



# Enterprise Bancorp Inc. (EBTC)

Updated April 27<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	10.3%	<b>Market Cap:</b>	\$424 M
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	5/10/2022
<b>% Fair Value:</b>	86%	<b>5 Year Valuation Multiple Estimate:</b>	3.1%	<b>Dividend Payment Date:</b>	6/1/2022
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$52	<b>Years Of Dividend Growth:</b>	28
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## 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 \$424 million and is an exceptionally managed bank, which has remained profitable in every single quarter since its formation. In late April, Enterprise reported (4/21/22) financial results for the first quarter of fiscal 2022. Excluding Paycheck Protection Program loans, the bank grew its net interest income 13% over the prior year's quarter thanks to 12% growth of loans. However, it faced tough comparisons, as last year's results were exceptionally strong thanks to the recovery of the economy from the pandemic and the resultant steep decrease in loan loss provisions. As a result, earnings-per-share slipped -1%, from \$0.86 to \$0.85. Thanks to strong business outlook, Enterprise has raised its dividend by 10.8% this year. The record earnings in 2021 and the dividend raise are testaments to the high quality of this bank and its resilience to downturns.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.28	\$1.36	\$1.44	\$1.55	\$1.70	\$1.68	\$2.47	\$2.89	\$2.64	\$3.50	<b>\$3.40</b>	<b>\$4.34</b>
<b>DPS</b>	\$0.44	\$0.46	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	\$0.64	\$0.70	\$0.74	<b>\$0.82</b>	<b>\$1.12</b>
<b>Shares<sup>1</sup></b>	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.1	<b>12.2</b>	<b>12.7</b>

Enterprise has an outstanding performance record, as it has remained profitable for 130 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 an 11.8% 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 May. 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%. Moreover, the pandemic has subsided thanks to the massive rollout of vaccines and the Fed has begun to raise interest rates aggressively in an effort to keep inflation under control. It will thus enhance the net interest margin of banks, including Enterprise. Thanks to these tailwinds, 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 nearly 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.

<sup>1</sup> 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.3	12.9	15.6	17.5	14.7	22.1	16.4	10.5	9.4	9.8	<b>10.3</b>	<b>12.0</b>
Avg. Yld.	2.8%	2.6%	2.1%	1.8%	2.1%	1.5%	1.4%	2.1%	2.8%	2.2%	<b>2.3%</b>	<b>2.2%</b>

Enterprise has traded at an average price-to-earnings ratio of 14.1 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 10.3. If it reaches our fair value estimate over the next five years, it will enjoy a 3.1% 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	34%	34%	33%	32%	30%	32%	23%	22%	27%	21%	<b>24%</b>	<b>26%</b>

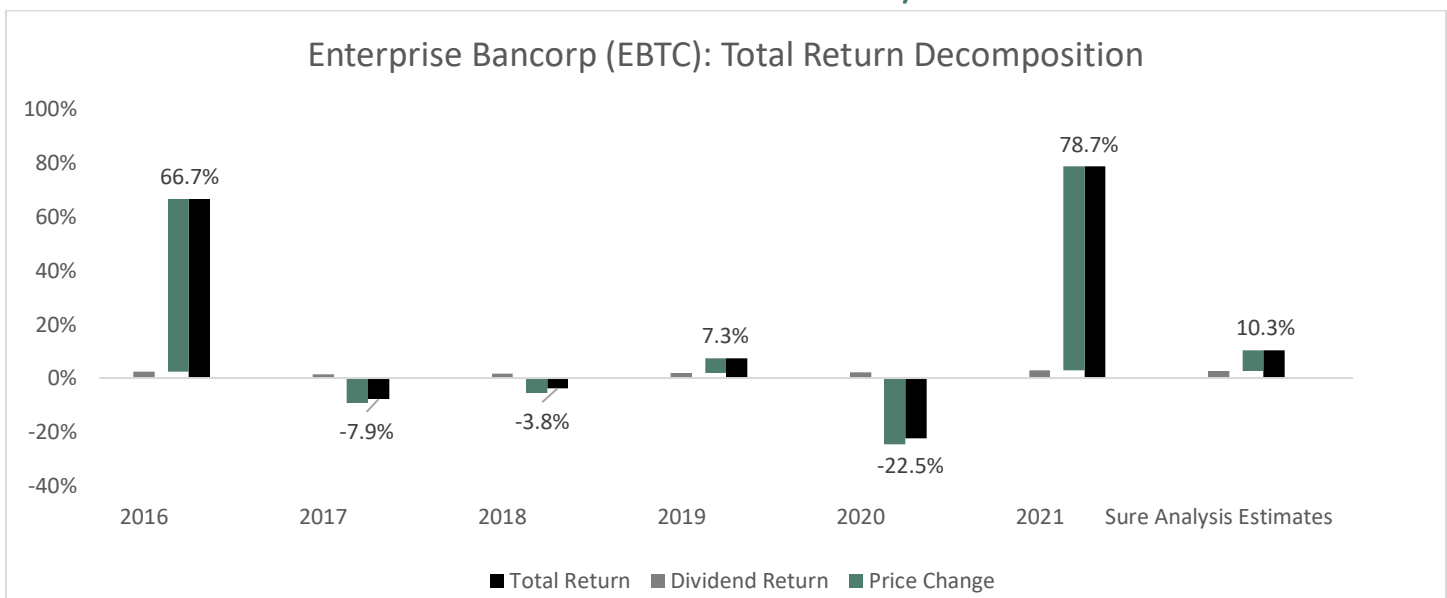
Enterprise has grown its dividend for 28 consecutive years. During the last decade, the bank has grown its dividend at a 5.9% average annual rate. In addition, Enterprise has been named to the Boston Globe's "Top Places to Work in Massachusetts" for ten consecutive years, and was ranked 4<sup>th</sup> 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 proved resilient to the pandemic.

## Final Thoughts & Recommendation

The stock of Enterprise has corrected -24% off its recent peak, along with the entire financial sector, mostly due to concerns that the aggressive interest rate hikes of the Fed may cause a recession. We view the correction of the stock as an opportunity. We expect Enterprise to maintain its strong business performance and offer a 10.3% 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 view Enterprise as one of the highest-quality banks. We rate it as a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	74	79	86	93	101	113	121	132	147	160
SG&A Exp.	41	43	48	51	55	60	64	68	76	82
D&A Exp.	4	5	5	6	6	7	7	6	7	8
Net Profit	12	14	15	16	19	19	29	34	31	42
Free Cash Flow	10	29	8	22	19	30	37	31	34	58
Income Tax	6	7	8	8	9	16	9	10	10	14

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1666	1850	2022	2286	2526	2818	2964	3235	4014	4447
Cash & Equivalents	50	52	40	51	50	55	63	64	254	437
Accounts Receivable	6	6	7	8	9	11	11	12	16	13
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	1526	1699	1855	2105	2311	2586	2709	2938	3680	4101
Accounts Payable	1	1	1	0	0	0	1	1	2	2
Long-Term Debt	37	47	70	68	26	104	115	111	79	64
Shareholder's Equity	140	151	167	180	215	232	255	297	334	347
LTD/E Ratio	0.27	0.31	0.42	0.38	0.12	0.45	0.45	0.37	0.23	0.19

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.8%	0.8%	0.7%	0.8%	0.7%	1.0%	1.1%	0.9%	1.0%
Return on Equity	9.3%	9.3%	9.2%	9.3%	9.5%	8.7%	11.9%	12.4%	10.0%	12.4%
ROIC	8.6%	8.7%	8.6%	8.7%	8.8%	8.1%	11.2%	11.8%	7.7%	10.2%
Shares Out.	9.7	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.1
Revenue/Share	7.09	7.39	8.39	8.35	9.17	9.71	10.28	11.17	12.36	13.25
FCF/Share	0.93	2.73	0.83	1.95	1.76	2.55	3.11	2.63	2.82	4.82

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

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