Independent Bank Corp. (IBCP)

Updated October 30th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	8.2%	**Market Cap:**	$693 M
Fair Value Price:	$36	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	11/5/24
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	11/15/24
Dividend Yield:	2.9%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Independent Bank Corporation (IBCP) was founded in 1864 and is headquartered in Grand Rapids, Michigan. It operates 60 offices across Michigan's Lower Peninsula and provides a full range of financial services, including commercial banking, mortgage lending, consumer banking, investments and insurance. Independent Bank has a market capitalization of $693 million.

Independent Bank has a somewhat concentrated loan portfolio. Commercial loans, mortgage loans and installment loans comprise 45%, 39% and 16%, respectively, of total loans. In addition, the bank has a striking difference from the vast majority of regional banks. Most regional banks incurred a sharp decline in net interest margin last year due to the surge of interest rates to a 23-year high and the resultant increase in deposit costs. Independent Bank managed to maintain an essentially flat net interest margin and grew its earnings-per-share last year thanks to strong loan growth. On the other hand, the bank has a current net interest margin of 3.37%, which is in line with that of most of its peers.

In late October, Independent Bank reported (10/24/24) financial results for the third quarter of fiscal 2024. Loans and deposits both grew 9% on an annualized basis. Net interest margin expanded from 3.23% in last year's quarter to 3.37%, as an increase in the yield of loans more than offset an increase in deposit costs. As a result, net interest income grew 6%. However, due to much lower noninterest income, earnings-per-share dipped -2%, from $0.83 to $0.81, though they exceeded the analysts' consensus by $0.05. The bank has exceeded the analysts' estimates for 8 consecutive quarters. Moreover, the Fed has just begun reducing interest rates and hence we expect Independent Bank so see its net interest margin improve further in the upcoming quarters. Overall, we expect an approximate 11% increase in earnings-per-share this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.77	$0.86	$1.05	$0.95	$1.68	$2.00	$2.53	$2.88	$2.44	$2.80	***$3.10***	***$3.77***
DPS	$0.18	$0.26	$0.34	$0.42	$0.60	$0.72	$0.80	$0.84	$0.88	$0.92	***$0.96***	***$1.20***
Shares[1]	23.5	23.2	21.7	21.7	23.8	23.2	22.2	21.5	21.3	21.0	***21.0***	***20.0***

Independent Bank has grown its earnings-per-share consistently over the last decade. It has grown its bottom line at a 15.4% average annual rate over the last decade and at a 10.8% average annual rate over the last five years. This growth has resulted primarily from organic growth of commercial and mortgage loans, which has been fueled by sustained growth of the deposits of the bank. As there are no signs of fatigue on this front, we expect the bank to continue growing its loans and deposits in the upcoming years. In addition, the Fed has just begun to reduce interest rates and expects to reduce them further, from 4.75%-5.0% now to 2.75%-3.0% in 2026. As a result, Independent Bank is likely to enjoy a significant expansion of its net interest margin in the upcoming years. On the other hand, we prefer to be somewhat conservative, given the small market capitalization of this regional bank and the somewhat high comparison base formed by the all-time high expected earnings-per-share this year. Therefore, we have assumed 4.0% average annual growth of earnings-per-share over the next five years.

[1] In millions.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.4	16.0	15.1	22.5	14.2	10.9	6.2	7.6	8.9	7.1	***10.6***	***11.5***
Avg. Yld.	1.4%	1.9%	2.1%	2.0%	2.5%	3.3%	5.1%	3.8%	4.1%	4.6%	***2.9%***	***2.8%***

Excluding the year 2017, in which a decrease in earnings resulted in an abnormally high price-to-earnings ratio, Independent Bank has traded at an average price-to-earnings ratio of 11.5 over the last decade. We assume this valuation level as fair for this stock. Independent Bank is currently trading at a price-to-earnings ratio of 10.6, which is lower than the historical average of the bank. If the stock trades at its fair valuation level in five years, it will enjoy a 1.6% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23%	30%	32%	44%	36%	36%	32%	29%	36%	33%	***31%***	***32%***

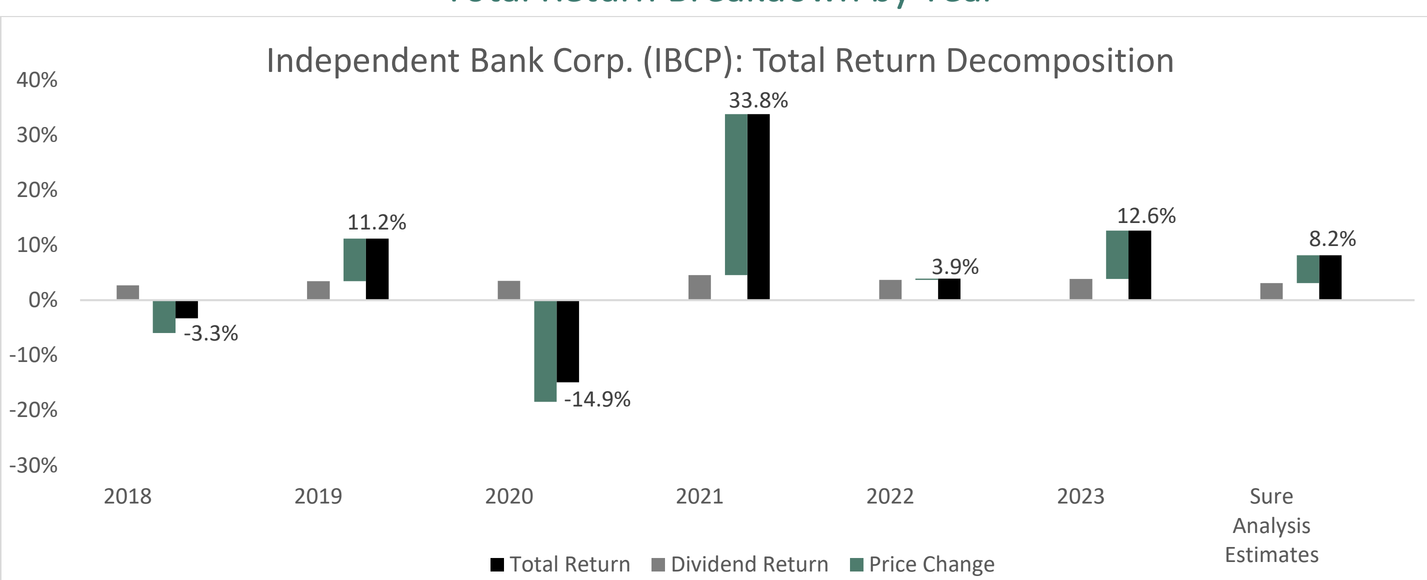
Independent Bank has raised its dividend for 10 consecutive years but it is currently offering a low dividend yield of 2.9%, as the stock has nearly doubled in the last 17 months. The yield of the stock is lower than the 3.1% median dividend yield of the financial sector. On the bright side, the bank has a healthy payout ratio of 31% and hence it can keep raising its dividend at a mid-single-digit rate for years.

Independent Bank has a healthy tier 1 capital ratio of 12.1%. It also proved resilient to the pandemic, as it grew its earnings-per-share in 2020. However, the stock ignored the fundamentals and plunged -50% within a few weeks during that downturn. Therefore, the stock is suitable only for investors who can stomach high stock price volatility and remain patient during recessions and downturns of the financial sector.

Final Thoughts & Recommendation

Thanks to an improved economic outlook, which includes lower inflation and lower interest rates, the stock of Independent Bank has nearly doubled in the last 17 months. As a result, it has become less attractive. The stock could offer an 8.2% average annual return over the next five years thanks to 4.0% growth of earnings-per-share, its 2.9% dividend and a 1.6% valuation tailwind. It thus maintains its 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	104	109	117	129	153	164	198	199	205	200
SG&A Exp.	61	63	64	68	76	82	82	83	85	84
D&A Exp.	3	5	5	7	6	6	9	12	11	10
Net Profit	18	20	23	20	40	46	56	63	63	59
Net Margin	17.3%	18.4%	19.4%	15.9%	26.0%	28.2%	28.4%	31.6%	31.0%	29.5%
Free Cash Flow	9	19	20	34	41	30	54	104	89	70
Income Tax	7	9	10	18	9	11	13	14	14	15

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,249	2,409	2,549	2,789	3,353	3,565	4,204	4,705	5,000	5,264
Cash & Equivalents	88	98	89	57	71	66	119	109	74	170
Goodwill & Int. Ass.	15	15	16	17	56	53	50	58	73	73
Total Liabilities	1,998	2,158	2,300	2,524	3,014	3,215	3,814	4,306	4,652	4,859
Long-Term Debt	48	48	45	83	65	103	109	109	165	129
Shareholder's Equity	250	251	249	265	339	350	390	398	348	404
LTD/E Ratio	0.19	0.19	0.18	0.31	0.19	0.29	0.28	0.27	0.48	0.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	0.9%	0.9%	0.8%	1.3%	1.3%	1.4%	1.4%	1.3%	1.2%
Return on Equity	7.5%	8.0%	9.1%	8.0%	13.2%	13.5%	15.2%	16.0%	17.0%	15.7%
ROIC	6.1%	6.7%	7.7%	6.4%	10.6%	10.8%	11.8%	12.5%	12.4%	11.3%
Shares Out.	23.5	23.2	21.7	21.7	23.8	23.2	22.2	21.5	21.3	21.0
Revenue/Share	4.45	4.68	5.40	5.96	6.45	7.09	8.91	9.12	9.61	9.47
FCF/Share	0.37	0.80	0.93	1.59	1.73	1.27	2.44	4.78	4.18	3.29

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