International Bancshares Corporation (IBOC)

Updated December 20th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	13.4%	**Market Cap:**	$3.24 B
Fair Value Price:	$61	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	02/14/2023[1]
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	02/28/2024[2]
Dividend Yield:	2.4%	**5 Year Price Target**	$89	**Years Of Dividend Growth:**	14
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

International Bancshares Corporation (IBOC) is a financial holding company based in Laredo, Texas. Founded in 1966, International Bancshares is a multi-bank financial holding company that provides banking and financial services through its subsidiary banks in Texas and Oklahoma. International Bancshares has a diverse customer base, including individuals, small businesses, and large corporations. International Bancshares operates in several revenue segments, including commercial and retail banking, wealth management, insurance, and international trade finance.

On November 2nd, 2023, the company announced results for the third quarter of 2023. IBOC reported non-GAAP EPS of $1.66 and net income of $103.3 million for the quarter, up 23.8% year-over-year. The increase in interest rates on earning assets has had a favorable effect on the net interest margin even as rising interest costs from rising deposit rates are being faced. Since the rates offered by competitors are higher than what IBOC is ready to pay, the bank continues to have large levels of liquidity, allowing the company to permit some deposits to move.

In the first nine months of 2023, IBOC experienced a rise in net income, driven by increased net interest income from an expanded investment portfolio and higher loan interest income, aligned with the Federal Reserve's interest rate hikes. These gains and effective cost control and operational efficiency initiatives have been instrumental in the bank's financial performance. IBOC continues to assess the economic factors influencing its loan portfolio, adjusting its credit loss allowance accordingly. Dennis E. Nixon, IBOC's President and CEO, highlighted the beneficial impact of the current interest rate environment on the bank's net interest margin. The focus on managing interest income and expenses, combined with long-established asset liability and liquidity management strategies, underpins IBOC's success. Despite economic uncertainties, the bank's emphasis on expense control and non-interest income growth strengthens its position.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.88	$2.29	$2.06	$2.03	$2.38	$3.27	$3.13	$2.63	$4.01	$4.79	***$5.50***	***$8.08***
DPS	$0.43	$0.52	$0.58	$0.60	$0.66	$0.75	$1.05	$1.10	$1.15	$1.20	***$1.26***	***$2.03***
Shares[3]	67.3	67.1	66.6	66.3	66.8	66.6	65.7	63.9	63.5	62.8	***62.3***	***60.0***

The recent increase in interest income has been used in conjunction with cost management activities to streamline processes and boost operational efficiencies. To capture the risk of potential losses in the IBOC portfolio resulting from those uncertain economic conditions, management continued to monitor how economic conditions, including a potential recession, impact the loan portfolio and has factored those forecasts into the allowance for credit loss calculation. IBOC's loan portfolio includes commercial, real estate, personal, home improvement, automobile, and other installment and term loans. With interest rates rising, IBOC could charge higher interest rates on these loans, increasing net interest income. Furthermore, as a financial holding company, IBOC may also be able to invest in higher-yielding fixed-income securities, such as government bonds or corporate bonds, which could also boost its interest income.

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[1] Estimated ex-dividend date.

[2] Estimated dividend payment date.

[3] Shares in millions.

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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Lastly, as interest rates rise, depositors may demand higher returns on their savings, and IBOC may need to offer higher interest rates to remain competitive. Considering the current interest rate environment, we have increased our EPS estimate for 2023 to $5.50 with a projected annual EPS growth of 8.0% for the following years, lower than the company's CAGR of 11.0% since 2013, leading to IBOC's EPS of $8.08 by 2028. In addition, International Bancshares's DPS had a 10-year and five-year CAGR of 12.1% and 34.8%, respectively, and has consistently increased the dividend payments for the last 14 years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	11.9	11.0	12.7	14.3	15.7	12.6	12.5	12.0	10.7	9.1	***9.5***	***11.0***
Avg. Yld.	1.9%	2.1%	2.2%	2.1%	1.8%	1.8%	2.7%	3.5%	2.7%	2.7%	***2.4%***	***2.3%***

International Bancshares trades at a forward P/E of 9.5, lower than its long- and medium-term average P/E of 12.2 and 11.4, respectively. Considering the bank's resiliency, we have assumed a stable P/E of 11.0 to value the company in 2028 in line with its normalized historical averages, suggesting a target price of $89.

Safety, Quality, Competitive Advantage, & Recession Resiliency

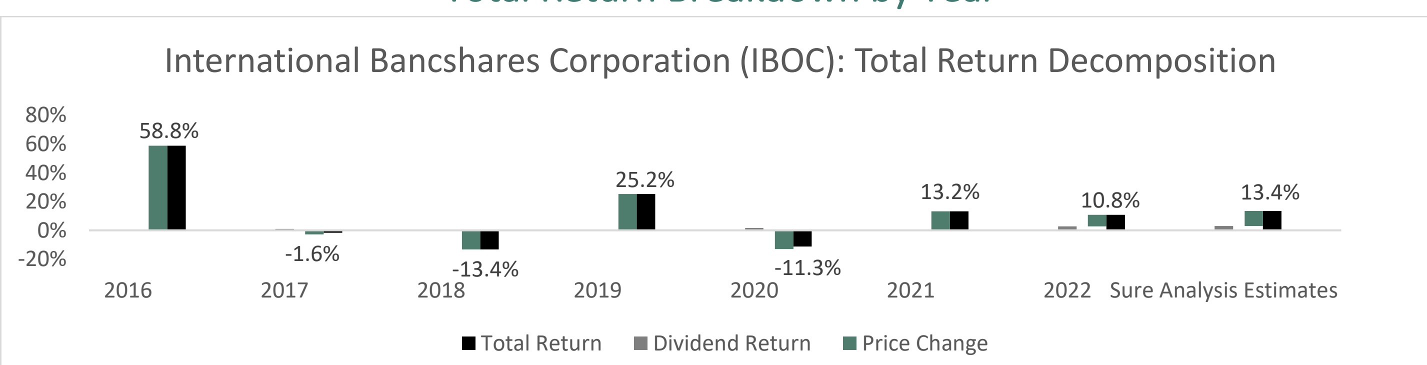
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23%	23%	28%	30%	28%	23%	34%	42%	29%	25%	***23%***	***25%***

International Bancshares has a competitive advantage due to its strong presence in the Texas border region and Mexico, which allows it to serve a diverse and growing customer base. During the 2008 recession, IBOC demonstrated strong performance, with low loan losses and stable earnings, indicating its resilience to economic downturns. Additionally, IBOC has maintained a conservative approach to debt management, with a low debt-to-equity ratio, indicating a solid financial position and ability to weather market fluctuations. IBOC has consistently paid dividends over the past 14 years, with a stable payout ratio of around 28%, suggesting that the bank can potentially continue to increase its dividend distributions in the rising interest rate environment.

Final Thoughts & Recommendation

Looking ahead, International Bancshares is well-positioned to benefit from an economic recovery in the U.S. and the Texas border region, where the bank has a significant presence. Additionally, IBOC's exposure to the Mexican market provides an additional growth opportunity, as Mexico continues to be a key trading partner with the U.S. and experiences economic growth. Thus, we maintain our buy rating premised upon the 13.4% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, 2.4% dividend yield, and multiple expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	498	525	508	506	527	578	589	538	594	675
SG&A Exp.	134	135	139	142	144	150	155	136	132	139
D&A Exp.	31	26	26	25	25	26	28	28	25	22
Net Profit	126	153	137	134	157	216	205	167	254	300
Net Margin	25.4%	29.1%	26.9%	26.4%	29.9%	37.3%	34.8%	31.1%	42.8%	44.5%
Free Cash Flow	159	143	184	164	183	208	282	298	281	369
Income Tax	56	77	70	63	64	57	55	44	68	82

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	12,079	12,197	11,773	11,804	12,185	11,872	12,113	14,029	16,046	15,501
Cash & Equivalents	275	255	273	269	265	317	257	1,997	3,209	2,088
Acc. Receivable	31	31	32	32	34	37	37	38	31	46
Goodwill & Int.	286	283	283	283	283	283	283	283	283	283
Total Liabilities	10,655	10,616	10,107	10,079	10,346	9,932	9,995	11,851	13,738	13,457
Long-Term Debt	1,415	1,249	667	894	1,356	866	761	571	571	146
Total Equity	1,424	1,581	1,666	1,725	1,839	1,940	2,118	2,178	2,308	2,045
LTD/E Ratio	0.99	0.79	0.40	0.52	0.74	0.45	0.36	0.26	0.25	0.07

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.1%	1.3%	1.1%	1.1%	1.3%	1.8%	1.7%	1.3%	1.7%	1.9%
Return on Equity	8.8%	10.2%	8.4%	7.9%	8.8%	11.4%	10.1%	7.8%	11.3%	13.8%
ROIC	4.8%	5.4%	5.3%	5.4%	5.4%	7.2%	7.2%	5.9%	9.0%	11.8%
Shares Out.	67.3	67.1	66.6	66.3	66.8	66.6	65.7	63.9	63.5	62.8
Revenue/Share	7.40	7.84	7.63	7.64	7.89	8.68	8.96	8.43	9.35	10.74
FCF/Share	2.36	2.13	2.76	2.48	2.73	3.13	4.29	4.67	4.43	5.87

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