ServisFirst Bancshares, Inc. (SFBS)

Published September 10th, 2024, by Kody Kester

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$4.1B
Fair Value Price:	$67	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	09/30/24
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Dividend Payment Date:**	10/07/24
Dividend Yield:	1.6%	**5 Year Price Target**	$104	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Founded in 2005, ServisFirst Bancshares, Inc. is a regional bank. SFBS operates as the holding company of ServisFirst Bank.

As of June 30, the company had 33 office locations scattered throughout Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, and Virginia. The market share in its markets served ranged from the low single digits to as much as 20%+ in its headquartered state of Alabama. Concluding Q2 2024, the company had just over $16 billion in assets.

SFBS' product offerings are what somebody would expect from a bank. Savings products include savings accounts, checking accounts, and money market accounts. SFBS' loan products are residential real estate loans, vehicle loans, personal loans, commercial lines of credit, commercial real estate loans, and construction and development loans. The company also provides customers with telephone and mobile banking, Internet banking, safe deposit boxes, and debit and credit cards.

In 2023, ServisFirst Bank earned the distinction of being the fourth-ranked publicly traded bank in the nation with between $10 billion and $50 billion in assets via American Banker. This marked the third consecutive year that the bank ranked in the top five for this category of publicly traded banks. Metrics like three-year average returns on average equity, return on average assets, net interest margin, and other measures are used to arrive at these rankings.

On July 15th, SFBS released its financial results for the second quarter ended June 30. The company's net interest income increased by 4.5% over the year-ago period to $105.9 million in the quarter. Higher average interest-bearing deposits resulted in a 14-basis point contraction in the net interest margin to 2.79% during the quarter (up sequentially from 2.66%). Double-digit percentage growth in average loans offset this decline in the net interest margin for the quarter. SFBS' diluted EPS decreased by 3.1% year-over-year to $0.95 in the quarter. This came in ahead of the analyst consensus by $0.04 during the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.05	$1.20	$1.52	$1.72	$2.53	$2.76	$3.13	$3.82	$4.61	$3.79	***$3.85***	***$5.92***
DPS	$0.10	$0.11	$0.15	$0.19	$0.38	$0.60	$0.70	$0.80	$0.92	$1.12	***$1.20***	***$1.85***
Shares[2]	49.6	52.0	52.6	53.0	53.4	53.6	53.9	54.2	54.3	54.5	***54.5***	***55.3***

SFBS has compounded its diluted EPS at a double-digit annual rate in the past decade. As the bank grows, this level of growth will likely become less consistent over time. In the years to come, SFBS plans to keep focusing on opening new locations in metropolitan, Southern markets. The most recent examples are the loan production office opened in Memphis in February and the office opened in Auburn in July. The opening of new locations coupled with organic loan growth is why we believe that diluted EPS can still compound by 9.0% annually through 2029.

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[1] Estimate

[2] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	15.0	19.3	24.6	23.3	12.7	13.6	12.9	22.0	15.0	16.9	***19.6***	***17.5***
Avg. Yld.	0.6%	0.5%	0.4%	0.5%	1.2%	1.6%	1.7%	0.9%	1.3%	1.7%	***1.6%***	***1.8%***

In the last 10 years, SFBS' P/E ratio has varied from the low double-digits to as high as the mid-20s. Overall, the P/E ratio has averaged 17.5 in that period. Since the company's growth prospects are largely intact accounting for its growing scale, we believe that the fair value P/E ratio should remain right around 17.5 in the years ahead. From the current P/E ratio approaching 20, this implies that shares are fully valued right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	10%	9%	10%	11%	15%	22%	22%	21%	20%	30%	***31%***	***31%***

SFBS enjoys a few notable operating advantages. These include the simplicity of its business model in that loans and deposits are primary drivers of its growth, not ancillary services. Additionally, the company's technology-oriented business model means that its branch footprint is limited. This allows for greater efficiency versus many of its peers. Lastly, SFBS offers the products that big banks do with the delivery that would be expected from a community bank.

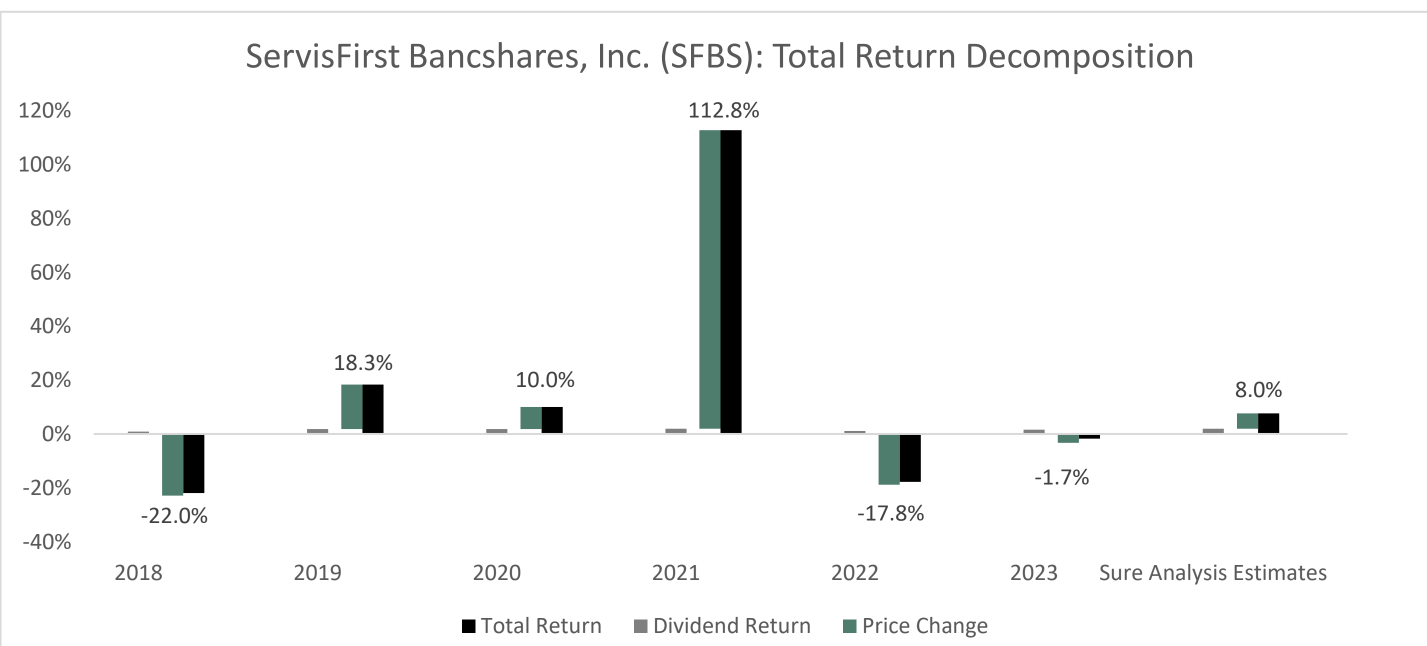
This has led to profitability in each quarter since 2005 and rather reliable growth in diluted EPS over time. The company's nonperforming assets ratio of 0.23% in Q2 2024 also points to a bank that is laser-focused on asset quality.

Combined with a payout ratio that's set to be in the low 30% range in 2024, that positions the dividend to grow as fast as earnings in the future. This is why we expect 9.0% annual dividend growth over the medium term as well.

Final Thoughts & Recommendation

SFBS' 1.6% dividend yield, 9.0% annual diluted EPS growth potential, and 2.2% annual valuation multiple downside could lead to 8.0% annual total returns through 2029. The regional bank's valuation currently provides no margin of safety for investment, so we're initiating coverage with a hold rating for now.

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	137	169	197	240	279	307	363	406	492	427
SG&A Exp.	34	43	48	53	57	62	67	75	84	98
D&A Exp.	2	3	3	3	4	4	4	4	4	4
Net Profit	52	64	81	93	137	149	170	208	252	207
Net Margin	38.2%	37.6%	41.3%	38.8%	49.1%	48.6%	46.7%	51.2%	51.1%	48.5%
Free Cash Flow	64	71	76	97	166	162	189	257	269	193
Income Tax	22	25	29	44	32	38	45	46	57	38

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,099	5,096	6,370	7,082	8,007	8,948	11,933	15,449	14,596	16,130
Cash & Equivalents	297	317	624	238	458	530	2,210	4,164	815	2,031
Accounts Receivable	11	14	16	21	24	26	37	35	48	59
Goodwill & Int. Ass.		15	15	15	14	14	14	14	14	14
Total Liabilities	3,691	4,646	5,848	6,475	7,292	8,105	10,940	14,297	13,298	14,689
Accounts Payable	2	2	4	5	10	12	12	14	19	28
Long-Term Debt	20	56	55	65	65	65	65	65	65	65
Shareholder's Equity	367	449	523	607	715	842	992	1,152	1,297	1,440
LTD/E Ratio	0.05	0.12	0.11	0.11	0.09	0.08	0.07	0.06	0.05	0.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.4%	1.4%	1.4%	1.4%	1.8%	1.8%	1.6%	1.5%	1.7%	1.3%
Return on Equity	14.9%	14.8%	16.8%	16.5%	20.7%	19.2%	18.5%	19.4%	20.5%	15.1%
ROIC	14.1%	13.6%	15.0%	14.9%	18.9%	17.7%	17.3%	18.3%	19.5%	14.4%
Shares Out.	49.6	52.0	52.6	53.0	53.4	53.6	53.9	54.2	54.3	54.5
Revenue/Share	2.76	3.19	3.68	4.43	5.14	5.68	6.69	7.45	9.02	7.82
FCF/Share	1.28	1.34	1.42	1.80	3.06	2.99	3.49	4.72	4.93	3.55

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