Northrim BanCorp, Inc. (NRIM)

Updated November 23rd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	13.1%	**Market Cap:**	$280.8 M
Fair Value Price:	$46	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	12/14/2023[1]
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	12/22/2023[2]
Dividend Yield:	4.9%	**5 Year Price Target**	$73	**Years Of Dividend Growth:**	14
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 generated $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 October 26th, 2023, the company announced results for the third quarter of 2023. NRIM reported Q3 non-GAAP EPS of $1.48, beating analysts' estimates by $0.23, and total revenues of $34.35 million that were down 1.8% compared to last year's quarter. NRIM reported a solid performance, with its net interest income rising to $26.4 million, marking a 5% increase from the second quarter's $25.1 million and a slight uptick from the $26.3 million recorded in the same quarter the previous year. This growth indicates a consistent upward trend in the company's earning capacity. Another key highlight in Q3 was the weighted average interest rate increase for new portfolio loans. The rate rose to 7.39% in the third quarter of 2023, up from 6.93% in the previous quarter and significantly higher than the 5.83% rate in the same quarter of the previous year. This increase reflects a more aggressive pricing strategy and potentially higher profitability per loan originating in the current market conditions.

For the third quarter of 2023, NRIM showcased a solid financial performance, with a return on average assets (ROAA) of 1.22% and a Return on Average Equity (ROAE) of 14.67%, highlighting the company's effective utilization of assets and equity to generate profits. A significant achievement for NRIM in this quarter was the growth in its portfolio loans, which reached $1.70 billion by September 30, 2023, representing a 4% increase from the previous quarter and a substantial 22% rise from the previous year. The growth is primarily driven by acquiring new customer relationships, expanding market share, and retaining certain mortgages in the loan portfolio. Notably, 74% of these portfolio loans are variable, and 18% of earning assets can immediately benefit from rate increases.

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***

Considering the 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 10-year average of 12.2%, leading to NRIM's EPS of $9.18 by 2028. In addition, the bank's DPS had a 10-year and five-year CAGR of 13.2% and 50.3%, respectively,

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

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.

and has consistently increased the dividend payments over the last 13 years. The dividend was raised 20% for the March 17th, 2023 payment date.

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	***8.6***	***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 8.6, lower than its 10-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. However, there is a possibility of a flat rerating across the whole sector following the banking crisis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

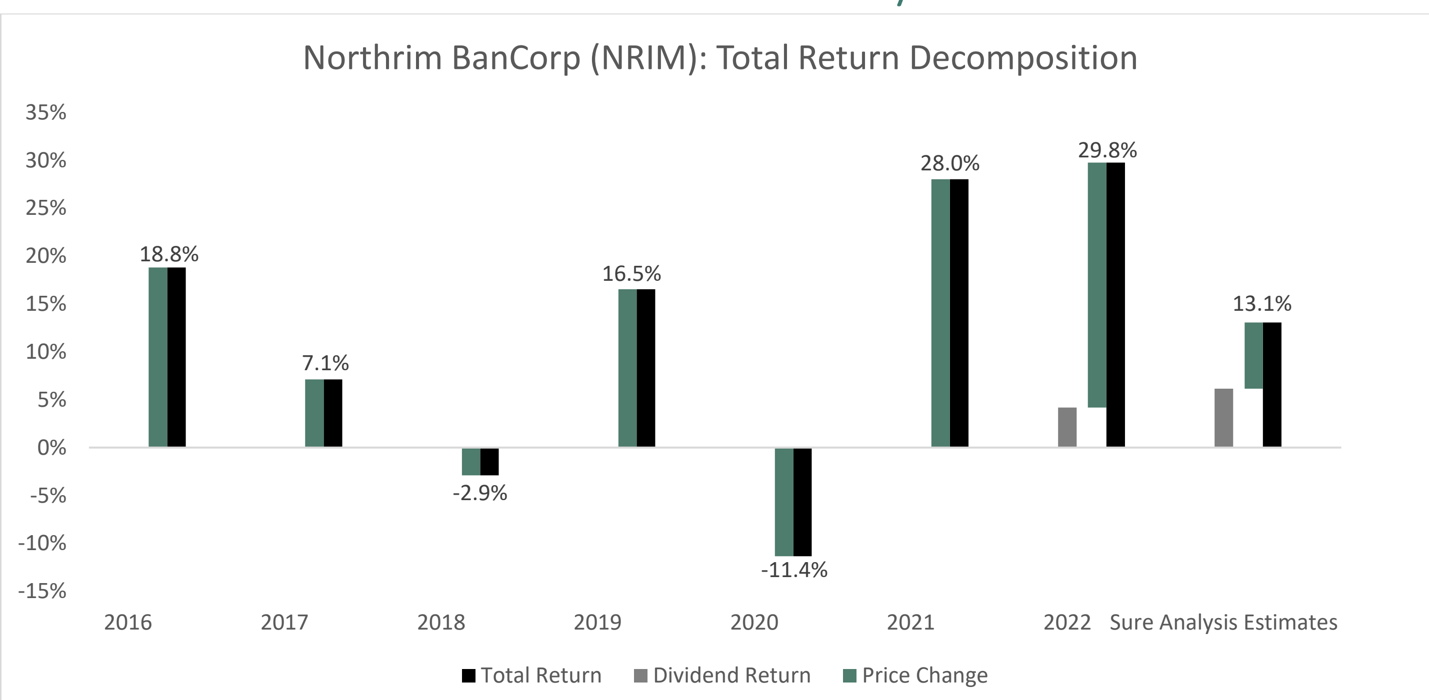
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	28%	29%	39%	47%	38%	43%	28%	26%	38%	***42%***	***35%***

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 $127.7 million in cash and $99.6 million in debt, highlighting its underleveraged balance sheet.

Final Thoughts & Recommendation

The bank is well-positioned to weather a storm and emerge stronger amidst the rising interest rate environment. Thus, we maintain our buy rating, premised upon the 13.1% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, 4.9% dividend yield, and the valuation headwind.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Northrim BanCorp, Inc. (NRIM)

Updated November 23rd, 2023, by Yiannis Zourmpanos

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.