Northrim BanCorp, Inc. (NRIM)

Updated February 16th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$301.9 M
Fair Value Price:	$40	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	03/06/2024
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	-5.8%	**Dividend Payment Date:**	03/15/2024
Dividend Yield:	4.5%	**5 Year Price Target**	$64	**Years Of Dividend Growth:**	15
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 January 25th, 2024, the company announced results for the fourth quarter of 2023. NRIM reported Q4 non-GAAP EPS of $1.19, beating analysts' estimates by $0.05. Northrim BanCorp's annual net income 2023 of $25.4 million, or $4.49 per diluted share, compared to $30.7 million, or $5.27 per diluted share, in 2022. This decrease was primarily due to weaker performance in the Home Mortgage Lending division, characterized by reduced mortgage originations and a decrease in fair value related to mortgage servicing rights. Interest expenses increased, not entirely offset by higher interest income, with personnel costs increasing with all other challenges in the year.

However, the company managed to keep the dividend where it was at $0.60 per share for its Q4 2023, but even that is 20% higher than in the prior year. The CEO pointed to the company's capture of market share and expansion of branches as bright spots helping loan and deposit growth. Net interest income grew by a mere 1.1% to $26.7 million in Q4 2023, while net interest margin came in at 4.12%. According to year-over-year figures, Portfolio loans increased by 19% to $1.79 billion, while total deposits scaled a year-on-year incline of 4% to $2.49 billion. However, the cost of interest-bearing deposits rose materially to 2.00%, reflecting the higher prevailing rates. Nevertheless, with all the same pressures on financials, management at Northrim is upbeat about the strategic direction and adaptability to economic change.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.54	$2.56	$2.06	$1.88	$2.86	$3.04	$5.11	$6.00	$5.27	$4.49	***$5.00***	***$8.05***
DPS	$0.71	$0.75	$0.80	$0.89	$1.08	$1.30	$1.41	$1.54	$2.01	$2.40	***$2.44***	***$4.30***
Shares[1]	6.8	6.9	6.9	6.9	6.9	6.7	6.4	6.2	5.8	5.7	***5.6***	***5.1***

Considering the expected declining interest rate environment, we revised downwards our EPS estimate for 2024 to $5.00, which is in line with analysts' estimate. We have maintained the annual EPS growth of 10.0% for the following years, lower than the company's 5-year CAGR of 41.2% in anticipation of lower net interest margin, leading to NRIM's EPS of $8.05 by 2029. In addition, the bank's DPS had a 10-year and 5-year CAGR of 14.5% and 49.1%, respectively, and has consistently increased the dividend payments over the last 14 years.

[1] In millions of shares

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	10.1	10.1	12.7	16.7	13.1	12.0	5.6	6.9	8.5	10.3	***10.8***	***8.0***
Avg. Yld.	2.8%	2.9%	3.1%	2.8%	2.9%	3.6%	5.0%	3.7%	4.5%	5.2%	***4.5%***	***6.7%***

Northrim BanCorp trades at a forward P/E of 10.8, in line with its 10-year and five-year average P/E of 10.4 and 8.2, respectively. Considering the bank's resiliency, we have assumed a stable P/E of 8.0 to value the company in 2029, in line with its historical averages, suggesting a target price of $64.

Safety, Quality, Competitive Advantage, & Recession Resiliency

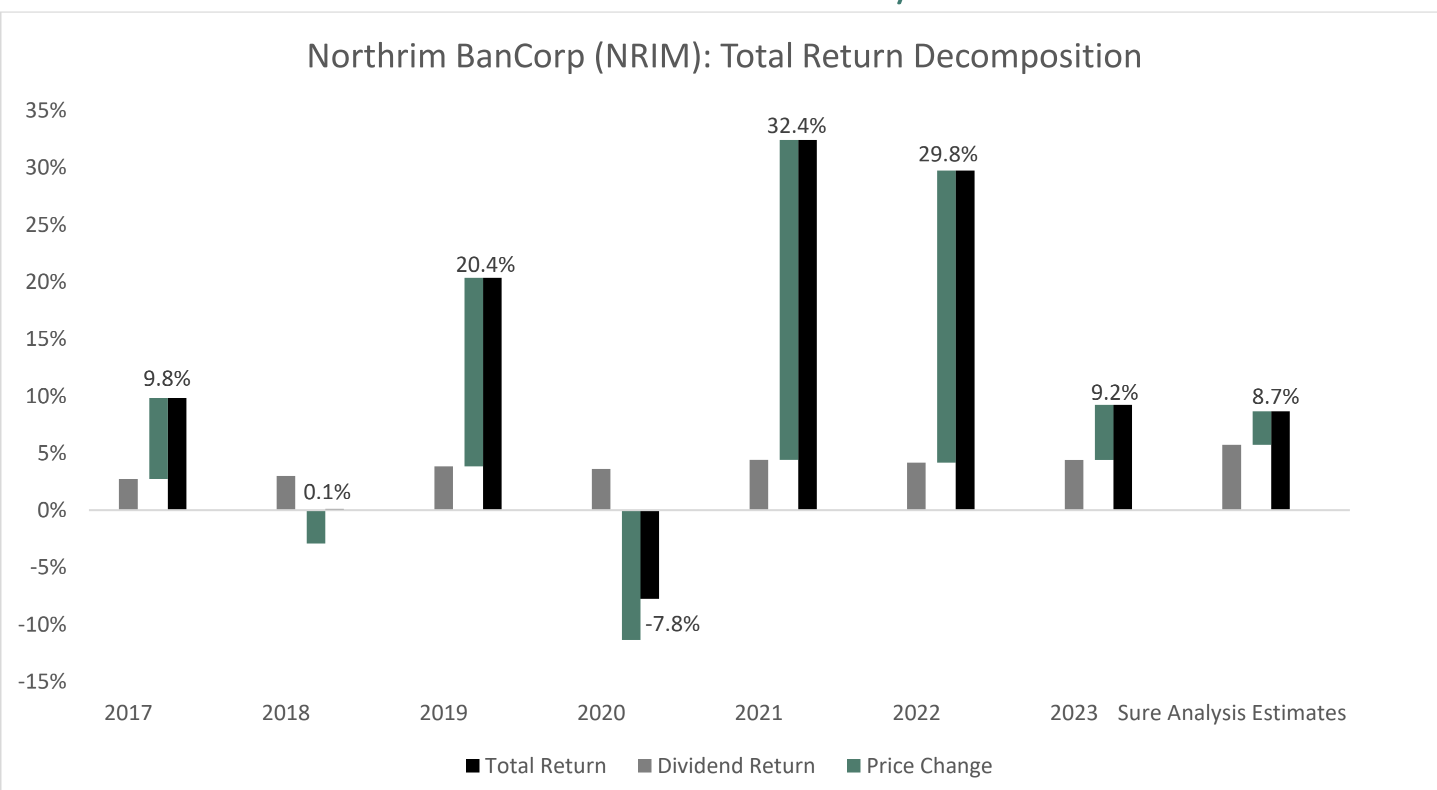
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	29%	39%	47%	38%	43%	28%	26%	38%	53%	***49%***	***53%***

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 also repurchased 55,786 shares at an average price of $43.34, with 76,327 shares left under its current repurchase program as of the end of 2023.

Final Thoughts & Recommendation

The bank is well-positioned to weather the storm and emerge stronger amidst the rising interest rate environment. However, the recent bull run has sent NRIM to new highs, thus we revised our rating to hold premised upon the 8.7% 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.