



Bank OZK (OZK)

Updated January 19th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	12.6%	Market Cap:	\$5.1 B
Fair Value Price:	\$67	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	1/12/24
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.8%	Dividend Payment Date:	1/23/24
Dividend Yield:	3.3%	5 Year Price Target	\$74	Years Of Dividend Growth:	28
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Bank OZK, previously Bank of the Ozarks, is a regional bank that offers services such as checking, business banking, commercial loans and mortgages to its customers in Arkansas, Florida, North Carolina, Texas, Alabama, South Carolina, New York and California. The \$5.1 billion market cap bank was founded in 1903 and is headquartered in Little Rock, AR. On January 2nd, 2024, Bank OZK announced a \$0.38 quarterly dividend, representing a 2.7% raise over the last quarter's payment and an 11.8% raise year-over-year. This marks the company's 54th consecutive quarter of raising its dividend.

In mid-January, Bank OZK reported (1/18/24) financial results for the fourth quarter of fiscal 2023. Total loans and deposits grew 27% and 28%, respectively, over last year's quarter. Net interest income grew 9% over the prior year's quarter, in sharp contrast to most banks, which incurred a decline in net interest income due to higher costs of deposits. Earnings-per-share grew 12%, from \$1.34 to a new all-time high of \$1.50, and exceeded the analysts' consensus by \$0.05. Bank OZK has exceeded the analysts' consensus in 14 of the last 15 quarters. In contrast to most banks, which are being pressured by rising deposit costs, Bank OZK is growing its net interest margin and its earnings. Bank OZK is an exemplary bank and hence we are confident that it will not be affected by the recent turmoil related to regional banks. Management provided guidance for new all-time high earnings-per-share in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.52	\$2.09	\$2.58	\$3.35	\$3.24	\$3.30	\$2.26	\$4.49	\$4.54	\$5.87	\$6.10	\$6.73
DPS	\$0.47	\$0.55	\$0.63	\$0.71	\$0.80	\$0.94	\$1.08	\$1.13	\$1.26	\$1.42	\$1.52	\$2.13
Shares¹	80	90	121	128	129	129	129	128	118	114	110	100

Bank OZK had grown its profits per share in almost every year since the financial crisis, which was a strong feat for a bank. In the 2011 through 2019 stretch, earnings-per-share grew by nearly 11% per year. Moreover, Bank OZK has not only been growing organically, but over the last decade the bank has repeatedly made acquisitions which management viewed as suitable. Of course, 2020 proved to be a challenge with earnings down materially.

We believe that Bank OZK will remain on its growth trajectory. Factors like general economic growth, a low payout ratio and coming off a conservative base should help results. Non-interest income makes up just a small amount of the bank's profits. This makes Bank OZK relatively independent from factors such as market movements, whereas bigger banks - where trading revenues are more important - are more dependent on such factors.

Due to the record earnings-per-share expected this year, we expect 2% earnings-per-share growth over the next five years. This is much lower than the historical growth rate of Bank OZK but it is warranted due the high comparison base.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.3	20.6	15.9	14.4	12.8	9.0	10.8	8.6	9.3	6.8	7.5	11.0
Avg. Yld.	1.5%	1.3%	1.5%	1.5%	1.9%	3.2%	4.4%	2.9%	3.0%	3.6%	3.3%	2.9%

¹ In millions.

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The valuation of Bank OZK has moved in a relatively wide range over the last decade. The price-to-earnings ratio of the stock exceeded 20 in 2014-2015 whereas it has plunged below 10 in recent years. Our fair value estimate is 11 times earnings, in line with a typical bank. The stock is now trading at a price-to-earnings ratio of 7.5 due to the sell-off of regional banks. If it trades at its fair valuation level in five years, it will enjoy a 7.8% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	26%	24%	21%	25%	28%	48%	25%	28%	24%	25%	32%

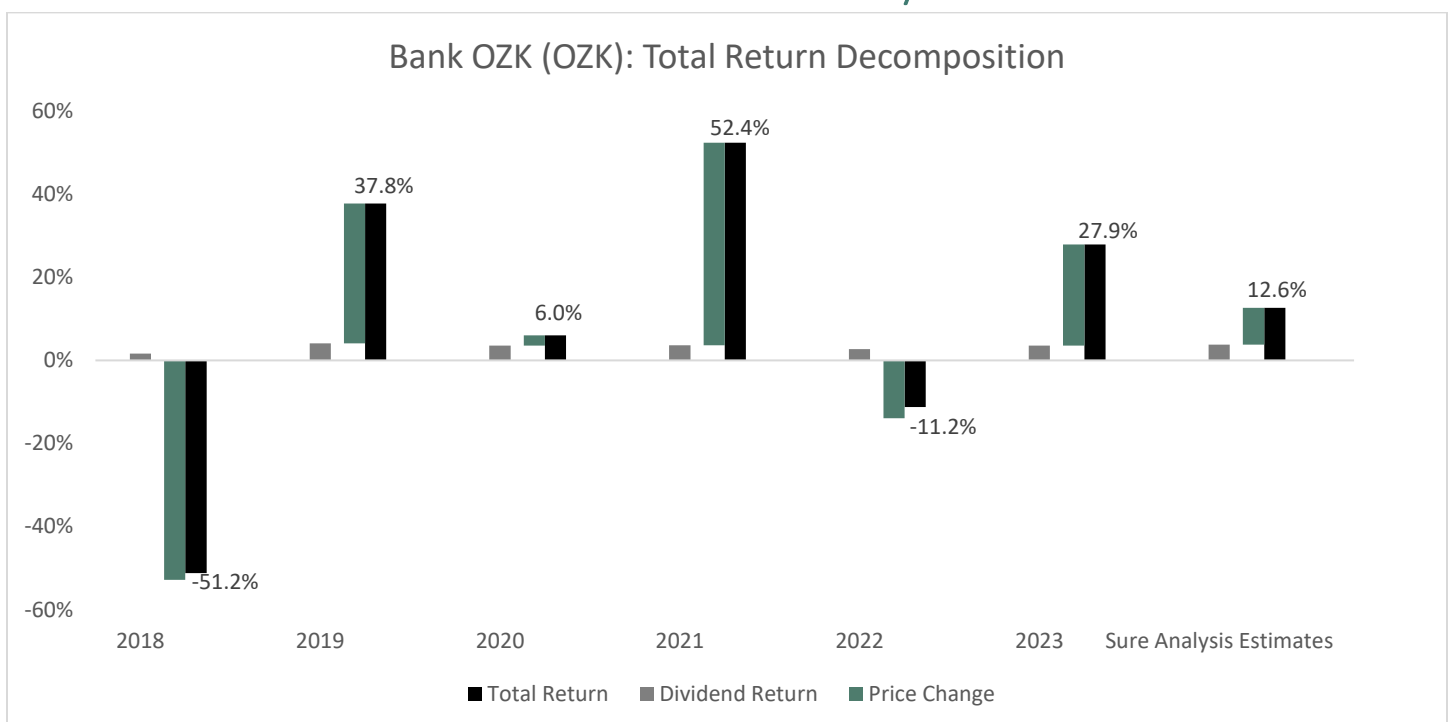
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend has been raised every quarter dating back to 2010, as an illustration. The payout ratio is still not elevated though, although 2020 saw a temporary uptick due to depressed earnings.

The bank is well positioned in its key markets, due to the opening of new branches and inorganic growth. Bank OZK is the largest bank in its home state of Arkansas. Given also a long history and strong performance during the last financial crisis, Bank OZK is an attractive financial stock. Bank OZK was very stable during the last financial crisis, as one of just a few banks which managed to grow profits.

Final Thoughts & Recommendation

Bank OZK is much smaller than the well-known banks but it has demonstrated strengths in its niche, partly thanks to its exemplary management. It has proved resilient to recessions and has exhibited above-average growth of earnings-per-share and dividend. We expect the bank to easily endure the ongoing downturn of regional banks, which has been caused by the collapse of Silicon Valley Bank, Credit Suisse and First Republic. Bank OZK has grown its deposits 28% over the prior year. The stock has rallied 24% since our last research report, three months ago, but it can still offer a 12.6% total annual return over the next five years thanks to 2.0% earnings-per-share growth, a 3.3% dividend yield and a 7.8% annualized valuation tailwind. It thus maintains its buy 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	258	346	479	695	930	992	984	985	1,097	1,249
SG&A Exp.	84	100	111	163	212	242	264	270	273	245
D&A Exp.	10	13	17	25	34	35	43	44	43	44
Net Profit	91	119	182	270	422	417	426	292	579	564
Net Margin	35.3%	34.3%	38.0%	38.9%	45.4%	42.1%	43.3%	29.6%	52.8%	45.2%
Free Cash Flow	49	79	184	197	346	619	326	502	509	735
Income Tax	40	54	94	154	159	137	138	84	174	157

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,791	6,766	9,879	18,890	21,276	22,388	23,556	27,163	26,530	27,657
Cash & Equivalents	196	150	91	866	440	291	1,496	2,394	2,054	1,033
Accounts Receivable	14	20	25	52	65	82	75	88	83	125
Goodwill & Int. Ass.	19	106	152	721	709	696	685	675	669	664
Total Liabilities	4,159	5,855	8,412	16,095	17,812	18,615	19,402	22,887	21,691	22,966
Accounts Payable	17	37	52	73	186	216	222	252	187	234
Long-Term Debt	346	256	322	383	364	439	695	1,095	1,217	1,075
Shareholder's Equity	629	908	1,465	2,792	3,461	3,770	4,150	4,272	4,497	4,351
LTD/E Ratio	0.55	0.28	0.22	0.14	0.11	0.12	0.17	0.26	0.25	0.23

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.1%	2.1%	2.2%	1.9%	2.1%	1.9%	1.9%	1.2%	2.2%	2.1%
Return on Equity	16.1%	15.4%	15.4%	12.7%	13.5%	11.5%	10.8%	6.9%	13.2%	12.8%
ROIC	9.9%	11.1%	12.3%	10.9%	12.0%	10.4%	9.4%	5.7%	10.1%	9.5%
Shares Out.	74	80	90	121	128	129	129	129	128	121
Revenue/Share	3.57	4.43	5.49	6.63	7.39	7.70	7.63	7.61	8.46	10.35
FCF/Share	0.68	1.01	2.11	1.88	2.75	4.80	2.53	3.88	3.92	6.09

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

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