Prosperity Bancshares Inc. (PB)

Updated January 27th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$7.0 B
Fair Value Price:	$79	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	3/14/2022
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	4/1/2022
Dividend Yield:	2.8%	**5 Year Price Target**	$96	**Years Of Dividend Growth:**	18
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	6.1%

Overview & Current Events

Prosperity Bancshares Inc. was formed in 1983 as a vehicle to acquire the former Allied Bank - chartered in 1949 as the First National Bank of Edna, Texas - which is now known as Prosperity Bank. The bank's main operation is receiving deposits from the general public and using the capital to originate commercial and consumer loans. The bank operates 261 branches in the greater Houston area and some neighboring counties in Texas and 14 more branches in Oklahoma. The company also has the following operations: wealth management, retail brokerage, and mortgage banking investment services. The bank's main lending focus is commercial mortgages, which make up 33% of their loan portfolio, followed by residential mortgages, which make up 24%. The company has a market capitalization of $7.0 billion.

On November 1st, 2019, Prosperity Bancshares completed the acquisition of LegacyTexas Bank in a deal valued at $2.1 billion. LegacyTexas has 42 branches in Texas and thus it has strengthened the position of Prosperity Bancshares in the area. As the deal value of $2.1 billion was almost half of the market cap of Prosperity Bancshares before the deal, it is evident that this acquisition is major for the future growth of Prosperity.

In late January, Prosperity Bancshares reported (1/26/22) financial results for the fourth quarter of fiscal 2022. Loans grew 0.5%, deposits grew 4.5% sequentially and non-performing loans remained low, at 0.09% of interest-earning assets. The company posted earnings-per-share of $1.38, which were -7% lower than those reported in the prior year's quarter due to lower loan interest income. Prosperity Bancshares has a reputation for its disciplined management and thus it has easily endured the downturn from the pandemic and suppressed interest rates. Its record earnings in 2020-2021 and its dividend raises in 2020 and 2021 are testaments to the resilience of this bank to downturns.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.23	$3.65	$4.32	$4.09	$3.94	$3.92	$4.61	$4.52	$5.68	$5.60	***$5.50***	***$6.69***
DPS	$1.00	$0.65	$0.99	$1.12	$1.24	$1.38	$1.49	$1.64	$1.87	$1.99	***$2.08***	***$2.76***
Shares[1]	56.5	66.1	69.8	70.0	69.5	69.5	69.9	94.7	92.6	92.2	***92.0***	***90.0***

Prosperity Bancshares has grown its earnings-per-share at a 6.3% average annual rate in the last decade, primarily thanks to strong economic activity in Texas and Oklahoma. Texas has the fastest-growing population and one of the highest economic growth rates in the nation. It is also expected to outperform most other states in economic growth over the next three years. Prosperity Bancshares stalled from 2014 to 2017 but it has reignited growth in the last four years. In addition, the pandemic has not disrupted the growth trajectory of the bank, primarily thanks to its recent major acquisition and the resultant synergies. Moreover, the Fed will begin to raise interest rates this year and thus it will provide a tailwind to the entire financial sector. Due to the nearly all-time high earnings in 2021, we expect the bank to grow its earnings-per-share by 4.0% per year on average over the next five years. The bank initiated a quarterly dividend of $0.025 per share in January-1999 and has grown it at a fast clip to $0.52 per quarter. In the last five years, the bank has raised its dividend by 8.9% per year on average. Thanks to its low payout ratio (36%) and its promising growth prospects, it should be able to continue raising its dividend at a healthy pace.

[1] In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.7	17.2	12.9	11.8	18.3	17.7	13.5	15.4	10.5	13.0	***13.6***	***14.3***
Avg. Yld.	2.3%	1.2%	1.7%	2.1%	2.4%	2.1%	2.1%	2.4%	3.1%	2.7%	***2.8%***	***2.9%***

Prosperity Bancshares is currently trading at a price-to-earnings ratio of 13.6, which is lower than its 10-year average earnings multiple of 14.3. If the stock reverts to its average valuation level over the next five years, it will enjoy a 1.0% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	25%	24%	23%	27%	31%	35%	32%	36%	33%	36%	***38%***	***41%***

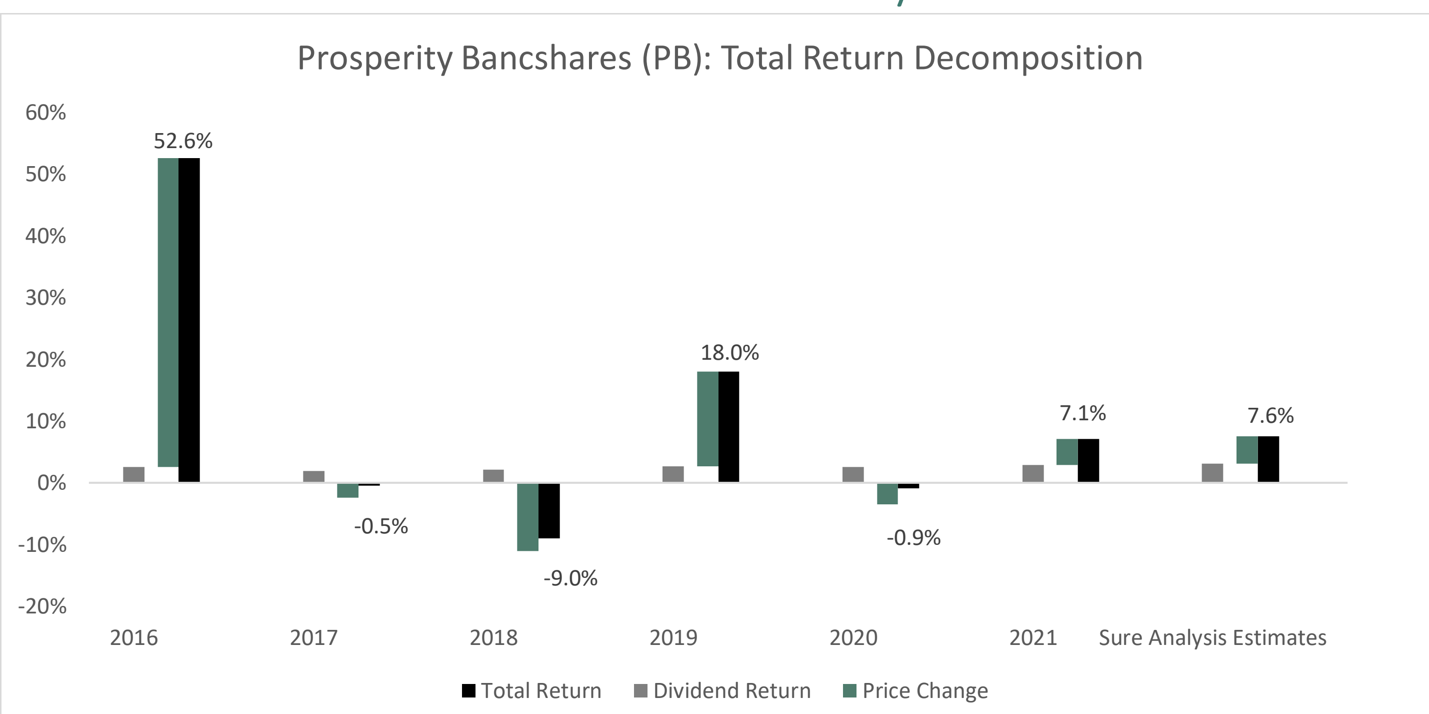
Prosperity Bancshares believes that its competitive advantage is in its presence in areas with strong economic growth and excellent growth opportunities through acquisitions, new banking center locations and business development.

Moreover, Prosperity Bancshares has proved resilient to recessions. In the coronavirus crisis, the bank managed to post record earnings-per-share. In addition, the bank was able to grow immensely in the previous recession. During the Great Recession (2008-2009), its stock rallied 36% throughout the year despite a declining broad market. The company was also able to grow its earnings-per-share by an outstanding 29% and its book value per share by nearly 7%.

Final Thoughts & Recommendation

Prosperity Bancshares is facing a headwind from the pandemic and the resultant low interest rates, but it is conservatively managed and has endured the downturn without any problem. Given also the upcoming hikes in interest rates, we expect the stock to offer a 7.6% average annual return over the next five years thanks to 4% earnings-per-share growth, its 2.8% dividend and a 1.0% annualized expansion of its valuation level. We rate the stock as a hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	447	582	776	736	734	716	728	796	1,122
SG&A Exp.	138	177	236	228	232	227	241	256	332
D&A Exp.	16	17	24	22	22	19	18	20	31
Net Profit	168	221	297	287	274	272	322	333	529
Net Margin	37.6%	38.0%	38.3%	39.0%	37.4%	38.0%	44.2%	41.8%	47.1%
Free Cash Flow	197	284	336	301	329	379	305	384	560
Income Tax	84	108	148	144	134	134	81	87	116

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	14584	18642	21508	22037	22331	22587	22693	32186	34059
Cash & Equivalents	326	381	677	563	436	392	411	574	1343
Accounts Receivable	42	49	52	52	53	56	57	81	82
Goodwill & Int. Ass.	1243	1714	1933	1918	1947	1940	1934	3310	3305
Total Liabilities	12494	15855	18263	18574	18689	18763	18641	26215	27929
Accounts Payable	2	3	3	2	2	3	4	9	3
Long-Term Debt	342	135	176	491	991	505	1031	1430	---
Shareholder's Equity	2089	2787	3245	3463	3642	3824	4053	5971	6131
LTD/E Ratio	0.16	0.05	0.05	0.14	0.27	0.13	0.25	0.24	---

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.4%	1.3%	1.5%	1.3%	1.2%	1.2%	1.4%	1.2%	1.6%
Return on Equity	9.2%	9.1%	9.9%	8.5%	7.7%	7.3%	8.2%	6.6%	8.7%
ROIC	8.2%	8.3%	9.4%	7.8%	6.4%	6.1%	6.8%	5.3%	7.8%
Shares Out.	56.5	66.1	69.8	70.0	69.5	69.5	69.9	94.7	92.6
Revenue/Share	8.60	9.61	11.26	10.50	10.53	10.31	10.42	10.83	12.06
FCF/Share	3.80	4.68	4.88	4.30	4.73	5.46	4.37	5.23	6.02

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