



Ames National Corporation (ATLO)

Updated March 19th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	9.0%	Market Cap:	\$190 M
Fair Value Price:	\$22	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	04/28/23
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date¹:	05/15/23
Dividend Yield:	5.1%	5 Year Price Target	\$26	Years Of Dividend Growth:	13
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Ames National Corporation is a US-based bank holding company that owns and operates five bank subsidiaries in central Iowa. The subsidiaries consist of two national banks (First National Bank, Ames, Iowa and State Bank & Trust Co.) and three state-chartered banks (Boone Bank & Trust Co., Reliance State Bank, and United Bank & Trust NA). The company provides a range of banking services to individuals, businesses, and municipal entities in Iowa. The banks' lending activities consist primarily of short-term and medium-term commercial and agricultural real estate loans, residential real estate loans, agricultural and other business-related loans. As of December 31, 2022, total assets were \$2.13 billion. Ames National Corp. was founded in 1903, has a market capitalization of \$190 million, and about 250 employees.

On January 20th, 2023, Ames National Corporation released fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter, the company reported a net income of \$4.4 million, or \$0.49 per share, compared to \$5.3 million, or \$0.58 per share, earned in the fourth quarter of 2021. For the full year ended December 31, 2022, net income for Ames National Corp. totaled \$19.3 million or \$2.14 per share, compared to \$23.9 million or \$2.62 per share earned in 2021. The decrease in earnings for the last three months and year ended is primarily the result of higher interest expense on deposits and a reduction in income recognition from Paycheck Protection Program ("PPP") fees. However, this was partially offset by a rise in interest income from loans and taxable securities primarily driven by growth in the loan and investment portfolios. The management is forecasting earnings for the fiscal year 2023 in the range of \$1.75 to \$1.85 per share compared to \$2.14 per share earned last year. The reduction in predicted earnings compared to the 2022 results is mainly based on a projected increase in salaries and interest expense due to continuing inflationary pressures and higher expected market interest rates.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.50	\$1.64	\$1.61	\$1.69	\$1.47	\$1.83	\$1.86	\$2.06	\$2.62	\$2.14	\$1.80	\$2.19
DPS	\$0.63	\$0.72	\$0.78	\$0.83	\$0.87	\$0.92	\$0.95	\$0.99	\$1.03	\$1.07	\$1.08	\$1.31
Shares²	9	9	9	9	9	9	9	9	9	9	9	9

The bank has grown earnings by 4.0% per year over the past nine years and didn't grow over the past five years. We expect earnings to increase by 4% per year for the next five years after a decrease from \$2.14 to \$1.80 in 2023.

The company has been able to increase its yearly dividend payout for 13 consecutive years. Over the last five years, the average annual dividend growth rate is 4.0%. In May 2022, the quarterly dividend increased by 3.8% from \$0.26 to \$0.27 per share. The company paid a special dividend of \$0.25 per share in 2018.

¹ Estimated date.

² In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	14.8	14.0	15.2	15.7	20.6	15.6	14.6	10.3	9.3	11.4	11.7	12.0
Avg. Yld.	1.9%	3.1%	3.2%	3.1%	2.9%	3.2%	3.5%	4.7%	4.2%	4.5%	5.1%	5.0%

During the past decade shares of Ames National Corporation have traded with an average price-to-earnings ratio of about 14.2 times earnings and today, it stands at 11.7. We are using 12 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 5.1% which is above the average yield over the past decade of 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	42%	44%	48%	49%	59%	50%	51%	48%	39%	50%	60%	60%

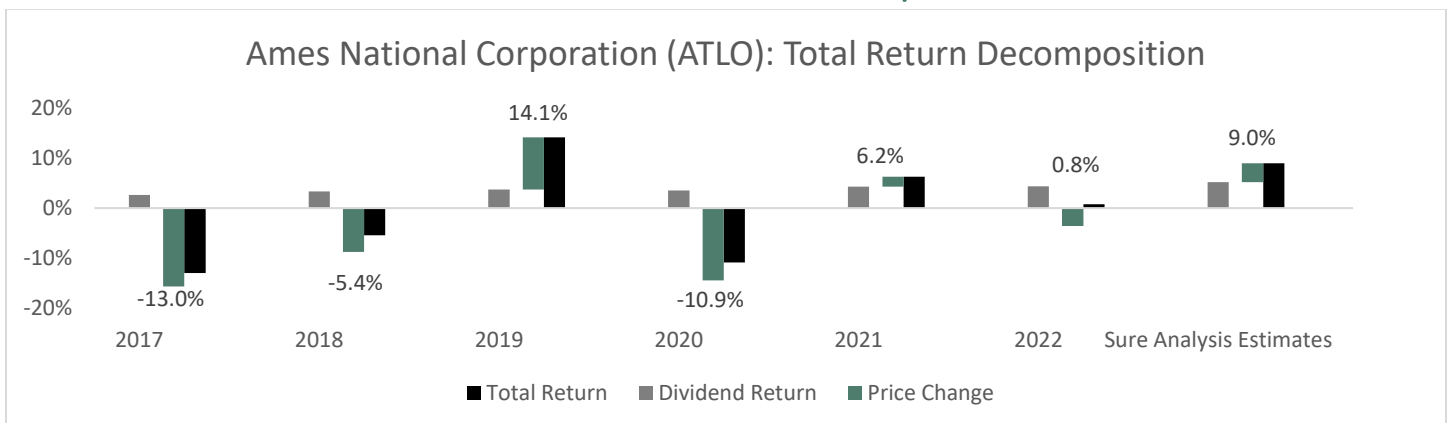
During the past five years, the company's dividend payout ratio has averaged around 48%. The bank's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at the same pace and keep the payout ratio around the same levels which is safe.

Ames National Corporation is a well-established regional bank that conducts its operations primarily in central, north-central, and south-central Iowa. The bank's income and revenue model is primarily based on the interest income from loans and investment securities, as well as fees and commissions from various financial services. The 2023 earnings results are projected to be lower based on the forecast that interest expense will increase faster than interest income, as deposit rates move higher more quickly than rates on loans and investments. The experienced management is closely monitoring its strategic plans. The current plan is centered around customer engagement, employee engagement, and continuous improvement initiatives. This plan proved to be very successful as since the start of 2019, total assets have surged by 46%, loans increased by 38%, and deposits rose by 55%.

Final Thoughts & Recommendation

Ames National Corporation is a US-based bank holding company with an above-average dividend yield, combined with a sound dividend payout ratio. The bank's diversified business model, experienced management and strategic focus on efficiency, and customer service should support its future earnings growth. The year 2023 will be a challenging one due to continuing inflationary pressures, higher expected market interest rates and the current pressure on the banking sector due to recent developments around Silicon Valley Bank, First Republic Bank (FRC), and Credit Suisse. We estimate total return potential of 9.0% per year for the next five years based on an 4% earnings-per-share growth, a 5.1% yield, and a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	41	44	47	48	48	50	54	65	67	63
SG&A Exp.	14	15	16	16	16	18	20	23	23	24
D&A Exp.	1	1	2	2	2	2	2	2	2	2
Net Profit	14	15	15	16	14	17	17	19	24	19
Net Margin	34.0%	34.3%	31.8%	32.8%	28.4%	34.0%	31.9%	28.8%	35.9%	30.7%
Free Cash Flow	23	18	20	21	18	20	19	28	29	18
Income Tax	5	6	6	7	8	4	4	4	7	6

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,233	1,301	1,327	1,366	1,375	1,456	1,737	1,976	2,137	2,135
Cash & Equivalents	48	55	51	61	69	56	144	192	106	43
Goodwill & Int.	7	8	8	8	8	12	16	16	15	14
Total Liabilities	1,091	1,146	1,165	1,201	1,204	1,283	1,550	1,766	1,929	1,986
Long-Term Debt	35	37	32	28	27	15	5	3	3	39
Total Equity	142	155	161	165	171	173	188	209	208	149
LTD/E Ratio	0.24	0.24	0.20	0.17	0.16	0.08	0.03	0.01	0.01	0.26

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.1%	1.2%	1.1%	1.2%	1.0%	1.2%	1.1%	1.0%	1.2%	0.9%
Return on Equity	9.7%	10.3%	9.5%	9.6%	8.2%	9.9%	9.5%	9.5%	11.5%	10.8%
ROIC	7.8%	8.3%	7.8%	8.2%	7.0%	8.8%	9.0%	9.3%	11.3%	9.7%
Shares Out.	9	9	9	9	9	9	9	9	9	9
Revenue/Share	4.41	4.77	5.07	5.16	5.18	5.37	5.83	7.16	7.30	6.97
FCF/Share	2.48	1.92	2.19	2.23	1.96	2.16	2.10	3.11	3.14	2.03

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

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