



International Bancshares Corporation (IBOC)

Updated September 10th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	14.9%	Market Cap:	\$3.76 B
Fair Value Price:	\$77	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/14/2025 ¹
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.8%	Dividend Payment Date:	02/28/2025 ²
Dividend Yield:	2.2%	5 Year Price Target	\$113	Years Of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

International Bancshares Corporation (IBOC) is a financial holding company based in Laredo, Texas. Founded in 1966, International Bancshares is a multi-bank financial holding company that provides banking and financial services through its subsidiary banks in Texas and Oklahoma. International Bancshares has a diverse customer base, including individuals, small businesses, and large corporations. International Bancshares operates in several revenue segments, including commercial and retail banking, wealth management, insurance, and international trade finance.

On August 2nd, 2024, the company announced results for the second quarter of 2024. IBOC reported Q2 non-GAAP EPS of \$1.56 and a net income of \$97.3 million for the quarter.

Through the first six months of 2024, net income reached \$194.3 million, a 3.9% decline compared to \$202.1 million in the first half of 2023. That decline resulted from higher interest expenses, which offset increases in interest income generated by the larger loan and investment portfolios together with continued high interest rates.

Total assets for IBOC were \$15.5 billion at June 30, 2024, compared to \$15.1 billion at year-end 2023. Net loans have grown to \$8.1 billion, while deposits have grown to \$12.0 billion, reflecting the bank's continued efforts to grow and retain deposits in this competitive rate environment. In addition, net income was further affected by an increased provision for credit losses, leading to a charge-down related to a bankruptcy foreclosure. Nevertheless, despite these headwinds, IBOC still underpins its strong balance sheet management and operational efficiencies to ensure continued industry-leading financial performance.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.29	\$2.06	\$2.03	\$2.38	\$3.27	\$3.13	\$2.63	\$4.01	\$4.79	\$6.62	\$7.00	\$10.29
DPS	\$0.52	\$0.58	\$0.60	\$0.66	\$0.75	\$1.05	\$1.10	\$1.15	\$1.20	\$1.26	\$1.32	\$2.13
Shares³	67.1	66.6	66.3	66.8	66.6	65.7	63.9	63.5	62.8	62.1	61.6	59.0

The increase in interest income has been used in conjunction with cost management activities to streamline processes and boost operational efficiencies. To capture the risk of potential losses in the IBOC portfolio resulting from those uncertain economic conditions, management continued to monitor how economic conditions, including a potential recession, impact the loan portfolio and has factored those forecasts into the allowance for credit loss calculation. IBOC's loan portfolio includes commercial, real estate, personal, home improvement, automobile, and other installment and term loans. With interest rates rising, IBOC can charge higher interest rates on these loans, increasing net interest income. Furthermore, as a financial holding company, IBOC may also be able to invest in higher-yielding fixed-income securities, such as government bonds or corporate bonds, which could also boost its interest income. Lastly, as interest rates rise, depositors may demand higher returns on their savings, and IBOC may need to offer higher interest rates to remain competitive. Considering the current interest rate environment, we maintain our EPS estimate for 2024 of \$7.00

¹ Estimated ex-dividend date.

² Estimated dividend payment date.

³ Shares in millions.

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with a projected annual EPS growth of 8.0% for the following years. This is lower than the company's CAGR of 12.5% since 2014, but leads to an EPS estimate of \$10.29 by 2029. In addition, International Bancshares's DPS had a 10-year and five-year CAGR of 10.3% and 29.6%, respectively, and has consistently increased the dividend payments for the last 15 years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.0	12.7	14.3	15.7	12.6	12.5	12.0	10.7	9.1	6.9	8.7	11.0
Avg. Yld.	2.1%	2.2%	2.1%	1.8%	1.8%	2.7%	3.5%	2.7%	2.7%	2.8%	2.2%	1.9%

International Bancshares trades at a forward P/E of 8.7, lower than its long- and medium-term average P/E of 11.7 and 10.2, respectively. Considering the bank's resiliency, we have assumed a stable P/E of 11.0 to value the company by 2029, in-line with its normalized historical averages, suggesting a target price of \$113.

Safety, Quality, Competitive Advantage, & Recession Resiliency

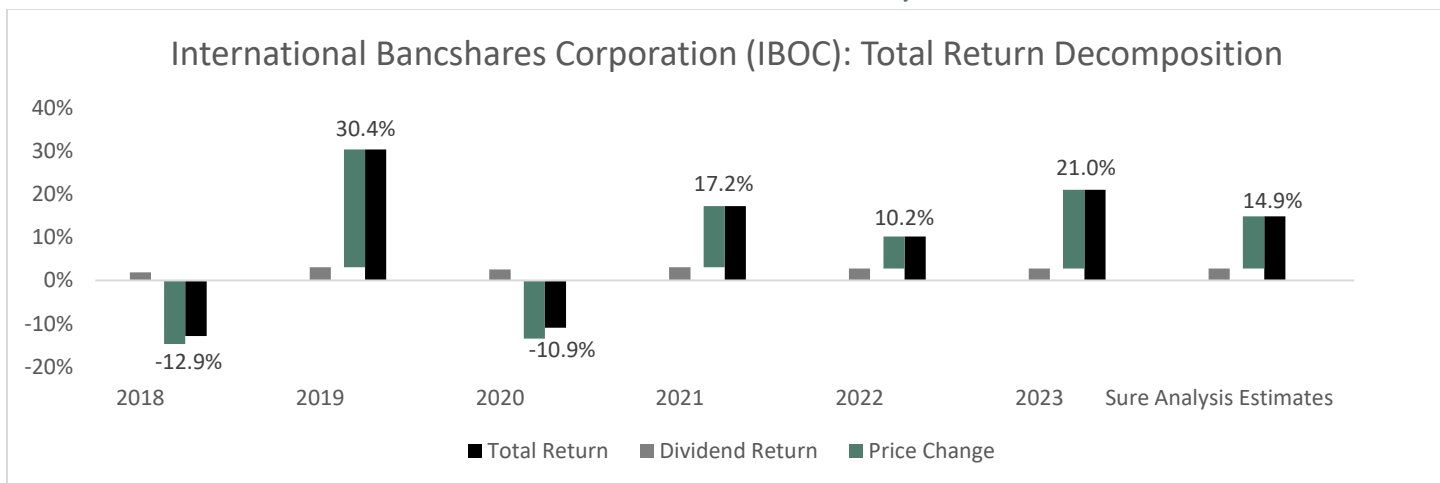
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23%	28%	30%	28%	23%	34%	42%	29%	25%	19%	19%	21%

International Bancshares has a competitive advantage due to its strong presence in the Texas border region and Mexico, which allows it to serve a diverse and growing customer base. During the 2008 recession, IBOC demonstrated strong performance, with low loan losses and stable earnings, indicating its resilience to economic downturns. Additionally, IBOC has maintained a conservative approach to debt management, with a low debt-to-equity ratio, indicating a solid financial position and ability to weather market fluctuations. IBOC has consistently paid dividends over the past 14 years, with a stable payout ratio of around 28%, suggesting that the bank can potentially continue to increase its dividend distributions in the rising interest rate environment.

Final Thoughts & Recommendation

Looking ahead, International Bancshares is well-positioned to benefit from an economic recovery in the U.S. and the Texas border region, where the bank has a significant presence. Additionally, IBOC's exposure to the Mexican market provides an additional growth opportunity as the country continues to be a key trading partner with the U.S. and experiences economic growth. Thus, we maintain our buy rating premised upon the 14.9% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, 2.2% dividend yield, and multiple expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	525	508	506	527	578	589	538	594	675	833
SG&A Exp.	135	139	142	144	150	155	136	132	139	146
D&A Exp.	26	26	25	25	26	28	28	25	22	22
Net Profit	153	137	134	157	216	205	167	254	300	412
Net Margin	29.1%	26.9%	26.4%	29.9%	37.3%	34.8%	31.1%	42.8%	44.5%	49.5%
Free Cash Flow	143	184	164	183	208	282	298	281	369	447
Income Tax	77	70	63	64	57	55	44	68	82	112

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	12,197	11,773	11,804	12,185	11,872	12,113	14,029	16,046	15,501	15,070
Cash & Equivalents	255	273	269	265	317	257	1,997	3,209	2,088	651
Acc. Receivable	31	32	32	34	37	37	38	31	46	65
Goodwill & Int.	283	283	283	283	283	283	283	283	283	283
Total Liabilities	10,616	10,107	10,079	10,346	9,932	9,995	11,851	13,738	13,457	12,620
Long-Term Debt	1,249	667	894	1,356	866	761	571	571	146	120
Total Equity	1,581	1,666	1,725	1,839	1,940	2,118	2,178	2,308	2,045	2,448
LTD/E Ratio	0.79	0.40	0.52	0.74	0.45	0.36	0.26	0.25	0.07	0.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.1%	1.1%	1.3%	1.8%	1.7%	1.3%	1.7%	1.9%	2.7%
Return on Equity	10.2%	8.4%	7.9%	8.8%	11.4%	10.1%	7.8%	11.3%	13.8%	18.3%
ROIC	5.4%	5.3%	5.4%	5.4%	7.2%	7.2%	5.9%	9.0%	11.8%	17.3%
Shares Out.	67.1	66.6	66.3	66.8	66.6	65.7	63.9	63.5	62.8	62.2
Revenue/Share	7.84	7.63	7.64	7.89	8.68	8.96	8.43	9.35	10.74	13.39
FCF/Share	2.13	2.76	2.48	2.73	3.13	4.29	4.67	4.43	5.87	7.18

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

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