Southern Missouri Bancorp, Inc. (SMBC)

Published August 5th, 2024, by Kody Kester

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$560M
Fair Value Price:	$52	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	08/12/24
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.9%	**Dividend Payment Date:**	08/29/24
Dividend Yield:	1.9%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Founded in 1887, Southern Missouri Bancorp, Inc. is a community bank with a rich corporate history. The bank holding company is the parent company of Southern Bank. Across more than 60 full-service branch offices and three limited-service branch offices, the Poplar Bluff, Missouri-based bank serves over 50 communities in Missouri, Arkansas, Illinois, and Kansas. As of June 30, 2024, the company held $4.6 billion in total assets.

SMBC provides a variety of services to these individual and corporate customers. That includes money market deposit accounts, saving accounts, retirement savings plans, and certificates of deposit. Loan products include residential mortgages, commercial real estate loans, commercial business loans, construction loans, home equity loans, and automobile loans. Additionally, SMBC offers investing and insurance services, debit or credit cards, and online and mobile banking services.

In recent years, the company has leaned into acquisitions to enhance its economies of scale and to realize cost synergies. In the past five years, SMBC has closed several deals and acquired $1.5 billion in total assets. The most recent acquisition of Citizens Bancshares, Co. (parent company of Citizens Bank & Trust Company) and its nearly $1 billion in total assets was completed in January 2023.

On July 29, SMBC released its financial results for the fiscal fourth quarter ended June 30, 2024. The company's net interest income fell by 3.1% year-over-year to $35.1 million during the fiscal quarter. An uptick in the share of interest-bearing deposits countered a 6.1% growth rate in total deposits over the year-ago period. That's what caused a 35 basis point contraction in net interest margin to 3.25% in the fiscal quarter. Non-interest income declined by 13.2% year-over-year to $7.8 million for the fiscal fourth quarter. This was due to lower loan servicing fees, wealth management fees, and loan origination.

SMBC's diluted EPS decreased by 13.2% over the year-ago period to $1.19 during the fiscal fourth quarter. That was $0.19 ahead of the analyst consensus. This lower diluted EPS base was the result of the mid-single-digit percentage drop in revenue and the year-over-year contraction in net interest margin.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.79	$1.98	$2.08	$2.39	$3.14	$2.99	$5.21	$5.22	$3.85	$4.42	***$4.75***	***$6.98***
DPS	$0.34	$0.36	$0.40	$0.44	$0.52	$0.60	$0.62	$0.80	$0.84	$0.84	***$0.92***	***$1.29***
Shares[2]	7.4	7.4	8.6	9.0	9.3	9.1	8.9	9.2	11.3	11.3	***11.3***	***13.7***

Moving forward, there are a few catalysts that we believe could work in SMBC's favor. For one, the company's net interest margin improved by 10 basis points sequentially from Q3 2024 to Q4 2024. As the net interest margin gradually continues to expand, this will aid the company's diluted EPS growth prospects. Secondly, the company should benefit from organic growth as the economic activity of the communities that it serves continues to grow. Finally, SMBC has plenty of room to keep executing bolt-on acquisitions to further grow the business. These acquisitions will likely result in

[1] Estimate
[2] Share count is in millions.

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moderate growth in the company's diluted share count in the years ahead. Thanks to these factors, we think that diluted EPS will rise by 8% annually over the next five years from the current FY 2025 consensus of $4.75.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	10.6	12.3	15.5	16.3	11.1	7.7	8.7	8.8	10.0	10.2	***10.5***	***11.0***
Avg. Yld.	1.8%	1.5%	1.2%	1.1%	1.5%	2.6%	1.4%	1.7%	2.2%	1.9%	***1.9%***	***1.7%***

In the past 10 years, SMBC's P/E ratio has varied from the high-single-digits to the mid-teens. The stock's average P/E ratio over the last decade is 11. We think the 10-year average P/E ratio remains a sensible estimate for fair value moving forward. This is because the company's forward growth prospects are comparable to the growth posted over that time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	19%	18%	19%	18%	17%	20%	12%	15%	22%	19%	***19%***	***18%***

SMBC's 137-year operating history means that it has very established relationships with its existing customers. Its wide variety of banking products and resulting harmonious customer relationships are also helping to drive organic growth.

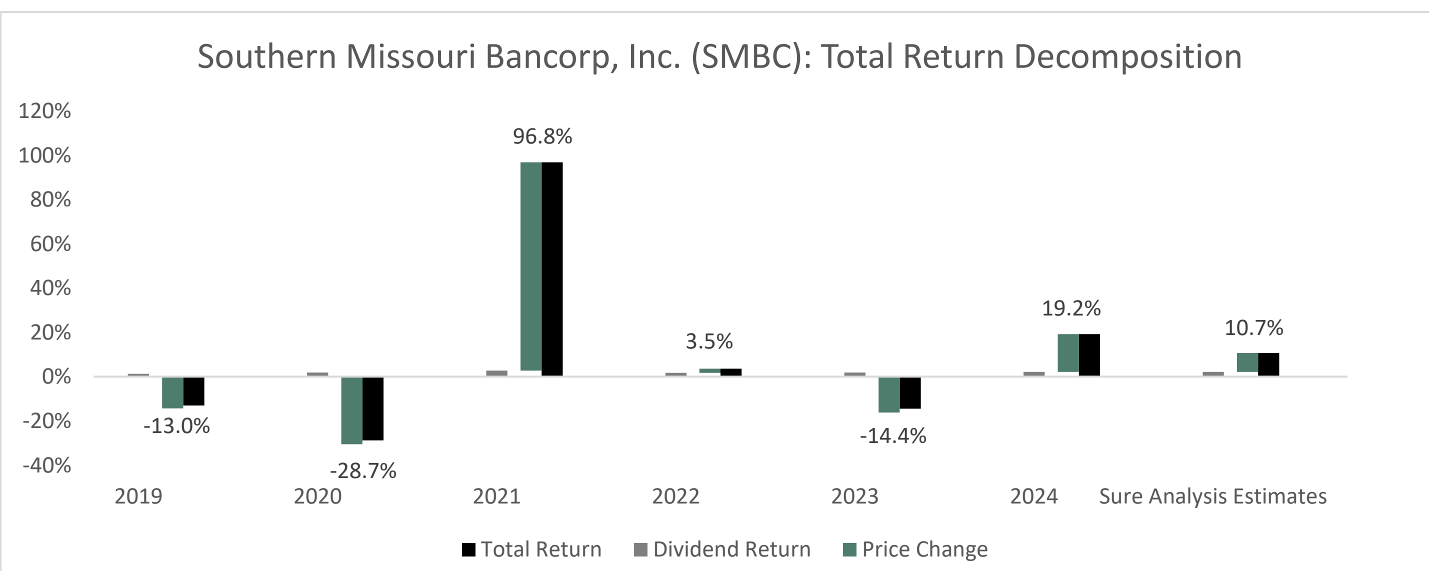
SMBC's diluted EPS has moved higher in eight out of the last 10 fiscal years. Even in its worst year of the decade (FY 2023), diluted EPS was only reduced by a quarter. Coupled with a dividend payout ratio that has historically been in the teens to 20% range, that makes the dividend relatively secure for a community bank. These elements make up for the fact that a plurality of SMBC's loans (40.9% as of June 30, 2024) are in the commercial real estate class.

Lastly, SMBC's balance sheet is conservatively managed. As of June 30, the company's capital reserves were 496.9% of non-performing assets. For perspective, that is nearly double the peer median of 268%. This should leave the company with the solvency necessary to navigate a potential recession.

Final Thoughts & Recommendation

SMBC's 1.9% dividend yield, 8.0% annual diluted EPS growth prospects, and 0.9% annual valuation multiple upside could generate 10.7% annual total returns over the next five years. We believe the company's current valuation provides an ample margin of safety to justify beginning coverage with a buy rating.

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.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	54	56	61	75	86	95	113	125	153	164
SG&A Exp.	20	20	22	30	34	38	33	38	50	58
D&A Exp.	3	4	4	5	5	6	5	6	8	
Net Profit	14	15	16	21	29	28	47	47	39	50
Net Margin	25.2%	26.6%	25.5%	28.0%	33.7%	29.0%	41.9%	37.8%	25.7%	30.5%
Free Cash Flow	12	8	23	29	31	36	49	63	56	
Income Tax	6	7	6	8	7	7	13	13	10	13

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,300	1,404	1,708	1,886	2,214	2,542	2,701	3,215	4,360	4,604
Cash & Equivalents	19	23	32	28	36	55	125	92	55	61
Accounts Receivable	5	6	7	8	10	12	10	11	19	
Goodwill & Int. Ass.	9	8	15	20	23	22	21	35	81	77
Total Liabilities	1,167	1,278	1,535	1,685	1,976	2,284	2,417	2,894	3,914	4,116
Accounts Payable	1	1	1	1	2	2	1	1	5	
Long-Term Debt	79	125	61	95	63	85	73	61	157	125
Shareholder's Equity	113	126	173	201	238	258	283	321	446	489
LTD/E Ratio	0.60	0.99	0.36	0.47	0.26	0.33	0.26	0.19	0.35	0.26

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.1%	1.0%	1.2%	1.4%	1.2%	1.8%	1.6%	1.0%	1.1%
Return on Equity	11.2%	11.5%	10.4%	11.2%	13.2%	11.1%	17.4%	15.6%	10.2%	10.7%
ROIC	6.5%	6.4%	6.4%	7.9%	9.7%	8.5%	13.5%	12.8%	8.0%	8.2%
Shares Out.	7.4	7.4	8.6	9.0	9.3	9.1	8.9	9.2	11.3	11.3
Revenue/Share	7.22	7.47	8.13	8.55	9.33	10.31	12.51	13.85	15.08	14.54
FCF/Share	1.66	1.05	3.01	3.26	3.36	3.91	5.43	6.96	5.52	

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