Bank of Marin Bancorp (BMRC)

Updated October 29th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	13.3%	**Market Cap:**	$268 M
Fair Value Price:	$21	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date[1]:**	11/02/23
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.6%	**Dividend Payment Date[1]:**	11/10/23
Dividend Yield:	6.0%	**5 Year Price Target**	$26	**Years Of Dividend Growth:**	17
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Rating:**	Buy

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 its roughly 30 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 October 23rd, 2023, Bank of Marin Bancorp released its third quarter 2023 results for the period ending September 30th, 2023. For the quarter, the company reported earnings of $5.3 million which represents a 15% increase compared to earnings of $4.6 million in the second quarter of 2023. Reported diluted earnings per share were $0.33 in the third quarter, compared to $0.28 in the prior quarter.

In the reporting quarter, the company successfully broadened its net interest margin and enhanced its interest rate risk and liquidity positions. This was achieved through a reduction in borrowings and investments, an increase in deposits and cash reserves, and the implementation of a balance sheet hedge strategy. For the reporting period, the loans totaled $2.086 billion which was a decrease of $16 million, while deposits increased by $118 million to $3.443 billion. The third quarter tax-equivalent net interest margin increased 3 basis points over the preceding quarter from 2.45% to 2.48%. Credit quality remains strong, with non-accrual loans representing 0.27% of total loans as of September 30th, 2023. Net interest income totaled $24.5 million for the third quarter of 2023, compared to $24.1 million for the prior quarter. The cost of deposits increased to 94 basis points in the month of September compared to 69 basis points in June 2023. The company reported robust capital ratios with common equity tier-1 capital at 15.6%, which is above the 6.5% well capitalized threshold.

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	***$1.50***	***$1.82***
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 -8.4% 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	***11.2***	***14.0***
Avg. Yld.	1.9%	1.7%	1.8%	2.0%	1.7%	1.6%	1.9%	2.7%	2.6%	3.2%	***6.0%***	***5.0%***

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 11.2. 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 6.0% 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%	***67%***	***70%***

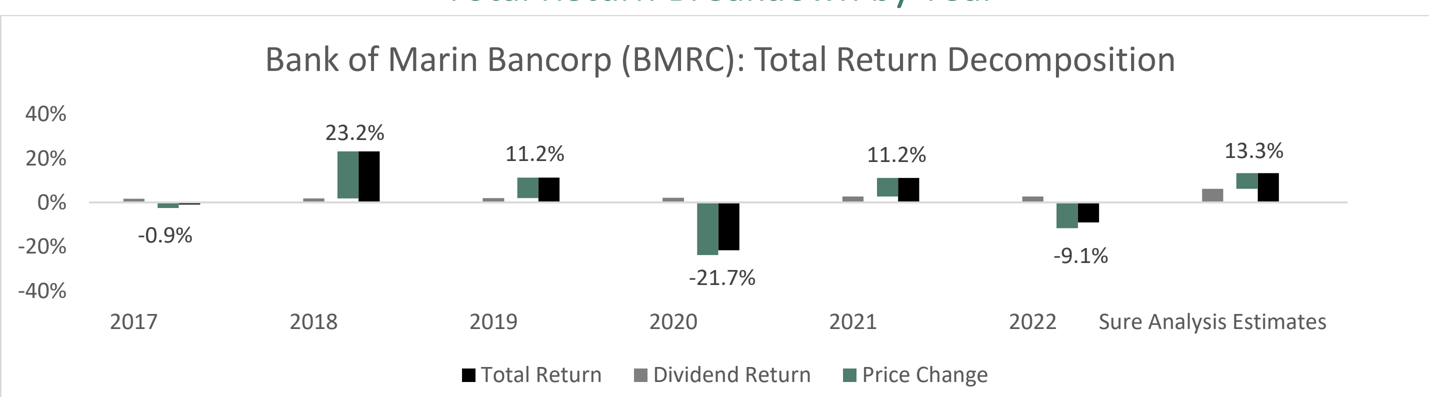
During the past five years, the company's dividend payout ratio has averaged around 35%. Bank of Marin Bancorp 's dividend is currently covered by earnings, but something to watch. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace.

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. Most 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 eight commercial banking offices located across 10 counties in California. 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 banking crisis emerged earlier this year and the stock is down 48% year-to-date. We estimate total return potential of 13.3% per year for the next five years based on a 4% earnings-per-share growth, the dividend yield, and a valuation tailwind. The coming year(s) could be a bumpy road for regional bank stocks, but shares earn a buy rating due to the projected returns.

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.

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