Eagle Bancorp Montana Inc. (EBMT)

Updated June 22nd, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$13.00	**5 Year CAGR Estimate:**	11.8%	**Market Cap:**	$104M
Fair Value Price:	$14.30	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	08/09/24
% Fair Value:	90.9%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date[1]:**	09/02/24
Dividend Yield:	4.3%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Eagle Bancorp Montana, Inc. is a bank holding company and its primary business activity is the ownership of Opportunity Bank of Montana (OBMT), a chartered commercial bank. The bank is primarily engaged in attracting deposits from the community and utilizing such deposits, along with borrowings and other funds, to originate one-to-four family residential real estate, commercial real estate, commercial, and agriculture loans. Additionally, the company invests in certain investment and mortgage-related securities. As of the first quarter of 2024, the company's total assets were $2.08 billion, total loans were $1.50 billion, and total deposits were $1.64 billion. Eagle Bancorp Montana operates 32 branch offices across the state of Montana. The company was founded in 1922 and has 383 employees.

On April 23rd, 2024, Eagle Bancorp Montana announced its financial results for the first quarter of the fiscal year 2024, ending March 31st, 2024. For the quarter, the company reported net income of $1.9 million, a decrease from the $2.2 million earned in the fourth quarter of 2023 and a significant decrease from the $3.2 million reported for the same quarter last year. Reported earnings per diluted share for the quarter were $0.24, compared to $0.28 in the fourth quarter of 2023 and $0.42 in the same quarter last year. The decline in earnings for the first quarter was primarily due to decreased revenues and higher funding costs, despite solid loan growth. Total loans increased by 8.7% year-over-year to $1.50 billion, reflecting strong demand across residential mortgage, commercial real estate, and agriculture loans. Compared to the fourth quarter of 2023, total gross loans increased modestly. Deposits increased by $0.4 million during the quarter, remaining consistent compared to the previous quarter, and by 1.7% or $2.5 million year-over-year, a positive sign for the bank's liquidity and its ability to support future loan growth. Net interest income totaled $15.2 million, remaining unchanged from the previous quarter but decreasing 7.4% compared to $16.4 million in the same quarter last year. This stability was due to higher loan volumes and stable interest margins. The company's net interest margin was 3.33% during the first quarter, a one basis point improvement compared to 3.32% in the fourth quarter of 2023, and a 53-basis point contraction compared to 3.86% in the first quarter a year ago. For the reporting period, the return on average assets was 0.37%, the return on average equity was 4.67%, and the core efficiency ratio was 86.95%. Credit quality remains strong, with net loan recoveries totaling $65,000 for the quarter and non-accrual loans constituting 0.35% of gross loans. The allowance for credit losses represented 227.6% of nonperforming loans on March 31, 2024, compared to 195.2% three months earlier and 210.6% a year earlier. Managements expects stabilization in deposit rates over the next several quarters, reflecting a more stable interest rate environment. Additionally, there is an anticipated continued improvement in the cost of funds during the second half of the year, which should support profitability.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.42	$0.67	$1.32	$0.99	$0.91	$1.69	$3.11	$2.17	$1.45	$1.29	***$1.30***	***$1.74***
DPS	$0.28	$0.31	$0.32	$0.34	$0.37	$0.38	$0.39	$0.45	$0.53	$0.56	***$0.56***	***$0.82***
Shares[2]	4	4	4	5	5	6	7	7	8	8	***8***	***8***

[1] Estimated date
[2] In millions.

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The company has grown earnings by 13.3% per year since 2014 and -5.1% over the past five years. The above average EPS ($3.11) in 2020 was driven by higher mortgage banking operations due to the historically low interest rate environment, substantial gains from loan sales, and significant contributions from the Paycheck Protection Program (PPP). These factors, combined with effective cost management, led to record earnings for that year. We expect earnings to increase by 6% per year for the next five years. The company has been able to increase its dividend for an impressive 13 consecutive years. Over the last five years, the average annual dividend growth rate is 8.1%. In July 2023, the company increased its quarterly dividend by 1.8% from $0.1375 to $0.14 per share. The Board of Directors has authorized the repurchase of up to 400,000 shares of its common stock beginning May 1st, 2024, representing approximately 5.0% of outstanding shares.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.5	16.7	10.5	19.4	20.6	10.5	5.9	10.5	13.9	10.7	***10.0***	***11.0***
Avg. Yld.	1.9%	2.7%	2.3%	1.8%	1.9%	2.1%	2.1%	2.0%	2.6%	4.1%	***4.3%***	***4.3%***

During the past decade shares of Eagle Bancorp Montana have traded with an average price-to-earnings ratio of about 13.4 and today, it stands at 10.0. We are using 11 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The stock's dividend yield is currently 4.3% which is above the average yield of 2.4% for the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	67%	46%	24%	34%	41%	22%	13%	21%	37%	43%	***43%***	***47%***

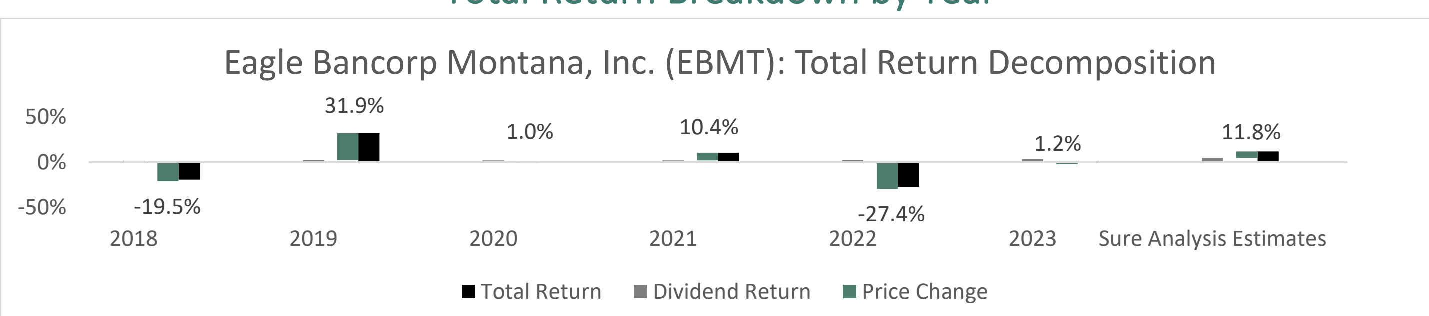
During the past five years, the company's dividend payout ratio has averaged around 35%. Eagle Bancorp Montana's dividend is at the moment comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Eagle Bancorp Montana, Inc., the holding company of Opportunity Bank of Montana, stands out in the competitive landscape due to its strong community banking model and strategic focus on high-quality loan growth. With a robust presence in Montana, the bank has developed a competitive advantage through personalized customer service and deep local market knowledge. During economic recessions, the bank has demonstrated resilience by maintaining strong asset quality and conservative lending practices, which have mitigated credit losses and safeguarded profitability.

Final Thoughts & Recommendation

Eagle Bancorp Montana is an old and well-established community bank active across the state of Montana. The company has a solid dividend track record and offers an above average yield. We estimate total return potential of 11.8% per year for the next five years based on a 6% earnings-per-share growth, the dividend, and a small valuation tailwind. The shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	14	30	37	37	41	61	90	90	87	83
SG&A Exp.	8	18	20	22	25	33	45	50	46	45
Net Profit	2	3	5	4	5	11	21	14	11	10
Net Margin	12.0%	8.7%	14.0%	10.9%	12.1%	17.7%	23.5%	16.0%	12.2%	12.1%
Free Cash Flow	4	4	11	17	7	(10)	(19)	44	25	(5)
Income Tax	(0)	0	2	2	1	3	7	5	3	2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	560	630	674	717	854	1,054	1,258	1,436	1,948	2,076
Cash & Equivalents	13	7	7	7	11	22	62	55	22	25
Acc. Receivable	2	2	2	3	3	5	6	6	11	12
Goodwill & Int.	12	13	13	14	21	27	33	36	58	56
Total Liabilities	506	575	614	633	759	933	1,105	1,279	1,790	1,906
Long-Term Debt	50	84	97	108	127	113	47	35	128	235
Total Equity	54	55	59	84	95	122	153	157	158	169
LTD/E Ratio	0.91	1.52	1.64	1.29	1.34	0.93	0.31	0.22	0.81	1.39

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	0.4%	0.8%	0.6%	0.6%	1.1%	1.8%	1.1%	0.6%	0.5%
Return on Equity	3.1%	4.7%	8.9%	5.7%	5.6%	10.0%	15.4%	9.3%	6.8%	6.1%
ROIC	1.6%	2.1%	3.5%	2.4%	2.4%	4.8%	9.8%	7.4%	4.5%	2.9%
Shares Out.	4	4	4	5	5	6	7	7	8	8
Revenue/Share	3.48	7.71	9.50	9.07	7.51	9.53	13.25	13.52	11.85	10.68
FCF/Share	0.96	1.10	2.75	4.00	1.19	(1.58)	(2.72)	6.65	3.40	(0.62)

Notes: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Accounts Payable data was not yet available from our data provider.