National Bank Holdings Corporation (NBHC)

Published September 20th, 2024, by Kody Kester

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$1.6B
Fair Value Price:	$43	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	11/27/24
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	12/20/24
Dividend Yield:	2.6%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	9
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 2009, National Bank Holdings Corporation began about the same time that the Great Recession ended. NBHC is the holding company of NBH Bank. As of June 30th, 2024, the bank held $10 billion in assets. NBHC serves customers in Colorado, the Kansas City region, Utah, Wyoming, Texas, New Mexico, and Idaho across more than 90 banking centers.

The Denver-based bank holding company operates the following four brand names as divisions of NBH Bank:

1. Community Banks of Colorado and Community Banks Mortgage: Unsurprisingly, these operations are based in Colorado.
2. Bank Midwest and Bank Midwest Mortgage: Operations for this division are based in Kansas and Missouri.
3. Bank of Jackson Hole and Bank of Jackson Hole Mortgage: This division serves customers in Wyoming.
4. Hillcrest Bank and Hillcrest Bank Mortgage: The division operates in Texas, Utah, New Mexico, and Idaho.

NBHC's savings products include savings accounts, money market accounts, checking accounts, and certificates of deposit. More noteworthy loan products offered are residential real estate loans, consumer loans, small business association loans, and commercial loans. Other services provided include treasury management solutions, cash vault, and fraud prevention services.

On July 23rd, NBHC released its financial results for the second quarter ended June 30th. The bank's net interest income decreased by 6.9% year-over-year to $83.6 million in the quarter. High single-digit annualized loan growth was more than offset by a 31-basis point contraction in the net interest margin to 3.76% during the quarter. This was because of a larger mix of higher-yielding savings products. Non-interest income edged 1.5% higher over the year-ago period to $14 million for the quarter due to greater other non-interest income (e.g., SBA loan income and trust income). NBHC's diluted EPS decreased by 20% year-over-year to $0.68 in the quarter. That was $0.06 less than the analyst consensus during the quarter. This was driven by a combination of lower revenue and higher non-interest expenses.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.29	$0.19	$0.73	$1.26	$2.16	$2.55	$2.91	$3.04	$3.05	$3.72	***$3.04***	***$4.26***
DPS	$0.20	$0.20	$0.22	$0.34	$0.54	$0.75	$0.80	$0.87	$0.94	$1.04	***$1.12***	***$1.56***
Shares[2]	38.9	30.4	26.4	26.9	30.8	31.2	30.6	30.0	37.6	37.8	***37.9***	***46.1***

In the past decade, NBHC has compounded diluted EPS by over 30% annually. Acquisitions like the Bank of Jackson Hole in 2022 were a big part of this growth. Organically, NBHC operates in favorable markets. States like Wyoming and Idaho are routinely ranked as the most business-friendly states in the nation. That is helping to drive loan growth for the company.

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

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In the future, we expect more bolt-on acquisitions. That's why we believe the share count will moderately rise in the years ahead. Along with an improving interest rate environment, this should yield annual diluted EPS growth in the high single-digits for NBHC through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	66.8	111.6	43.8	25.8	14.3	14.1	11.3	14.5	13.8	10.0	***14.0***	***14.0***
Avg. Yld.	1.0%	0.9%	0.7%	1.0%	1.8%	2.1%	2.4%	2.0%	2.2%	2.8%	***2.6%***	***2.6%***

In the past decade, the valuation for shares of NBHC has been quite volatile. Shares have been as cheap as a P/E ratio of 10 and as expensive as 100-plus. In recent years (since 2018), the P/E ratio has been around 13 to 14. Moving forward, we believe that the current valuation multiple of 14 represents a sensible multiple and approximates fair value. For its more modest growth to come, a margin of safety would arguably be more ideal.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	69%	105%	30%	27%	25%	29%	27%	29%	31%	28%	***37%***	***37%***

NBHC's business strategy to provide customers with a high level of personalized service is key to retaining existing clients and drawing in new business. This has led to consistent diluted EPS growth over time for the company.

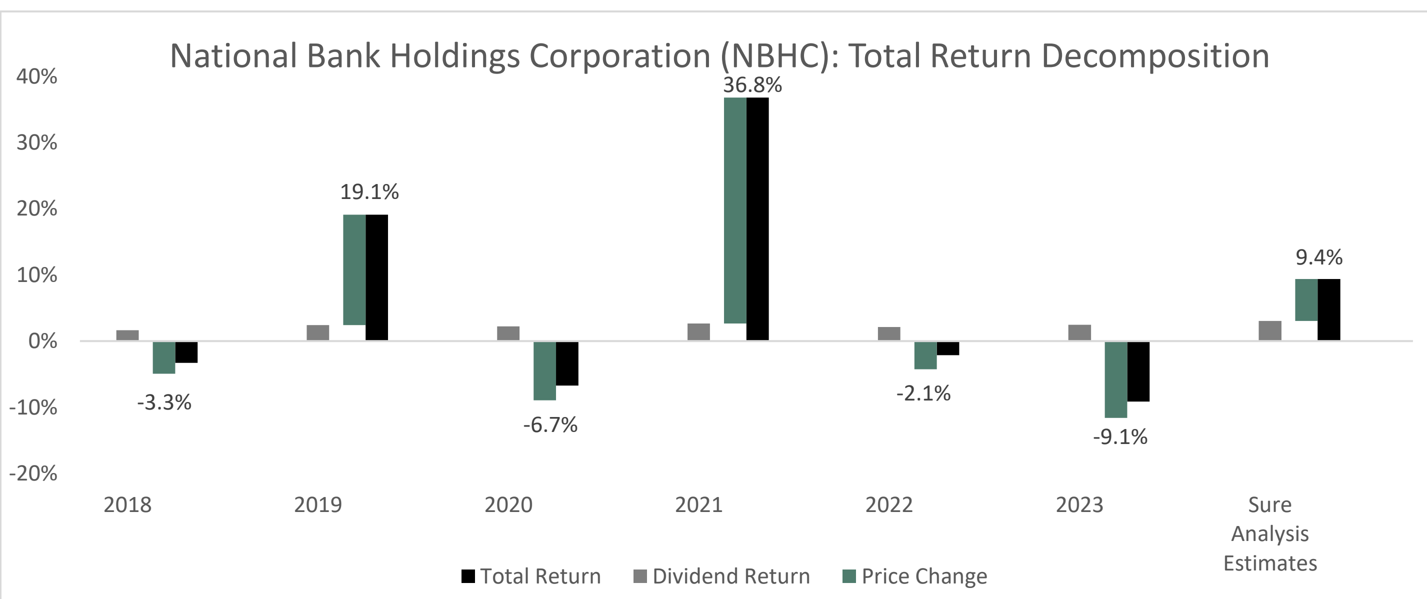
NBHC's already decent asset quality is getting better as well. The bank's total non-performing assets to total loans ratio improved sequentially by 17 basis points and 14 basis points year-over-year to 0.36% during the second quarter.

NBHC's dividend payout ratio is set to be in the high 30% range in 2024. That is within the 30% to 40% payout ratio targeted by the bank. This could position the dividend for continued growth for the foreseeable future.

Final Thoughts & Recommendation

NBHC's 2.6% dividend yield, 7.0% annual diluted EPS growth potential, and stable valuation multiple could lead to 9.4% annual total returns over the medium term. This is just short of the double-digit annual total return potential that we would like to see accompany our buy ratings, so we're starting coverage with a hold 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	218	192	186	186	268	291	329	292	329	420
SG&A Exp.	140	118	92			136	145	132	131	149
D&A Exp.	16	16	14	13	12	15	14	14	16	24
Net Profit	9	5	23	15	61	80	89	94	71	142
Net Margin	4.2%	2.5%	12.4%	7.9%	22.9%	27.6%	26.9%	32.0%	21.7%	33.8%
Free Cash Flow	(4)	(43)	(4)	53	67	33	(11)	180	202	130
Income Tax	3	3	3	21	12	16	21	21	15	34

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,820	4,684	4,573	4,843	5,677	5,896	6,660	7,214	9,573	9,951
Cash & Equivalents	257	166	153	257	110	110	606	846	196	191
Accounts Receivable	11	9	13	14						
Goodwill & Int. Ass.	77	72	67	61	128	126	133	127	339	372
Total Liabilities	4,025	4,066	4,037	4,311	4,982	5,129	5,839	6,374	8,481	8,738
Accounts Payable	4	4	5	6						
Long-Term Debt	40	40	39	129	302	208	-	39	439	394
Shareholder's Equity	795	618	536	532	695	767	821	840	1,092	1,213
LTD/E Ratio	0.05	0.06	0.07	0.24	0.43	0.27	-	0.05	0.40	0.33

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.2%	0.1%	0.5%	0.3%	1.2%	1.4%	1.4%	1.3%	0.8%	1.5%
Return on Equity	1.1%	0.7%	4.0%	2.7%	10.0%	11.0%	11.2%	11.3%	7.4%	12.3%
ROIC	1.1%	0.7%	3.7%	2.4%	7.4%	8.2%	9.9%	11.0%	5.9%	9.1%
Shares Out.	38.9	30.4	26.4	26.9	30.8	31.2	30.6	30.0	37.6	37.8
Revenue/Share	5.14	5.58	6.38	6.69	8.53	9.23	10.58	9.41	10.06	11.02
FCF/Share	(0.10)	(1.24)	(0.14)	1.90	2.14	1.05	(0.34)	5.78	6.19	3.41

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