Northrim BanCorp, Inc. (NRIM)

Updated August 3rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$48.50	**5 Year CAGR Estimate:**	13.3%	**Market Cap:**	$277.9M
Fair Value Price:	$45.60	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	09/07/2023[1]
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	09/15/2023[2]
Dividend Yield:	4.9%	**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 July 27th, 2023, the company announced results for the second quarter of 2023. NRIM reported Q2 non-GAAP EPS of $0.98, missing analysts' estimates by $0.42 and total revenues of $32.12 million, which were up 36.7% compared to last year's quarter. When compared to the previous quarter, the second quarter of 2023's profitability increased mostly due to higher income from mortgage banking. An increased provision for credit losses compared to the prior quarter because of loan growth somewhat offset this rise. A greater provision for credit losses and a decline in mortgage banking income only partially offset the increase in net interest income that drove the increase in profitability in the second quarter of 2023 compared to the same period a year earlier.

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[3]	6.5	6.8	6.9	6.9	6.9	6.9	6.7	6.4	6.2	5.8	***5.7***	***5.4***

When compared to the same period in 2022, the first quarter of 2023's profitability decreased primarily as a result of lower income from mortgage banking and higher salaries and personnel costs. Despite the decline in total mortgage production in Q1, due to seasonality the bank typically experiences an increase in output in the second quarter. 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 maintain our EPS estimate 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%

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] In millions of shares

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and 50.3%, respectively, and has consistently increased the dividend payments over 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.

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	***8.5***	***8.0***
Avg. Yld.	2.8%	2.8%	2.9%	3.1%	2.8%	2.9%	3.6%	5.0%	3.7%	4.5%	***4.9%***	***5.8%***

Northrim BanCorp trades at a forward P/E of 8.5, 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 nearly 51% 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 to 2 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

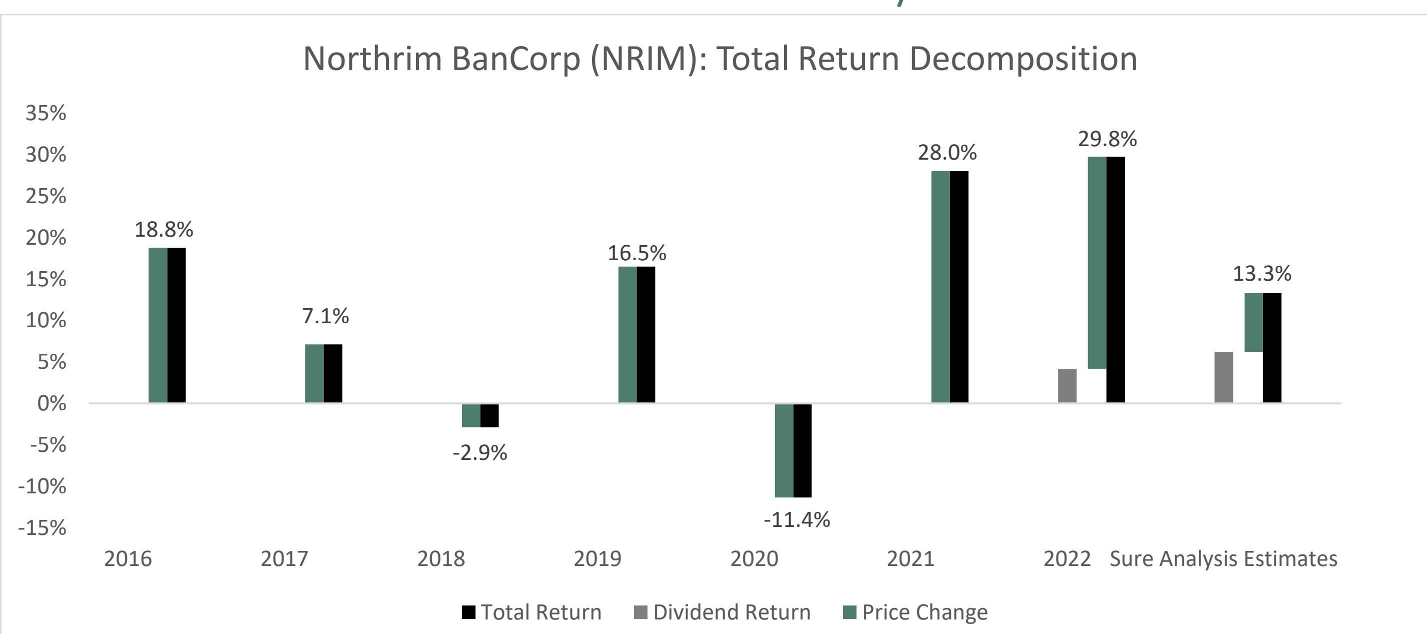
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	28%	29%	39%	47%	38%	43%	28%	26%	38%	***42%***	***35%***

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

NRIM used to trade at a steep discount that was below its book value of $39.60 and its tangible book value of $36.60, but the stock has recently surged. The bank is well-positioned to weather the storm and emerge stronger from this banking crisis. Thus, we maintain our buy rating, premised upon the 13.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, 4.5% dividend yield, and the valuation headwind.

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.