Farmers & Merchants Bancorp, Inc. (FMAO)

Updated June 20th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$22.00	**5 Year CAGR Estimate:**	7.0%	**Market Cap:**	$313.1 M
Fair Value Price:	$17.30	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	07/05/2024[1]
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date:**	07/19/2024[2]
Dividend Yield:	4.0%	**5 Year Price Target**	$25	**Years Of Dividend Growth:**	17
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Farmers & Merchants Bancorp, Inc. (FMAO) or F&M is a bank holding company headquartered in Archbold, Ohio, USA. It was founded in 1897 and currently operates in Ohio, Indiana, and Michigan. FMAO caters to a diverse set of customers, including individuals, businesses, and farmers, and offers a range of financial services, including deposit accounts, loans, credit cards, and online banking. FMAO faces significant competition from other regional and national banks, but its strong customer relationships and commitment to personalized service help it maintain a competitive position in the market. The company has a competitive position in the community banking market and holds a market share of 10%. FMAO's revenue segments are retail banking, commercial banking, and agricultural lending.

On May 1st, 2024, the company announced results for the first quarter of 2024. F&M reported GAAP EPS of $0.39, beating estimates by $0.04. Additionally, the company reported revenues of $24.06 million for the quarter, which were down 7.0% year-over-year.

The firm reported a net income of $5.4 million, or $0.39 per share, up notably with net interest income growing by 6.2%. Total loans were up 3.9% to $2.54 billion. Total assets hit another record at $3.29 billion, with deposits rising 4.3% to $2.62 billion. CEO Lars B. Eller ascribed that to the team's strategic initiatives and hard work, which had made the balance sheet more sound now with a lift in profitability. Eller focused on stability against the persistence of high deposit competition and interest rate uncertainty in net interest margin. A slight improvement in net interest margin and stable asset quality pushed up net interest income by 6.2%. This growth was supported by adding four new offices in 2023 and deposits of $78.6 million from new offices. The company expects continued efficiencies with improved efficiency ratios and productivity to support the overall strategy of enhancing profitability and expanding market presence in Ohio, Indiana, and Michigan.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.04	$1.12	$1.26	$1.38	$1.61	$1.66	$1.80	$2.01	$2.46	$1.67	***$1.58***	***$2.31***
DPS	$0.42	$0.44	$0.46	$0.50	$0.56	$0.61	$0.66	$0.71	$0.80	$0.85	***$0.88***	***$1.23***
Shares[3]	9.2	9.2	9.1	9.2	9.2	11.0	11.1	11.6	13.1	13.6	***14.2***	***17.9***

We have revised upwards our EPS forecast to match analysts' estimate of $1.58 for 2024. The forecasts suggest lower interest rates in the following years despite the high-interest rate environment. With a projected annual EPS growth of 8.0%, FMAO's EPS can reach $2.31 by 2029. F&M's DPS had a 10-year and five-year CAGR of 8.1% and 23.2%, respectively. Considering the company's five-year average payout ratio of 38%, we believe there is room for further DPS growth. Further, EPS can grow due to margin expansion.

[1] The ex-div date is estimated based on historical data.
[2] The dividend payment date is estimated based on historical data.
[3] 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.

Farmers & Merchants Bancorp, Inc. (FMAO)

Updated June 20th, 2024, by Yiannis Zourmpanos

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.1	11.8	11.9	21.6	25.8	17.3	12.9	12.1	13.0	13.3	***14.0***	***11.0***
Avg. Yld.	3.3%	3.3%	3.1%	1.7%	1.3%	2.1%	2.9%	2.9%	2.5%	3.8%	***4.0%***	***4.8%***

F&M is trading at a forward P/E of 14.0, lower than its 10-year and five-year average P/E of 15.2 and 13.7, respectively. Considering the bank's resiliency, we have assumed a stable P/E of 11.0 to value the stock, slightly lower than its historical averages, as this accounts for the uncertainty attached to the sector, suggesting a target price of $25.

Safety, Quality, Competitive Advantage, & Recession Resiliency

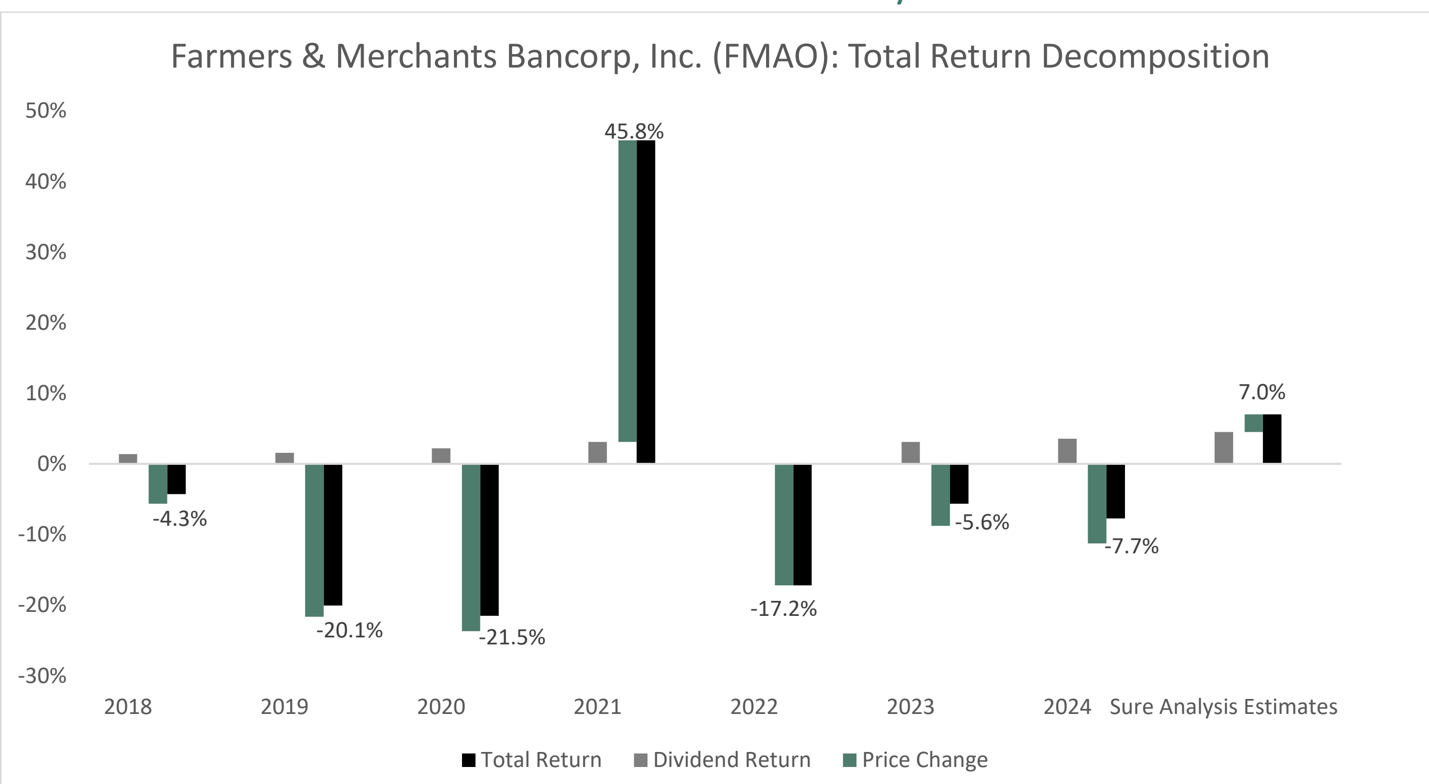
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	40%	39%	37%	36%	35%	37%	37%	35%	33%	51%	***56%***	***53%***

The company's competitive advantage lies in its longstanding reputation for providing quality financial services to its customers, along with its strong presence in the communities it serves. During the recession of 2008, F&M, performed well due to its conservative lending practices and strong capital position. In general, F&M has a stable dividend payout ratio, and we expect it to hover in the 50% range, which is above its historical average of 38.0%.

Final Thoughts & Recommendation

The loan pipeline and the margins are performing better; thus, we anticipate higher earnings-per-share in 2024, especially given that interest rates are expected to support profit growth. Following the banking crisis, the sector outlook remains somewhat uncertain. Therefore, we maintain our rating to hold, premised upon the 7.0% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, the 4.0% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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.

Farmers & Merchants Bancorp, Inc. (FMAO)

Updated June 20th, 2024, by Yiannis Zourmpanos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	40	41	44	46	49	64	75	85	100	95
SG&A Exp.	20	21	20	21	23	30	32	38	42	50
D&A Exp.	2	2	2	2	2	4	4	5	4	6
Net Profit	10	10	12	13	15	18	20	23	33	23
Net Margin	24.3%	25.3%	26.8%	27.9%	30.3%	28.9%	26.8%	27.7%	32.4%	24.2%
Free Cash Flow	16	13	10	16	8	20	24	33	38	11
Income Tax	4	4	5	5	3	4	5	6	8	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	941	989	1,056	1,107	1,116	1,607	1,910	2,638	3,015	3,283
Cash & Equivalents	22	21	29	37	42	54	103	146	88	144
Goodwill & Int.	6	6	6	6	6	50	51	84	90	92
Total Liabilities	827	869	930	973	973	1,377	1,660	2,341	2,717	2,967
Long-Term Debt	-	10	10	5	-	25	18	99	172	300
Total Equity	114	120	126	134	143	230	249	297	298	317
LTD/E Ratio	-	0.08	0.08	0.04	-	0.11	0.07	0.33	0.58	0.95

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.0%	1.1%	1.1%	1.2%	1.3%	1.4%	1.1%	1.0%	1.2%	0.7%
Return on Equity	8.6%	8.8%	9.5%	9.8%	10.8%	9.9%	8.4%	8.6%	10.9%	7.4%
ROIC	8.5%	8.5%	8.8%	9.3%	10.6%	9.2%	7.7%	7.1%	7.5%	4.2%
Shares Out.	9.2	9.2	9.1	9.2	9.2	11.0	11.1	11.6	13.1	13.5
Revenue/Share	4.33	4.45	4.77	4.98	5.37	5.72	6.72	7.27	7.60	7.02
FCF/Share	1.77	1.43	1.10	1.72	0.88	1.84	2.17	2.81	2.88	0.83

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