Northrim BanCorp, Inc. (NRIM)

Updated August 21st, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$357.8 M
Fair Value Price:	$47	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	09/06/2024[1]
% Fair Value:	138%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Dividend Payment Date:**	09/16/2024[2]
Dividend Yield:	3.8%	**5 Year Price Target**	$75	**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 $125.3 million or revenue last year. 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 July 24th, 2024, the company announced results for the second quarter of 2024. NRIM reported non-GAAP EPS of $1.62, beating analysts' estimates by $0.31.

Profitability improved primarily due to growth in mortgage banking income, net interest income, and a reduced provision for credit losses. Net interest income increased 2% from the prior quarter to $27.1 million, and tax-equivalent net interest margin improved to 4.30% as asset yields remained very strong. The company increased portfolio loans by 4% from the prior quarter. More relationships with clients were added to the company's portfolio, and retention of mortgage loans originated by Residential Mortgage, a subsidiary of Northrim Bank.

Better still were the comments by President and Chief Executive Officer Mike Huston, emphasizing the strategic emphasis on taking a share of the market and maintaining disciplined credit practices. These were partly driven by the deposit growth, with total deposits increasing 1% from the prior quarter to $2.46 billion. Originations during the quarter came in at $181.51 million, compared to $101.73 million in the first quarter of 2024. Lastly, Northrim is optimistic that the deposit and loan growth will continue across an expanding footprint in Alaska. Fintech has appointed Nathan Reed as Chief Information Officer, demonstrating its commitment to updating its online banking presence and operational processes.

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	***$5.83***	***$9.39***
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[3]	6.8	6.9	6.9	6.9	6.9	6.7	6.4	6.2	5.8	5.7	***5.6***	***5.1***

The bank's net interest income slightly decreased to $26.4 million from $26.7 million in the preceding quarter yet showed an increase from the year-ago quarter, indicating a generally stable interest income scenario. The NIM

[1] Estimated ex-dividend date.
[2] Estimated dividend payment date.
[3] In millions of shares

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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experienced a slight uplift, which can be attributed to better management of asset yields and cost of funds. These indicators are crucial as they reflect the core profitability of the bank's primary activities of lending and investing.

Considering the expected declining interest rate environment, we revised downwards our EPS estimate for 2024 to $5.83, which is the midpoint of analysts' estimates. 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 a lower net interest margin, leading to NRIM's EPS of $9.39 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 15 years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.1	10.1	12.7	16.7	13.1	12.0	5.6	6.9	8.5	10.3	***11.0***	***8.0***
Avg. Yld.	2.8%	2.9%	3.1%	2.8%	2.9%	3.6%	5.0%	3.7%	4.5%	5.2%	***3.8%***	***5.7%***

Northrim BanCorp trades at a forward P/E of 11.0, 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 $75.

Safety, Quality, Competitive Advantage, & Recession Resiliency

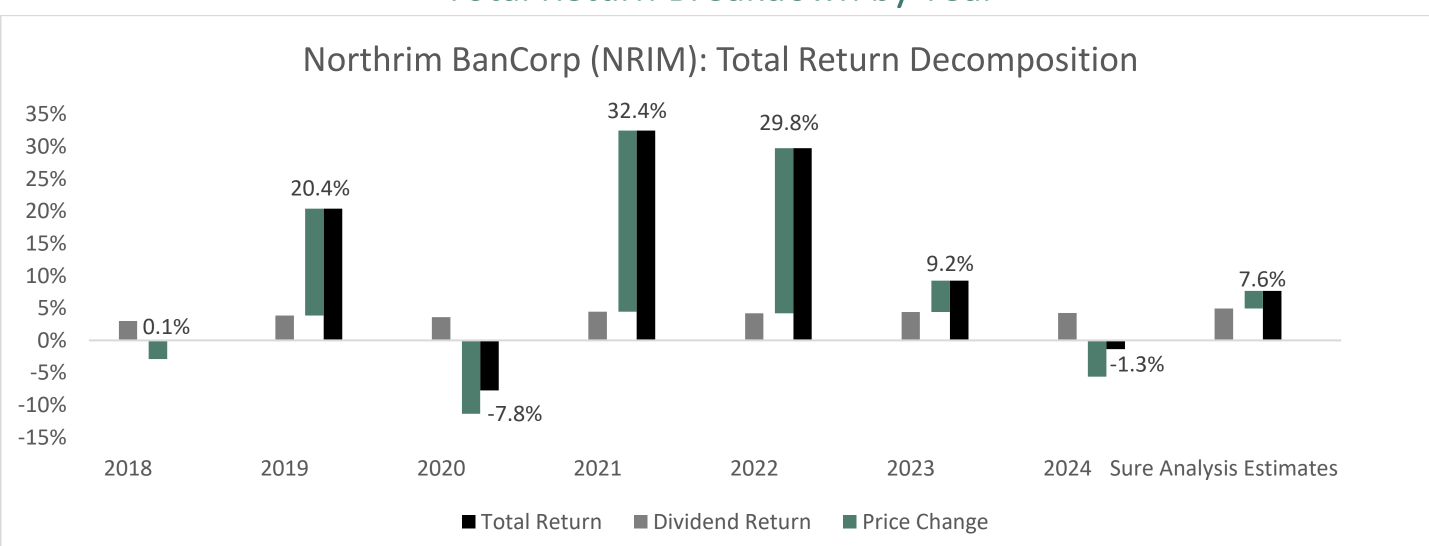
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	29%	39%	47%	38%	43%	28%	26%	38%	53%	***42%***	***46%***

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. In Q2 2024, Northrim BanCorp did not repurchase any shares of common stock during the second quarter of 2024, leaving 110,000 shares available for repurchase under the current share repurchase program as of June 30, 2024

Final Thoughts & Recommendation

The bank is well-positioned to weather the storm and emerge stronger amidst the rising interest rate environment. Thus, we revised our rating to hold premised upon the 7.6% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, 3.8% dividend yield, and the valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	68	102	100	94	93	102	134	133	129	130
SG&A Exp.	35	52	55	54	54	61	65	65	63	67
D&A Exp.	2	3	3	4	3	4	4	4	4	4.5
Net Profit	17	18	14	13	20	21	33	38	31	25
Net Margin	25.4%	17.5%	14.5%	14.0%	21.4%	20.3%	24.5%	28.2%	23.8%	19.2%
Free Cash Flow	14	3	17	12	21	(4)	(40)	109	74	33
Income Tax	8	9	6	10	4	5	10	10	8	6.2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,449	1,499	1,527	1,519	1,503	1,644	2,122	2,725	2,674	2,807
Cash & Equivalents	72	59	51	78	78	95	116	646	259	119
Acc. Receivable	3	4		4	5	5	8	7	10	12
Goodwill & Int.	25	25	20	29	33	34	32	34	38	38
Total Liabilities	1,285	1,322	1,340	1,326	1,297	1,437	1,900	2,487	2,456	2,573
Long-Term Debt	45	21	23	18	18	19	25	25	24	24
Total Equity	164	177	187	193	206	207	222	238	219	235
LTD/E Ratio	0.27	0.12	0.12	0.09	0.09	0.09	0.11	0.10	0.11	0.10

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.2%	1.0%	0.9%	1.3%	1.3%	1.7%	1.5%	1.1%	0.9%
Return on Equity	11.3%	10.4%	7.9%	6.9%	10.0%	10.0%	15.3%	16.3%	13.5%	11.2%
ROIC	9.2%	8.7%	7.1%	6.3%	9.2%	9.2%	13.9%	14.7%	12.2%	10.1%
Shares Out.	6.8	6.9	6.9	6.9	6.9	6.7	6.4	6.2	5.8	5.7
Revenue/Share	9.99	14.61	14.28	13.43	13.37	14.95	20.83	21.30	22.16	22.90
FCF/Share	1.99	0.50	2.41	1.73	3.03	(0.57)	(6.18)	17.52	12.74	5.76

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