



# Prosperity Bancshares Inc. (PB)

Updated January 26<sup>th</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$76	<b>5 Year CAGR Estimate:</b>	9.0%	<b>Market Cap:</b>	\$6.9 B
<b>Fair Value Price:</b>	\$85	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	3/14/2023
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.3%	<b>Dividend Payment Date:</b>	4/3/2023
<b>Dividend Yield:</b>	2.9%	<b>5 Year Price Target</b>	\$104	<b>Years Of Dividend Growth:</b>	19
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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, followed by residential mortgages. The company has a market capitalization of \$6.9 billion.

On October 11<sup>th</sup> 2022, Prosperity Bancshares agreed to acquire First Bancshares and Lone Star State Bancshares. The two banks are headquartered in Texas and have 21 bank offices in total. After the completion of the two acquisitions, which are expected to close in the first quarter of 2023, Prosperity Bancshares will have more than \$6 billion of assets in West Texas and will be the largest bank in Midland and Odessa markets.

In late January, Prosperity Bancshares reported (1/25/23) financial results for the fourth quarter of fiscal 2022. Non-performing loans remained low, at 0.08% of interest-earning assets, and loans grew 3.0%. Given also higher interest rates, the bank grew its earnings-per-share 9% over the prior year's quarter, from \$1.38 to \$1.51. Even better, it expects continued earnings growth, as it has not taken full advantage of higher interest rates yet. Prosperity Bancshares has a reputation for its disciplined management and thus it has easily endured the pandemic and low interest rates in recent years. Its record earnings in 2020-2021 and its dividend hikes in 2020-2021 are testaments to its resilience to downturns.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.65	\$4.32	\$4.09	\$3.94	\$3.92	\$4.61	\$4.52	\$5.68	\$5.60	\$5.73	<b>\$5.95</b>	<b>\$7.24</b>
<b>DPS</b>	\$0.65	\$0.99	\$1.12	\$1.24	\$1.38	\$1.49	\$1.64	\$1.87	\$1.99	\$2.11	<b>\$2.20</b>	<b>\$2.96</b>
<b>Shares<sup>1</sup></b>	66.1	69.8	70.0	69.5	69.5	69.9	94.7	92.6	92.2	91.3	<b>90.0</b>	<b>85.0</b>

Prosperity Bancshares has grown its earnings-per-share at a 5.1% 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 in the upcoming years. Prosperity Bancshares stalled from 2014 to 2017 but it has reignited growth in the last five years. In addition, the pandemic has not disrupted the growth trajectory of the bank. Moreover, the Fed has been raising interest rates aggressively since last year and thus it will provide a tailwind to the entire financial sector. Due to the all-time high earnings in 2022, 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 \$0.55 per quarter. In the last five years, the bank has raised its dividend by 8% per year on average. Thanks to its low payout ratio (37%) and its promising growth prospects, it should be able to continue raising its dividend at a healthy pace.

<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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.2	12.9	11.8	18.3	17.7	13.5	15.4	10.5	13.0	12.5	<b>12.8</b>	<b>14.3</b>
Avg. Yld.	1.2%	1.7%	2.1%	2.4%	2.1%	2.1%	2.4%	3.1%	2.7%	3.0%	<b>2.9%</b>	<b>2.9%</b>

Prosperity Bancshares is currently trading at a price-to-earnings ratio of 12.8, which is lower than its 10-year average earnings multiple of 14.3. If the stock trades at its average valuation level in five years, it will enjoy a 2.3% annualized gain in its returns.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	24%	23%	27%	31%	35%	32%	36%	33%	36%	37%	<b>37%</b>	<b>41%</b>

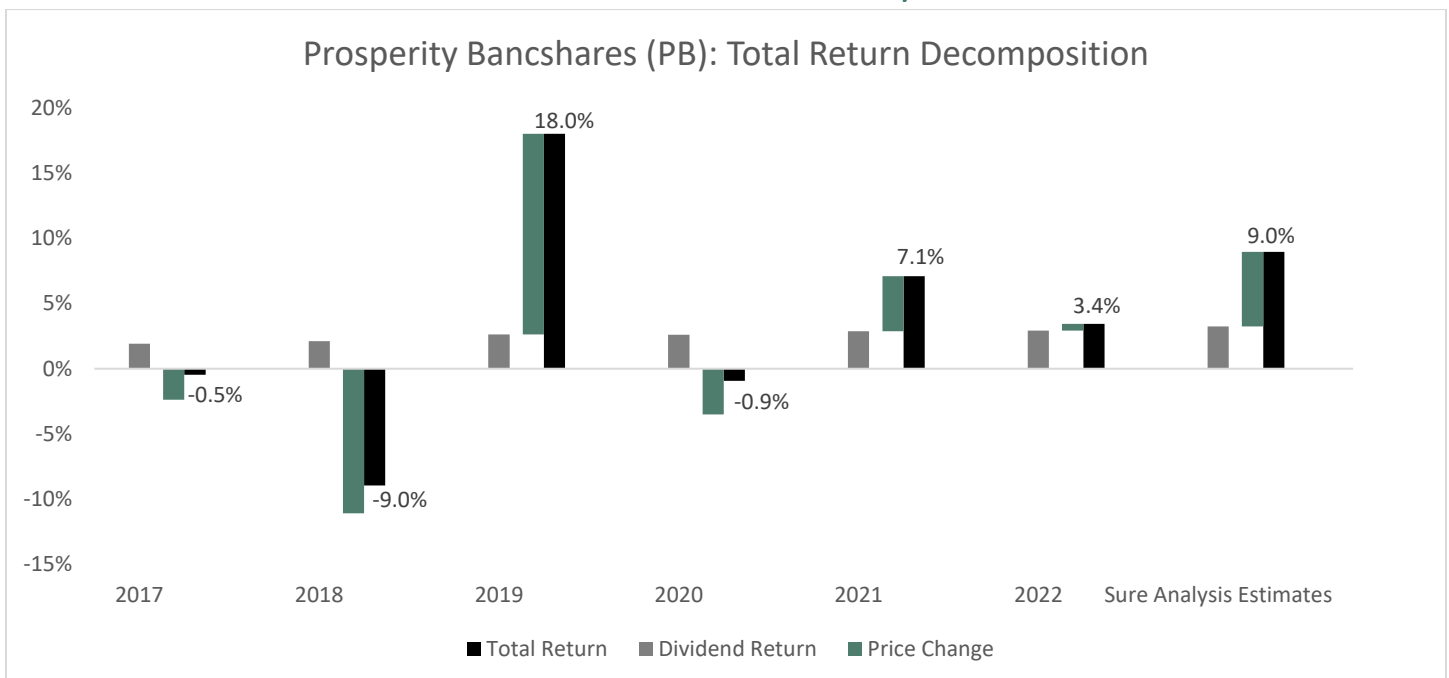
Prosperity Bancshares believes that its competitive advantage is in its presence in areas with strong economic growth and excellent growth opportunities through acquisitions, new banking center locations and business development.

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 conservatively managed and has endured the pandemic without any problem. Thanks to rising interest rates, which are likely to help the bank expand its net interest margin, and the two aforementioned pending acquisitions, the bank has promising growth prospects ahead. We expect the stock to offer a 9.0% average annual return over the next five years thanks to 4.0% earnings growth, its 2.9% dividend and a 2.3% potential valuation tailwind. We remain enthused over the long-term prospects of this high-quality bank and rate it as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	582	776	736	734	716	728	796	1,122	1,098	1,114
<b>SG&amp;A Exp.</b>	177	236	228	232	227	241	256	343	344	339
<b>D&amp;A Exp.</b>	17	24	22	22	19	18	20	31	30	
<b>Net Profit</b>	221	297	287	274	272	322	333	529	519	525
<b>Net Margin</b>	38.0%	38.3%	39.0%	37.4%	38.0%	44.2%	41.8%	47.1%	47.3%	47.1%
<b>Free Cash Flow</b>	284	336	301	329	379	305	384	560	676	
<b>Income Tax</b>	108	148	144	134	134	81	87	116	140	142

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	18,642	21,508	22,037	22,331	22,587	22,693	32,186	34,059	37,834	37,690
<b>Cash &amp; Equivalents</b>	381	677	563	436	392	411	574	1,343	2,548	424
<b>Accounts Receivable</b>	49	52	52	53	56	57	81	82	66	
<b>Goodwill &amp; Int. Ass.</b>	1,714	1,933	1,918	1,947	1,940	1,934	3,310	3,305	3,293	3,283
<b>Total Liabilities</b>	15,855	18,263	18,574	18,689	18,763	18,641	26,215	27,929	31,407	30,990
<b>Accounts Payable</b>	3	3	2	2	3	4	9	3	1	
<b>Long-Term Debt</b>	135	176	491	991	505	1,031	1,430	---	---	1,850
<b>Shareholder's Equity</b>	2,787	3,245	3,463	3,642	3,824	4,053	5,971	6,131	6,427	6,699
<b>LTD/E Ratio</b>	0.05	0.05	0.14	0.27	0.13	0.25	0.24	---	---	0.28

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.3%	1.5%	1.3%	1.2%	1.2%	1.4%	1.2%	1.6%	1.4%	1.4%
<b>Return on Equity</b>	9.1%	9.9%	8.5%	7.7%	7.3%	8.2%	6.6%	8.7%	8.3%	8.0%
<b>ROIC</b>	8.3%	9.4%	7.8%	6.4%	6.1%	6.8%	5.3%	7.8%	8.3%	7.0%
<b>Shares Out.</b>	66.1	69.8	70.0	69.5	69.5	69.9	94.7	92.6	92.2	91.6
<b>Revenue/Share</b>	9.61	11.26	10.50	10.53	10.31	10.42	10.83	12.06	11.85	12.2
<b>FCF/Share</b>	4.68	4.88	4.30	4.73	5.46	4.37	5.23	6.02	7.29	

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

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