Enterprise Financial Services Corp (EFSC)

Published October 5th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	8.2%	**Market Cap:**	$1.9 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	12/13/2024
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date[1]:**	12/30/2024
Dividend Yield:	2.2%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Enterprise Financial Services Corp (EFSC) is a financial services holding company in the U.S. Its primary subsidiary is Enterprise Bank & Trust, a full-service financial institution, which provides banking and wealth management services to corporations and individuals. Enterprise Financial was founded in 1988 and trades on the NASDAQ. It has a market capitalization of $1.9 billion and is headquartered in Clayton, Missouri. It operates primarily in Arizona, California, Florida, Kansas, Missouri, Nevada, and New Mexico.

On July 22nd, 2024, Enterprise Financial declared a 3.8% increase to its quarterly dividend, now $0.27 per share. Enterprise has raised its dividend for ten consecutive years.

Enterprise Financial reported second quarter 2024 results on July 22nd, 2024. Total loans increased 4.6% year-over-year to $11.0 billion and deposits rose 5.7% to $12.3 billion. Net income amounted to $45.4 million in the second quarter, a 7.5% decline from the prior year quarter. On a per share basis, net income of $1.19 was a 7.8% decrease from $1.29 in Q2 2023. Adjusted EPS also fell 6.2% from $1.29 to $1.21.

Enterprise socked away $4.8 million of provision for credit losses in the quarter, a significant decrease over the prior year when it reported $6.3 million. Annualized net charge-offs were just 0.02% of average loans, an improvement over 0.12% in the second quarter of 2023, and 0.22% in the first quarter of 2024. Net interest margin was 4.19%, down 30 basis points from 4.49% in 2Q23. For the quarter, Enterprise Financial's adjusted return on average assets was 1.27% while its return on average common equity was 10.9%. Book value per share rose 8.9% to $45.08 from $41.39 a year ago.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.35	$1.89	$2.41	$2.07	$3.83	$3.55	$2.76	$3.86	$5.31	$5.07	***$4.59***	***$6.14***
DPS	$0.21	$0.26	$0.41	$0.44	$0.47	$0.62	$0.72	$0.75	$0.90	$1.00	***$1.08***	***$1.45***
Shares[2]	20.1	20.3	20.3	23.2	23.3	26.2	27.0	34.5	37.5	37.5	***35.0***	***30.0***

Enterprise Financial's average annual EPS growth rates over the past decade and half-decade have been 15.8% and 5.8%, respectively. These results were supported by Enterprise's strong track record of expanding its loan and deposit portfolios, sporting 10-year CAGRs of 16.6% and 17.4%, respectively.

Continuing to grow its loan, deposit, and investment portfolios, as well as improving the quality of its assets, combined with acquisitions, should enable the company to achieve 6% annual EPS growth over the next five years.

Enterprise considers the Midwest to be its most stable market region where it has its greatest foothold, with the southwest and the west representing its growth markets, particularly California, Arizona, Nevada, and Texas.

Acquisitions have been a core component to Enterprise's growth model. It acquired Trinity Capital Corporation (with $1.2B in assets) in 2019, as well as Seacoast Commerce Banc Holdings ($1.3B in assets) and First Choice Bancorp ($91M in assets) in 2020 and 2021, respectively.

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[1] Estimate

[2] In millions

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The company's dividend has increased at a higher rate than its EPS, with a 9-year and 5-year CAGR of 18.9% and 11.7%, respectively. Dividend growth has been slowing, and we expect it to slow further as the payout ratio has risen and EPS growth tapers off from its historically high rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.0	15.1	14.6	17.5	19.6	11.9	10.3	13.9	11.0	7.8	***10.9***	***11.0***
Avg. Yld.	1.2%	1.0%	1.1%	1.0%	0.9%	1.3%	2.1%	1.6%	1.7%	2.3%	***2.2%***	***2.1%***

Enterprise's average PE ratios over the previous ten and five years have been 13.5 and 11.0, respectively. Its current PE ratio of 10.9 is just below its average PE ratio and our fair value estimate of 11.0. If the company's valuation were to rise to our estimate of fair value, the stock would benefit from 0.2% annualized valuation expansion.

We are forecasting dividend growth of 6% in the intermediate term, lower than it's grown in recent years, as the payout ratio now consumes one fourth of earnings. Enterprise has paid an average dividend yield of 1.4% and 1.8% over the last ten and five years. Given the stock now yields 2.2%, it could be considered undervalued on this basis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	16%	14%	17%	21%	12%	17%	26%	19%	17%	20%	***24%***	***24%***

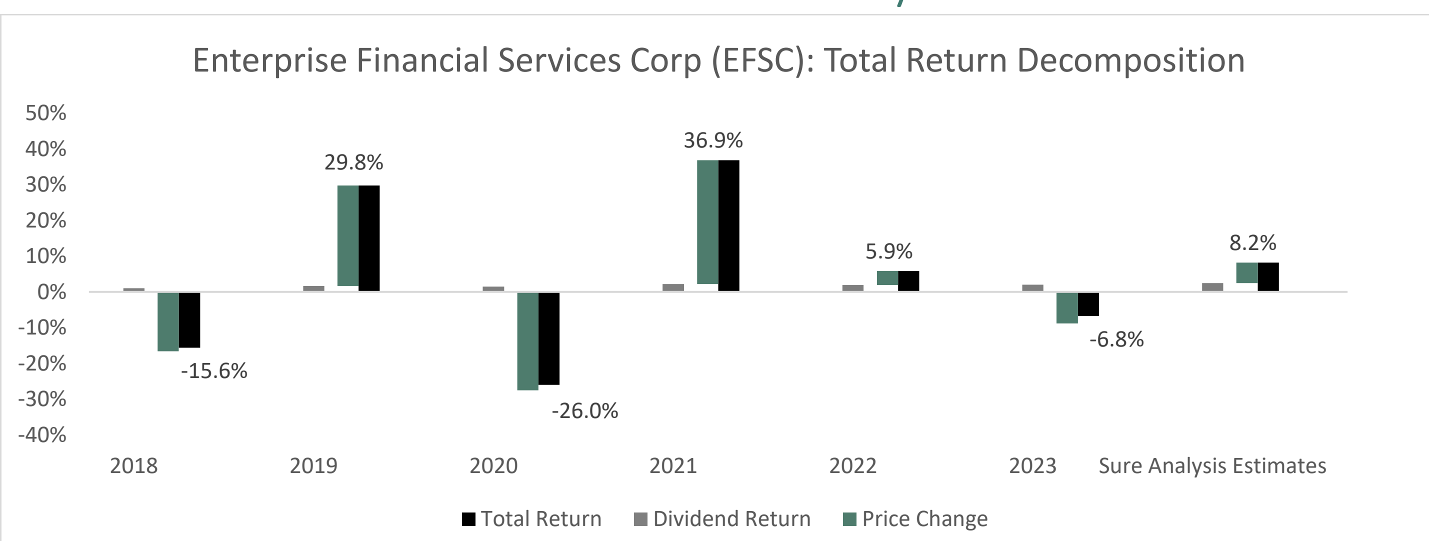
Enterprise Financial was not among the many banks in the U.S. to cut their dividends during the Great Recession. From 2007 through 2014, Enterprise Financial continued to pay a $0.525 quarterly dividend. However, since 2015, Enterprise has increased its dividend every year. During the pandemic, Enterprise's EPS declined 22%, but the bank remained highly profitable, and its dividend was under no threat, as its payout ratio remained manageable at only one fourth of earnings.

We don't see Enterprise Financial boasting any strong competitive advantage over its peers in the regional banking industry, as banking services are essentially commoditized. Still, the company is backed by strong management, with the team averaging 16 years of tenure and 23 years of industry experience.

Final Thoughts & Recommendation

The share price of EFSC has risen by 12% year-to-date, underperforming the 21% increase of the S&P 500 Index. Enterprise Financial could offer an 8.2% average annual return over the next five years stemming from 6% annual EPS growth, its 2.2% dividend, and 0.2% P/E multiple expansion. Enterprise Financial Services earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	134	141	165	212	230	284	319	407	495	550
SG&A Exp.	56	56	58	68	72	96	96	131	154	178
D&A Exp.	3	3	3	6	6	11	12	14	14	11
Net Profit	27	38	49	48	89	93	74	133	203	194
Net Margin	20.3%	27.3%	29.7%	22.8%	38.7%	32.6%	23.3%	32.7%	41.0%	35.3%
Free Cash Flow	30	45	80	43	106	86	133	158	215	262
Income Tax	14	20	26	38	15	23	18	36	56	52

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,277	3,608	4,081	5,289	5,646	7,334	9,752	13,537	13,054	14,519
Cash & Equivalents	106	95	199	155	198	168	544	2,027	298	434
Goodwill & Int.	34	33	32	128	126	236	284	387	382	377
Total Liab.	2,961	3,258	3,694	4,741	5,042	6,467	8,673	12,008	11,532	12,803
Long-Term Debt	210	167	383	291	190	398	284	228	309	204
Total Equity	316	351	387	549	604	867	1,079	1,457	1,450	1,644
LTD/E Ratio	0.67	0.48	0.99	0.53	0.31	0.46	0.26	0.15	0.20	0.12

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	1.1%	1.3%	1.0%	1.6%	1.4%	0.9%	1.1%	1.5%	1.4%
Return on Equity	9.1%	11.5%	13.2%	10.3%	15.5%	12.6%	7.6%	10.2%	13.3%	12.0%
ROIC	4.8%	7.4%	7.6%	6.0%	10.9%	9.0%	5.7%	8.5%	11.3%	10.3%
Shares Out.	20.1	20.3	20.3	23.2	23.3	26.2	27.0	34.5	37.5	37.5
Revenue/Share	6.66	6.94	8.11	9.11	9.89	10.87	11.82	11.79	13.20	14.67
FCF/Share	1.47	2.22	3.94	1.86	4.54	3.29	4.94	4.58	5.73	6.98

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