Northrim BanCorp, Inc. (NRIM)

Updated April 14th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$45.6	**5 Year CAGR Estimate:**	14.7%	**Market Cap:**	$261M
Fair Value Price:	$45.6	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	06/08/2023
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	06/17/2023
Dividend Yield:	5.3%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

Northrim BanCorp, Inc. (NRIM) is a financial services company headquartered in Anchorage, Alaska that operates in two segments: Community Banking and Home Mortgage Lending. Founded in 1990 by a group of Alaskans who wanted to establish a strong, independent, local bank that prioritized community and customer service, Northrim BanCorp has grown to employ 451 individuals and generate revenue of $125.3M in 2022. Northrim Bank has a significant presence in Alaska, serving individuals, small businesses, and corporations, and its strong competitive position in the industry is driven by its focus on delivering high-quality customer service and its local presence, which allows it to have a deep understanding of the unique financial needs of Alaskans. While the company has faced challenges due to Alaska's economic volatility, its revenue segments have remained strong, with its Community Banking segment being the primary source of income.

On January 26th, 2023, the company announced results for the fourth quarter ending December 31st, 2022. NRIM reported Q4 Non-GAAP EPS of $1.48, missing analysts' estimates by $0.11 and total revenues of $32.2 million for the quarter, in line with last year's quarter. The bank's strong deposit franchise supported strong loan and net interest revenue growth in 2022, highlighting its resiliency. Compared to a $4.1 million benefit to the provision for credit losses in 2021, the full year 2022 figures showed a provision for credit losses of $1.8 million due to loan growth. Record 2022 earnings in the Community Banking segment were supported by record net interest income, ongoing core loan growth (excluding Paycheck Protection Program loans), and deposit growth, while a decline in mortgage originations led to an $897,000 loss in the Home Mortgage Lending segment in 2022 as opposed to $10.3 million in net income in 2021.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.87	$2.54	$2.56	$2.06	$1.88	$2.86	$3.04	$5.11	$6.00	$5.27	***$5.70***	***$9.18***
DPS	$0.66	$0.71	$0.75	$0.80	$0.89	$1.08	$1.30	$1.41	$1.54	$2.01	***$2.40***	***$4.23***
Shares	6.5	6.8	6.9	6.9	6.9	6.9	6.7	6.4	6.2	5.8	***5.7***	***5.4***

A higher provision for credit losses due to loan growth and lower net income in the Home Mortgage Lending sector due to a fall in mortgage originations are the leading causes of the decrease in Q4 EPS compared to the third quarter of 2022. However, an increase in net interest income, which was only partially offset by a decline in net income in the mortgage banking business, was the main factor contributing to the higher fourth-quarter 2022 profitability compared to the same quarter the previous year. Nevertheless, since almost 72% of the bank's loan portfolio has adjustable rates and the sizable cash position will be repriced immediately in response to any rate hikes, NRIM anticipates that the net interest margin will continue to expand with anticipated interest rate increases during 2023.

Considering the banking crisis and interest rate environment, we expect an EPS of $5.70 in 2023 with a projected annual EPS growth of 10.0% for the following years, slightly lower than the company's 9-year average of 12.2%, leading to NRIM's EPS of $9.18 by 2028. In addition, the bank's DPS had a nine-year and five-year CAGR of 13.2% and 50.3%, respectively, and has consistently increased the dividend payments in the last 13 years. DPS were $0.50 in the fourth quarter of 2022, the same as in the third quarter, and up 32% from $0.38 in the fourth quarter of 2021.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	12.7	10.1	10.1	12.7	16.7	13.1	12.0	5.6	6.9	8.5	***8.0***	***8.0***
Avg. Yld.	2.8%	2.8%	2.9%	3.1%	2.8%	2.9%	3.6%	5.0%	3.7%	4.5%	***5.3%***	***5.8%***

Northrim BanCorp trades at a forward P/E of 8.0, lower than its nine-year and five-year average P/E of 10.8 and 9.2, respectively. Considering the bank's resiliency, we have assumed a stable P/E of 8.0 to value the company in 2028 in-line with its historical averages, suggesting a target price of $73 and a 61% upside from current levels. However, there is a possibility of a flat rerating across the whole sector following the banking crisis, in the next 1-2 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

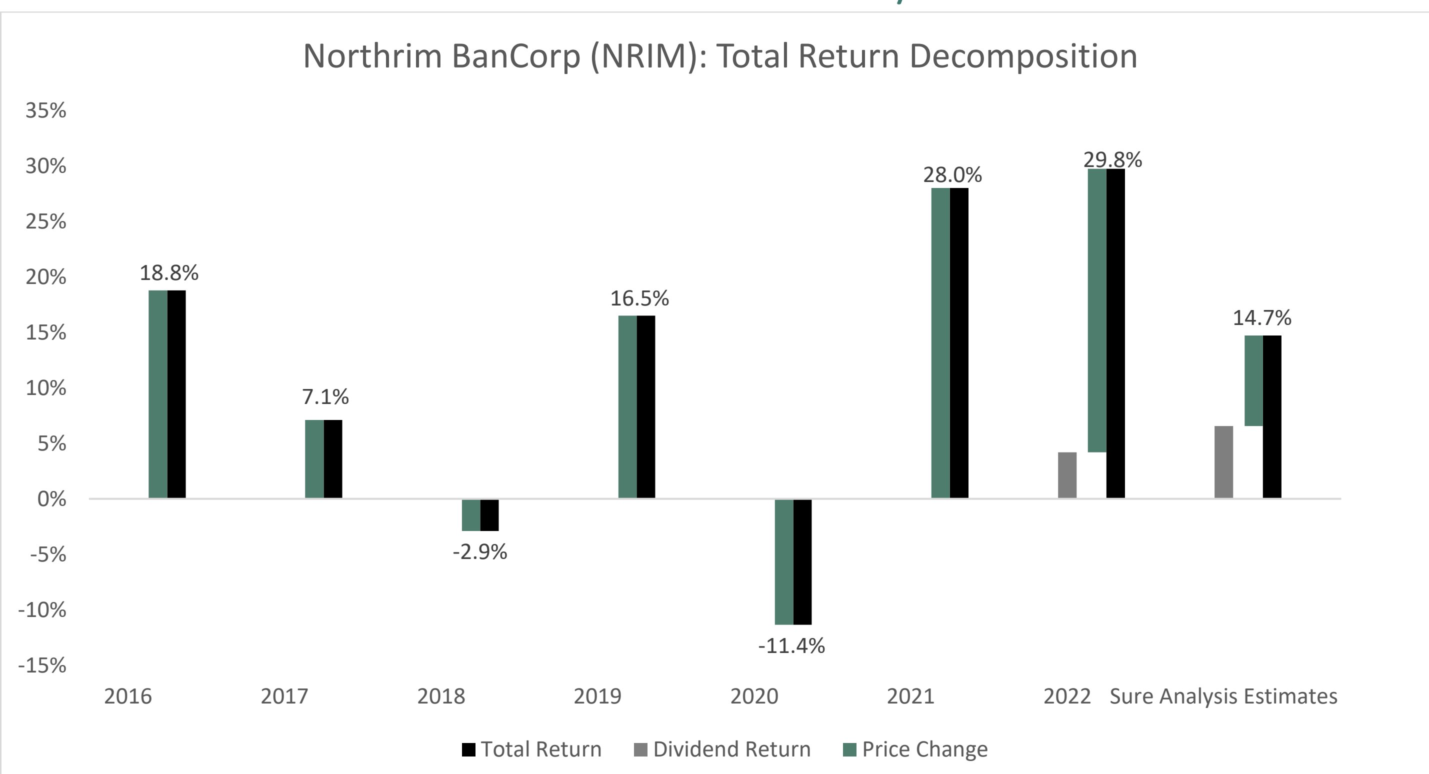
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	28%	29%	39%	47%	38%	43%	28%	26%	38%	***42%***	***46%***

Northrim BanCorp, has a competitive advantage through its strong local presence, which enables it to deliver high-quality customer service tailored to Alaskans' unique financial needs. Northrim BanCorp's financial performance during recessions has varied, as it was founded from the ashes of the recession in 1990. The bank is cash rich with $272 million in cash and $47 million in debt, highlighting its underleveraged balance sheet.

Final Thoughts & Recommendation

Following the banking crisis, NRIM trades at a discount, and the bank is well-positioned to weather the storm and come out stronger. Thus, the buy rating is premised upon the 14.7% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 10.0% and 5.3% dividend yield.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	55	68	102	100	94	93	102	134	133	129
SG&A Exp.	26	35	52	55	54	54	61	65	65	63
D&A Exp.	2	2	3	3	4	3	4	4	4	4
Net Profit	12	17	18	14	13	20	21	33	38	31
Net Margin	22.4%	25.4%	17.5%	14.5%	14.0%	21.4%	20.3%	24.5%	28.2%	23.8%
Free Cash Flow	16	14	3	17	12	21	(4)	(40)	109	74
Income Tax	6	8	9	6	10	4	5	10	10	8

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,215	1,449	1,499	1,527	1,519	1,503	1,644	2,122	2,725	2,674
Cash & Equivalents	99	72	59	51	78	78	95	116	646	259
Acc. Receivable	3	3	4		4	5	5	8	7	10
Goodwill & Int.	8	25	25	20	29	33	34	32	34	38
Total Liabilities	1,071	1,285	1,322	1,340	1,326	1,297	1,437	1,900	2,487	2,456
Long-Term Debt	25	45	21	23	18	18	19	25	25	24
Total Equity	144	164	177	187	193	206	207	222	238	219
LTD/E Ratio	0.17	0.27	0.12	0.12	0.09	0.09	0.09	0.11	0.10	0.11

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.0%	1.3%	1.2%	1.0%	0.9%	1.3%	1.3%	1.7%	1.5%	1.1%
Return on Equity	8.8%	11.3%	10.4%	7.9%	6.9%	10.0%	10.0%	15.3%	16.3%	13.5%
ROIC	7.5%	9.2%	8.7%	7.1%	6.3%	9.2%	9.2%	13.9%	14.7%	12.2%
Shares Out.	6.5	6.8	6.9	6.9	6.9	6.9	6.7	6.4	6.2	5.8
Revenue/Share	8.31	9.99	14.61	14.28	13.43	13.37	14.95	20.83	21.30	22.16
FCF/Share	2.49	1.99	0.50	2.41	1.73	3.03	(0.57)	(6.18)	17.52	12.74

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