



# Enterprise Bancorp Inc. (EBTC)

Updated April 24<sup>th</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$24	<b>5 Year CAGR Estimate:</b>	14.9%	<b>Market Cap:</b>	\$294 M
<b>Fair Value Price:</b>	\$35	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	5/10/2024
<b>% Fair Value:</b>	69%	<b>5 Year Valuation Multiple Estimate:</b>	7.7%	<b>Dividend Payment Date:</b>	6/3/2024
<b>Dividend Yield:</b>	4.0%	<b>5 Year Price Target</b>	\$42	<b>Years Of Dividend Growth:</b>	30
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## Overview & Current Events

Enterprise Bancorp Inc. was formed in 1996 as the parent holding company of Enterprise Bank and Trust Company, referred to as Enterprise Bank. Enterprise has 27 full-service branches in the North Central region of Massachusetts and Southern New Hampshire. The company's primary business operation is gathering deposits from the general public and investing in commercial loans and investment securities. The Bank offers commercial, residential and consumer loan products, cash management services, electronic banking options, insurance services, as well as wealth management. About half of the company's loan portfolio is in commercial real estate and about a third is in commercial construction loans. Other subsidiaries under Enterprise Bancorp are Enterprise Investment Services and Enterprise Insurance Services, which cater to the bank's target market of business customers. Enterprise Bancorp has a market cap of \$294 million and is an exceptionally managed bank, which has remained profitable in every single quarter since its formation.

In late April, Enterprise reported (4/23/24) financial results for the first quarter of fiscal 2024. Loans grew 13% and deposits edged up 1% over the prior year's quarter. Net interest margin contracted from 3.76% to 3.20% and net interest income decreased -12% due to higher deposit costs. As a result, earnings-per-share fell -27%, from \$0.88 to \$0.64. It was the second-worst quarter in 3 years for the bank, as 16-year high interest rates weighed on earnings via high deposit costs. However, we remain confident in this exemplary bank, which has proved essentially immune to downturns thanks to its rock-solid business model. Enterprise is not facing any liquidity issues. We expect modest performance in the near term but a recovery in the upcoming years thanks to lower expected interest rates. The bank has raised its dividend by 4% this year and thus it has now grown its dividend for 30 consecutive years.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.44	\$1.55	\$1.70	\$1.68	\$2.47	\$2.89	\$2.64	\$3.50	\$3.52	\$3.11	<b>\$2.90</b>	<b>\$3.53</b>
<b>DPS</b>	\$0.48	\$0.50	\$0.52	\$0.54	\$0.58	\$0.64	\$0.70	\$0.74	\$0.82	\$0.92	<b>\$0.96</b>	<b>\$1.32</b>
<b>Shares<sup>1</sup></b>	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.1	12.2	12.3	<b>12.4</b>	<b>12.9</b>

Enterprise has an outstanding performance record, as it has remained profitable for 138 consecutive quarters. This is a testament to its prudent management and its focus on sustainable long-term growth. The bank has grown its earnings-per-share at an 8.9% average annual rate in the last decade and has grown its earnings-per-share in seven years throughout this period.

Enterprise opened a new branch in North Andover in January 2021 and its 27<sup>th</sup> branch in Londonderry, New Hampshire, in May 2022. While the opening of two new branches is not significant for most banks, it is important for Enterprise, as the bank has increased its branch count by 8%. Just like most banks, Enterprise is being hurt by the surge of interest rates to 16-year highs, which have caused increased deposit costs and lower net interest margins. However, the Fed expects to restore interest rates to 2.0%-2.5% until the end of 2026. Thanks to this tailwind, we expect Enterprise to grow its earnings-per-share by 4% per year beyond this year. The bank may grow even faster, but we prefer to be conservative due to its small market cap.

<sup>1</sup> 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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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.6	17.5	14.7	22.1	16.4	10.5	9.4	9.8	9.9	9.7	<b>8.3</b>	<b>12.0</b>
Avg. Yld.	2.1%	1.8%	2.1%	1.5%	1.4%	2.1%	2.8%	2.2%	2.3%	3.0%	<b>4.0%</b>	<b>3.1%</b>

Enterprise has traded at an average price-to-earnings ratio of 13.6 in the last decade. Given the small market cap of the bank, we consider its fair earnings multiple to be around 12.0. The stock is currently trading at a 10-year low price-to-earnings ratio of 8.3. If it reaches our fair value estimate until 2029, it will enjoy a 7.7% 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	33%	32%	30%	32%	23%	22%	27%	21%	23%	30%	<b>33%</b>	<b>37%</b>

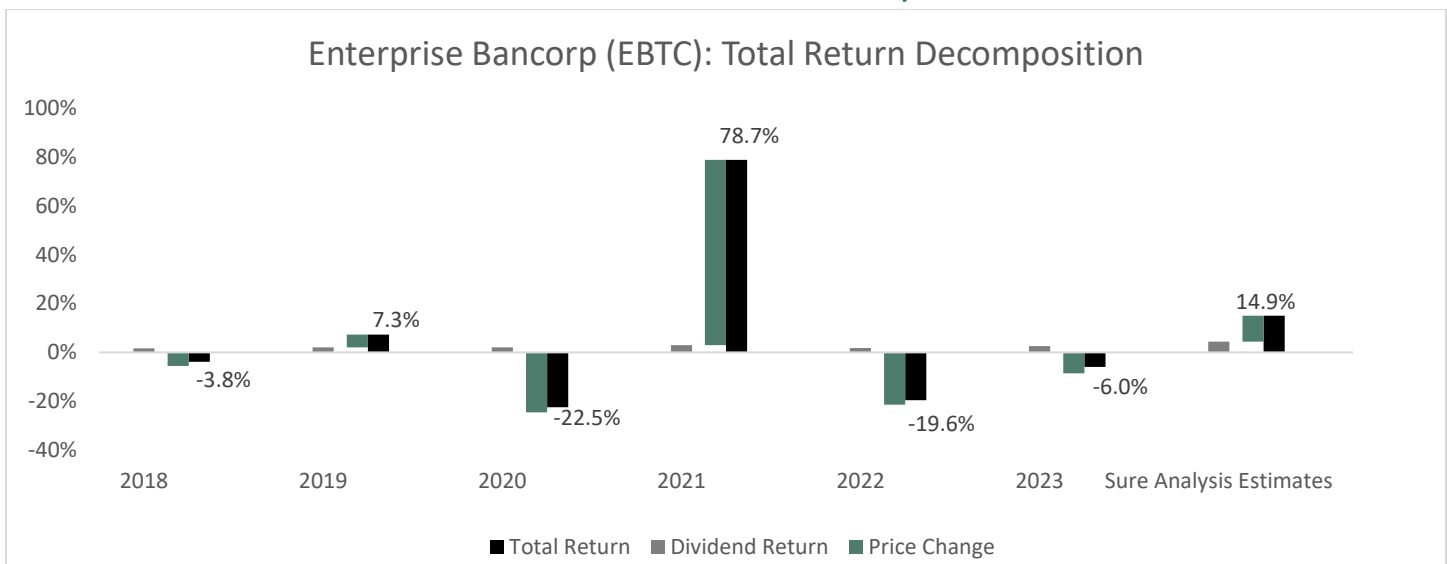
Enterprise has grown its dividend for 30 consecutive years. During the last decade, the bank has grown its dividend at a 7.2% average annual rate. In addition, Enterprise has been named to the Boston Globe's "Top Places to Work in Massachusetts" for 12 consecutive years, and was ranked 7<sup>th</sup> among large companies in 2020. The emphasis of the bank on its work force provides a slight competitive advantage.

During the Great Recession, the stock fell only -3% and its earnings-per-share jumped 37%, from \$0.70 to \$0.96. The outstanding performance in the worst financial crisis of the last 90 years is a testament to the great management of the bank and its resilience to recessions. On the other hand, as the bank was in high-growth mode back then, investors should not expect a similar performance in the next recession, though the bank proved resilient to the pandemic.

## Final Thoughts & Recommendation

Enterprise has plunged -25% since our last research report, in January, as inflation has proved somewhat sticky and hence the Fed is not likely to reduce interest rates this year as much as previously expected, thus causing high deposit costs to Enterprise. We view this headwind as temporary and expect the stock to offer a 14.9% average annual return over the next five years thanks to 4.0% growth of earnings-per-share, its 4.0% dividend and a 7.7% valuation tailwind. In spite of the risks associated with small-cap stocks, such as low liquidity and increased stock price volatility during downturns, we view Enterprise as one of the highest-quality banks. The stock 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	79	86	93	101	113	121	132	147	160	170
SG&A Exp.	43	48	51	55	60	64	68	76	82	77
D&A Exp.	5	5	6	6	7	7	6	7	8	7
Net Profit	14	15	16	19	19	29	34	31	42	43
Free Cash Flow	29	8	22	19	30	37	31	34	58	43
Income Tax	7	8	8	9	16	9	10	10	14	13

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1850	2022	2286	2526	2818	2964	3235	4014	4447	4438
Cash & Equivalents	52	40	51	50	55	63	64	254	437	268
Accounts Receivable	6	7	8	9	11	11	12	16	13	17
Goodwill & Int. Ass.	6	6	6	6	6	6	6	6	6	6
Total Liabilities	1699	1855	2105	2311	2586	2709	2938	3680	4101	4156
Accounts Payable	1	1	0	0	0	1	1	2	2	2
Long-Term Debt	47	70	68	26	104	115	111	79	64	62
Shareholder's Equity	151	167	180	215	232	255	297	334	347	282
LTD/E Ratio	0.31	0.42	0.38	0.12	0.45	0.45	0.37	0.23	0.19	0.22

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.8%	0.7%	0.8%	0.7%	1.0%	1.1%	0.9%	1.0%	1.0%
Return on Equity	9.3%	9.2%	9.3%	9.5%	8.7%	11.9%	12.4%	10.0%	12.4%	13.6%
ROIC	8.7%	8.6%	8.7%	8.8%	8.1%	11.2%	11.8%	7.7%	10.2%	11.3%
Shares Out.	10.0	10.2	10.4	11.5	11.6	11.7	11.9	12.0	12.1	12.1
Revenue/Share	7.39	8.39	8.35	9.17	9.71	10.28	11.17	12.36	13.25	14.01
FCF/Share	2.73	0.83	1.95	1.76	2.55	3.11	2.63	2.82	4.82	3.55

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

## Disclaimer

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