Bank of Marin Bancorp (BMRC)

Updated July 31st, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$337 M
Fair Value Price:	$21	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	08/03/23
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date[1]:**	08/11/23
Dividend Yield:	4.7%	**5 Year Price Target**	$26	**Years Of Dividend Growth:**	17
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Rating:**	Hold

Overview & Current Events

Bank of Marin Bancorp (BMRC) operates as the holding company for Bank of Marin that provides a range of financial services primarily to small and medium-sized businesses, professionals, not-for-profit organizations, and individuals through 27 retail offices and eight commercial banking offices in California, the United States. It offers commercial and retail deposit and lending programs, personal and business checking and savings accounts, and wealth management and trust services. The majority of its revenue comes from interest income, with total assets of $4.1 billion, and total interest-earning assets of $4.0 billion. The company was founded in 1889 and has 302 employees.

On July 24th, 2023, Bank of Marin Bancorp released its second quarter 2023 results for the period ending June 30th, 2023. For the quarter, the company reported earnings of $4.6 million which represents a 27.7% decrease compared to the record earnings of $9.4 million in the first quarter of 2023 and a 60.3% decline compared to earnings of $11.6 million in the second quarter of 2022. Reported diluted earnings per share were $0.28 in the second quarter, compared to $0.59 in the prior quarter, and $0.69 in the same quarter last year.

For the reporting period, the loans totaled $2.102 billion which was an increase of $10.3 million, while deposits increased by $74.6 million to $3.325 billion. The second quarter tax-equivalent net interest margin decreased 59 basis points over the preceding quarter from 3.04% to 2.45%. Credit quality remains strong, with non-accrual loans representing 0.10% of total loans as of June 30th, 2023. Net interest income totaled $24.1 million for the second quarter of 2023, compared to $29.9 million for the prior quarter. The $5.8 million decrease from the prior quarter was primarily related to an increase in the cost of deposits and higher average borrowing balances. The cost of deposits increased to 82 basis points in the month of June compared to 40 basis points in March 2023. The return on average assets (ROA) and return on average equity (ROE) declined, and the efficiency ratio increased primarily due to the $6.0 million increase in interest expense. All capital ratios were above well-capitalized regulatory requirements, indicating a strong financial position.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.29	$1.65	$1.52	$1.89	$1.28	$2.33	$2.48	$2.22	$2.30	$2.92	***$1.52***	***$1.85***
DPS	$0.37	$0.40	$0.45	$0.51	$0.56	$0.64	$0.80	$0.92	$0.94	$0.98	***$1.00***	***$1.28***
Shares[2]	11	12	12	12	14	14	14	14	16	16	***16***	***16***

The company has grown earnings by 9.5% per year over the past nine years and -8.2% over the past five years. We expect earnings to increase by 4% per year for the next five years. The company has been able to increase its dividend for an impressive 17 consecutive years. Over the last five years, the average annual dividend growth rate is 9.3%. In August 2022, the company increased its quarterly dividend by 4.2% from $0.24 to $0.25 per share.

[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	14.3	14.1	16.6	13.8	26.0	16.8	17.3	15.4	15.8	10.7	***13.9***	***14.0***
Avg. Yld.	1.9%	1.7%	1.8%	2.0%	1.7%	1.6%	1.9%	2.7%	2.6%	3.2%	***4.7%***	***4.9%***

During the past decade shares of Bank of Marin Bancorp have traded with an average price-to-earnings ratio of about 16 and today, it stands at 13.9. We are using 14 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.7% which is above the average yield over the past decade of 2.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	24%	30%	27%	44%	27%	32%	41%	41%	34%	***66%***	***69%***

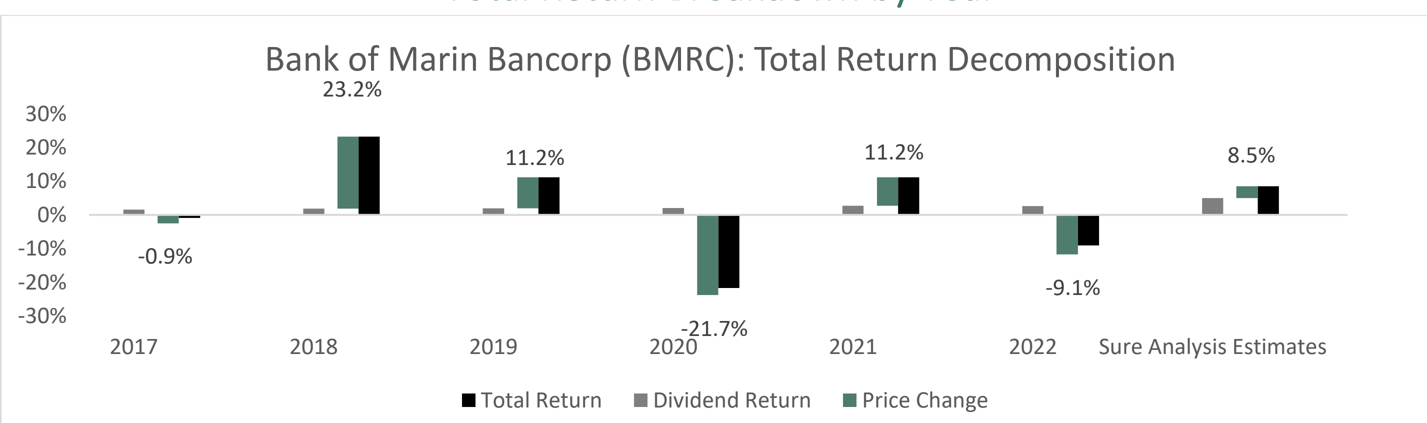
During the past five years, the company's dividend payout ratio has averaged around 35%. Bank of Marin Bancorp 's dividend is currently covered by earnings, but something to watch. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace.

Bank of Marin Bancorp has demonstrated a solid financial performance combined with a sound asset quality track record and has a business model focused on business and community banking. The majority of its revenue comes from interest income. Solid loan originations, excellent credit quality, and efficient processes are key in this business and has management's attention. The bank has a strong base of core deposits that allows the company to grow efficiently while delivering consistent performance in all rate environments. The local presence and local market expertise help the company to keep funding costs low. As a result, the company has an impressive track record of 17 consecutive years of dividend increases. Bank of Marin Bancorp is included in the Russell 2000 Small-Cap Index and Nasdaq ABA Community Bank Index.

Final Thoughts & Recommendation

Bank of Marin Bancorp is a business and community bank in Northern California, with assets of $4.1 billion, that has 31 retail branches and 8 commercial banking offices located across 10 counties. The local presence, local market expertise, a strong base of core deposits, and good credit quality should enable the bank to deliver consistent performance in all rate environments in the long run. As with many regional banks, the bank's share price has come under selling pressure since the recent banking crisis emerged and the stock is down 35% year-to-date. We estimate total return potential of 8.5% per year for the next five years based on a 4% earnings-per-share growth, the starting yield of 4.7%, and a valuation tailwind. The 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	67	79	76	82	83	102	105	105	115	138
SG&A Exp.	29	31	32	33	38	41	41	41	51	51
D&A Exp.	1	2	3	2	2	3	3	3	3	---
Net Profit	14	20	18	23	16	33	34	30	33	47
Net Margin	21.3%	24.9%	24.1%	28.1%	19.2%	32.1%	32.7%	28.7%	28.9%	33.7%
Free Cash Flow	20	17	22	24	26	41	40	40	44	---
Income Tax	8	12	10	13	13	11	12	10	12	17

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,805	1,787	2,031	2,023	2,468	2,521	2,707	2,912	4,314	4,147
Cash & Equivalents	104	41	26	49	204	34	183	200	348	45
Acc. Receivable	60	60	62	69	73	76	76	36	51	80
Goodwill & Int.	11	10	10	9	37	36	35	34	79	78
Total Liabilities	1,624	1,587	1,817	1,793	2,171	2,204	2,370	2,554	3,864	3,735
Accounts Payable	17	15	16	15	17	20	18	20	29	23
Long-Term Debt	20	20	72	6	6	10	3	3	---	112
Total Equity	181	200	214	231	297	316	337	358	450	412
LTD/E Ratio	0.11	0.10	0.34	0.02	0.02	0.03	0.01	0.01	---	0.27

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.9%	1.1%	1.0%	1.1%	0.7%	1.3%	1.3%	1.1%	0.9%	1.1%
Return on Equity	8.6%	10.4%	8.9%	10.4%	6.1%	10.6%	10.5%	8.7%	8.2%	10.8%
ROIC	7.8%	9.4%	7.3%	8.8%	5.9%	10.4%	10.3%	8.6%	8.2%	9.6%
Shares Out.	11	12	12	12	14	14	14	14	16	16
Revenue/Share	6.01	6.62	6.30	6.73	6.63	7.25	7.59	7.73	7.98	8.67
FCF/Share	1.82	1.38	1.84	2.00	2.03	2.94	2.93	2.93	3.07	---

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