54</b>
<b>Shares<sup>1</sup></b>	71	74	80	90	121	128	129	129	129	128	<b>126</b>	<b>126</b>

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, with 2021 proving 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 \$3.75 in earnings-per-share this year to go along with a 3% intermediate-term growth rate. Last year's results will be difficult to replicate, as a large portion of the record earnings was driven by credit reserve releases being unwound from 2020.

<sup>1</sup> In millions.

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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.2	18.8	21.3	20.6	15.9	14.4	12.8	9.0	10.8	8.6	12.8	11.0
Avg. Yld.	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.9%	3.2%	4.4%	2.9%	2.5%	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 13 times our estimate, this implies a valuation headwind. The 2.5% dividend yield will continue to aid in shareholder returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23%	30%	31%	26%	24%	21%	25%	28%	48%	25%	32%	32%

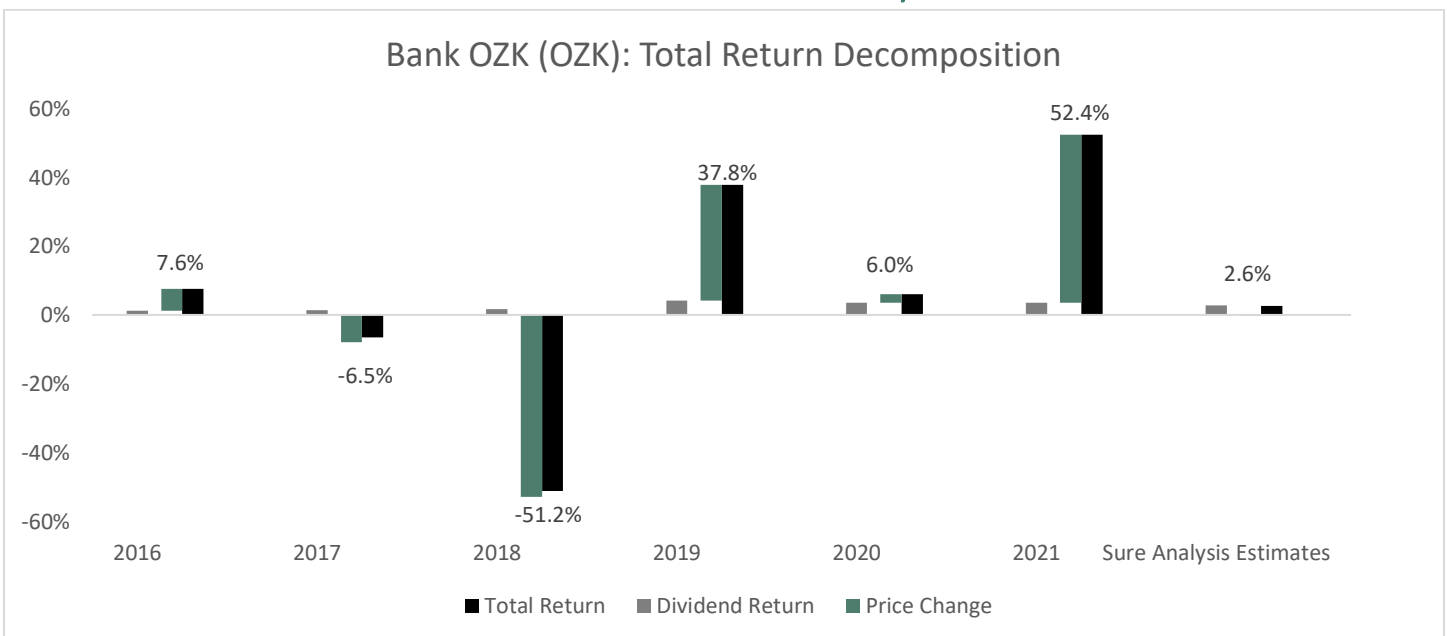
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter dating back to 2010, as an illustration. The payout ratio is still not elevated though, although 2020 saw a temporarily uptick due to depressed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

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 up 34% in the last year. 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 2.6% per annum, driven by a 2.5% dividend yield and 3% growth rate, offset by the potential for a valuation headwind. 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
<b>Revenue</b>	211	228	258	346	479	695	930	992	984	985
<b>SG&amp;A Exp.</b>	75	78	84	100	111	163	212	242	264	270
<b>D&amp;A Exp.</b>	7	9	10	13	17	25	34	35	43	44
<b>Net Profit</b>	101	77	91	119	182	270	422	417	426	292
<b>Net Margin</b>	48.0%	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%	43.3%	29.6%
<b>Free Cash Flow</b>	-1	-62	49	79	184	197	346	619	326	502
<b>Income Tax</b>	50	34	40	54	94	154	159	137	138	84

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	3842	4040	4791	6766	9879	18890	21276	22388	23556	27160
<b>Cash &amp; Equivalents</b>	59	208	196	150	91	866	440	291	1496	2394
<b>Accounts Receivable</b>	13	13	14	20	25	52	65	82	75	88
<b>Goodwill &amp; Int. Ass.</b>	12	12	19	106	152	721	709	696	685	675
<b>Total Liabilities</b>	3414	3529	4159	5855	8412	16095	17812	18615	19402	22890
<b>Accounts Payable</b>	46	28	17	37	52	73	186	216	222	252
<b>Long-Term Debt</b>	367	346	346	256	322	383	364	439	695	1095
<b>Shareholder's Equity</b>	425	508	629	908	1465	2792	3461	3770	4150	4272
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	2.8%	2.0%	2.1%	2.1%	2.2%	1.9%	2.1%	1.9%	1.9%	1.2%
<b>Return on Equity</b>	27.2%	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%	10.8%	6.9%
<b>ROIC</b>	13.8%	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%	9.4%	5.7%
<b>Shares Out.</b>	69	71	74	80	90	121	128	129	129	129
<b>Revenue/Share</b>	3.06	3.26	3.57	4.43	5.49	6.63	7.39	7.70	7.63	7.61
<b>FCF/Share</b>	-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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