



Bank OZK (OZK)

Updated October 26th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	7.8%	Market Cap:	\$4.7 B
Fair Value Price:	\$46	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	1/12/23
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	1/20/23
Dividend Yield:	3.1%	5 Year Price Target	\$54	Years Of Dividend Growth:	26
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Hold

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 \$4.7 billion market cap bank was founded in 1903 and is headquartered in Little Rock, AR. On October 3rd, 2022, Bank OZK announced a \$0.33 quarterly dividend, representing a 3.1% increase over the last quarter's payment and a 13.8% increase year-over-year. This marks the company's 49th consecutive quarter of raising its dividend to go along with 26 straight years of boosting its payout.

In mid-October, Bank OZK reported (10/20/22) financial results for the third quarter of fiscal 2022. Total loans and deposits grew 7% and 1.5%, respectively, over last year's quarter. Net interest income grew 19% thanks to loan growth and higher interest rates but net income dipped -1.5% due to much higher provisions for loan losses. Thanks to aggressive share repurchases, earnings-per-share grew 8%, from \$1.00 to \$1.08, but missed the analysts' consensus by \$0.09. It was the first earnings miss in 10 quarters.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.11	\$1.21	\$1.52	\$2.09	\$2.58	\$3.35	\$3.24	\$3.30	\$2.26	\$4.49	\$4.20	\$4.87
DPS	\$0.25	\$0.36	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	\$0.94	\$1.08	\$1.13	\$1.32	\$1.68
Shares²	71	74	80	90	121	128	129	129	129	128	116	105

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 has not only been growing organically, but over the last decade the bank has repeatedly made acquisitions which management viewed as 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 interest rate hikes of the Fed, 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% earnings-per-share growth over the next five years. Last year's results will be difficult to replicate this year, as a material portion of the record earnings was driven by credit reserve releases being unwound from 2020.

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	10.0	11.0
Avg. Yld.	1.6%	1.6%	1.5%	1.3%	1.5%	1.5%	1.9%	3.2%	4.4%	2.9%	3.1%	3.1%

¹ Estimated date.

² In millions.

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The valuation of Bank OZK has moved in a relatively wide range over the last decade. The price-to-earnings ratio of the stock exceeded 20 in 2014-2015 whereas it has plunged below 10 in recent years. Our fair value estimate is 11 times earnings, in line with a typical bank. The stock is currently trading at a price-to-earnings ratio of 10.0. If it trades at our assumed fair valuation level in five years, it will enjoy a 1.9% 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	23%	30%	31%	26%	24%	21%	25%	28%	48%	25%	31%	35%

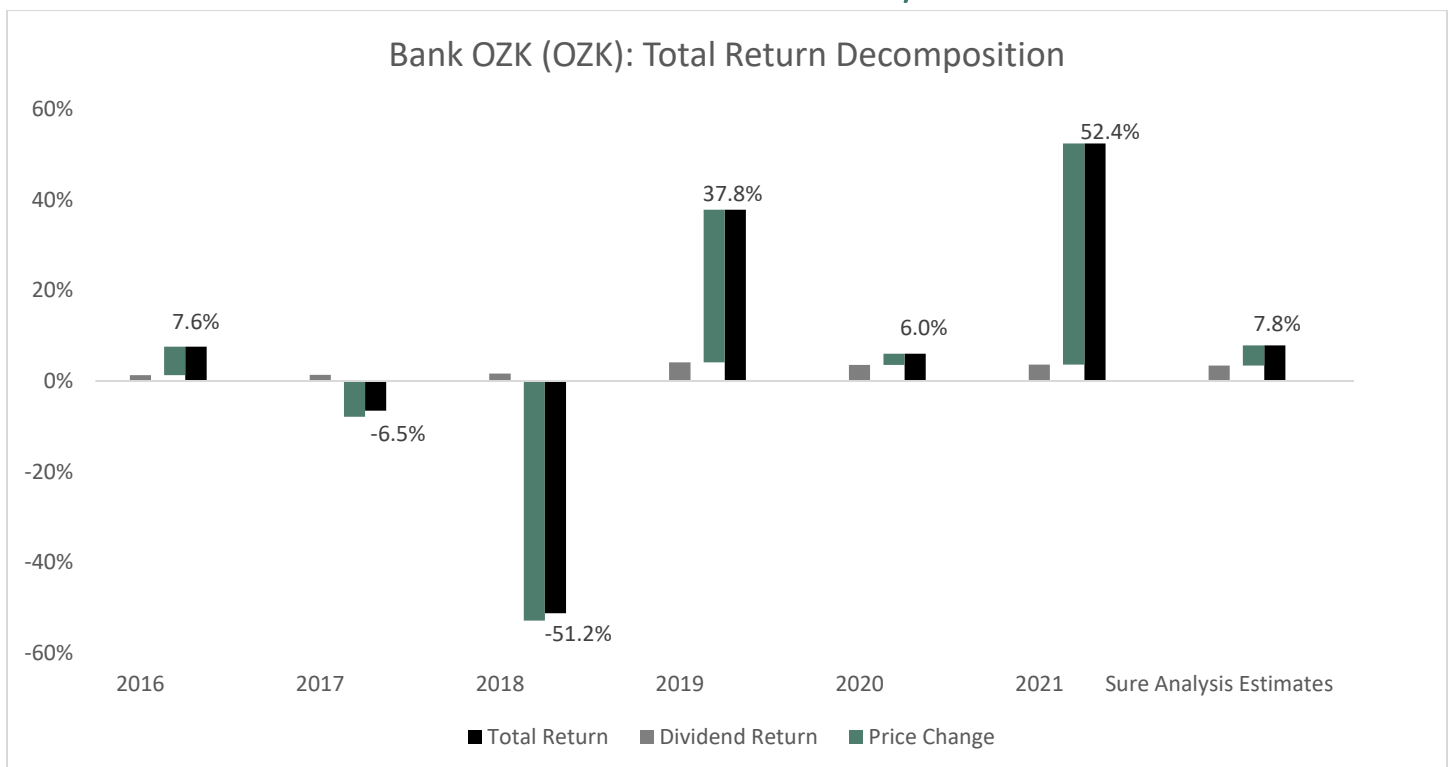
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend was increased every quarter dating back to 2010, as an illustration. The payout ratio is still not elevated though, although 2020 saw a temporary uptick due to depressed 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. Given also a long history and strong performance during the last financial crisis, Bank OZK is an attractive financial stock. 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

Bank OZK is much smaller than the well-known banks but it has demonstrated strengths in its niche. It has proved resilient to recessions and has exhibited above-average earnings-per-share and dividend growth. The security has also corrected -17% off its peak early this year and thus it has become more attractive. It could offer a 7.8% total annual return over the next five years thanks to 3.0% earnings-per-share growth, a 3.1% dividend yield and a 1.9% annualized valuation tailwind. It thus receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	228	258	346	479	695	930	992	984	985	1,097
SG&A Exp.	78	84	100	111	163	212	242	264	270	273
D&A Exp.	9	10	13	17	25	34	35	43	44	43
Net Profit	77	91	119	182	270	422	417	426	292	579
Net Margin	33.8%	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%	43.3%	29.6%	52.8%
Free Cash Flow	-62	49	79	184	197	346	619	326	502	509
Income Tax	34	40	54	94	154	159	137	138	84	174

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,040	4,791	6,766	9,879	18,890	21,276	22,388	23,556	27,163	26,530
Cash & Equivalents	208	196	150	91	866	440	291	1,496	2,394	2,054
Accounts Receivable	13	14	20	25	52	65	82	75	88	83
Goodwill & Int. Ass.	12	19	106	152	721	709	696	685	675	669
Total Liabilities	3,529	4,159	5,855	8,412	16,095	17,812	18,615	19,402	22,887	21,691
Accounts Payable	28	17	37	52	73	186	216	222	252	187
Long-Term Debt	346	346	256	322	383	364	439	695	1,095	1,217
Shareholder's Equity	508	629	908	1,465	2,792	3,461	3,770	4,150	4,272	4,497
LTD/E Ratio	0.68	0.55	0.28	0.22	0.14	0.11	0.12	0.17	0.26	0.25

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.0%	2.1%	2.1%	2.2%	1.9%	2.1%	1.9%	1.9%	1.2%	2.2%
Return on Equity	16.5%	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%	10.8%	6.9%	13.2%
ROIC	9.3%	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%	9.4%	5.7%	10.1%
Shares Out.	71	74	80	90	121	128	129	129	129	128
Revenue/Share	3.26	3.57	4.43	5.49	6.63	7.39	7.70	7.63	7.61	8.46
FCF/Share	-0.89	0.68	1.01	2.11	1.88	2.75	4.80	2.53	3.88	3.92

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

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