# MidWestOne Financial Group (MOFG)

*Updated October 30th, 2024 by Aristofanis Papadatos*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $29 | **5 Year CAGR Estimate:** | 6.1% | **Market Cap:** | $605 M |
| **Fair Value Price:** | $28 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date:** | 12/2/24 |
| **% Fair Value:** | 105% | **5 Year Valuation Multiple Estimate:** | -1.0% | **Dividend Payment Date:** | 12/16/24 |
| **Dividend Yield:** | 3.3% | **5 Year Price Target** | $34 | **Years Of Dividend Growth:** | 13 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | D | **Rating:** | Hold |

## Overview & Current Events

MidWestOne Financial Group is a financial holding company that is the parent company of MidWestOne Bank, which was founded in 1934 and is headquartered in Iowa City, Iowa. The bank, which has 59 branches, provides commercial and retail banking products and services to individuals, businesses and institutional customers. MidWestOne operates in Iowa, Minnesota, Wisconsin, Colorado and Florida and has a market capitalization of only $605 million.

On October 24th, 2024, MidWestOne reported results for Q3-2024. Loans grew 6.5%, partly thanks to the acquisition of Denver Bancshares, while deposits remained flat vs. last year's quarter. Net interest margin expanded from 2.35% to 2.51%, as higher yields more than offset the effect of higher deposit costs amid intense competition among banks. The bank has among the lowest net interest margins in the financial sector, signaling it is facing strong competitive forces. Nevertheless, MidWestOne grew its earnings-per-share 4%, from $0.56 to $0.58, thanks to higher net interest income. As the bank exceeded our expectations, we have raised our forecast from $2.05 to $2.30. On the other hand, we reiterate that the excessive losses from the sales of fixed-income securities incurred in 2023 raise a red flag about the quality of management. Moreover, the bank recently issued ~4 million shares to improve its balance sheet. Fortunately, interest rates are likely to decrease in the upcoming quarters and hence the worse seems to be behind the bank.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.19 | $2.42 | $1.78 | $1.55 | $2.48 | $2.93 | $0.41 | $4.37 | $3.87 | $1.33 | ***$2.30*** | ***$2.80*** |
| **DPS** | $0.58 | $0.60 | $0.64 | $0.67 | $0.78 | $0.81 | $0.88 | $0.90 | $0.95 | $0.97 | ***$0.97*** | ***$1.18*** |
| **Shares**[1] | 8.4 | 10.4 | 11.5 | 12.1 | 12.2 | 14.9 | 16.1 | 15.9 | 15.7 | 15.8 | ***20.0*** | ***20.0*** |

MidWestOne has been consistently growing its business by acquiring other regional banks. It acquired Iowa First Bancshares in 2022 and Denver Bancshares early this year. As a result, it has grown its loans and its deposits at an average annual rate of 9% and 5%, respectively, over the last three years. On the other hand, the bank has exhibited a volatile performance record over the last decade. It also incurred a -66% slump in earnings-per-share last year due to excessive losses from sales of fixed-income securities. The losses were caused by the impact of the surge of interest rates on the value of fixed-income securities. This is a stern reminder of the inherent risk of this small-cap bank. While the excessive losses do not bode well for the quality of management, MidWestOne is likely to partly recover this year, as the realized losses in 2023 are most likely non-recurring in nature. The bank is also likely to see its net interest margin improve in the upcoming years thanks to the interest rate reductions expected by the Fed. Overall, we expect 4.0% average annual growth of earnings-per-share over the next five years.

## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 11.4 | 12.4 | 16.6 | 22.5 | 13.0 | 10.2 | 54.6 | 6.9 | 8.1 | 17.7 | ***12.6*** | ***12.0*** |
| **Avg. Yld.** | 2.3% | 2.0% | 2.2% | 1.9% | 2.4% | 2.7% | 3.9% | 3.0% | 3.0% | 4.1% | ***3.3%*** | ***3.5%*** |

[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.*

# MidWestOne Financial Group (MOFG)

*Updated October 30th, 2024 by Aristofanis Papadatos*

Excluding the years 2017 and 2020, in which abnormally low earnings resulted in abnormally high price-to-earnings ratios, MidWestOne has traded at an average price-to-earnings ratio of 12.0 over the last decade. We assume this valuation level as fair for this stock. MidWestOne is currently trading at a price-to-earnings ratio of 12.6. If it trades at its fair valuation level in five years, it will incur a -1.0% annualized valuation drag.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 26% | 25% | 36% | 43% | 31% | 28% | 215% | 21% | 25% | 73% | ***42%*** | ***42%*** |

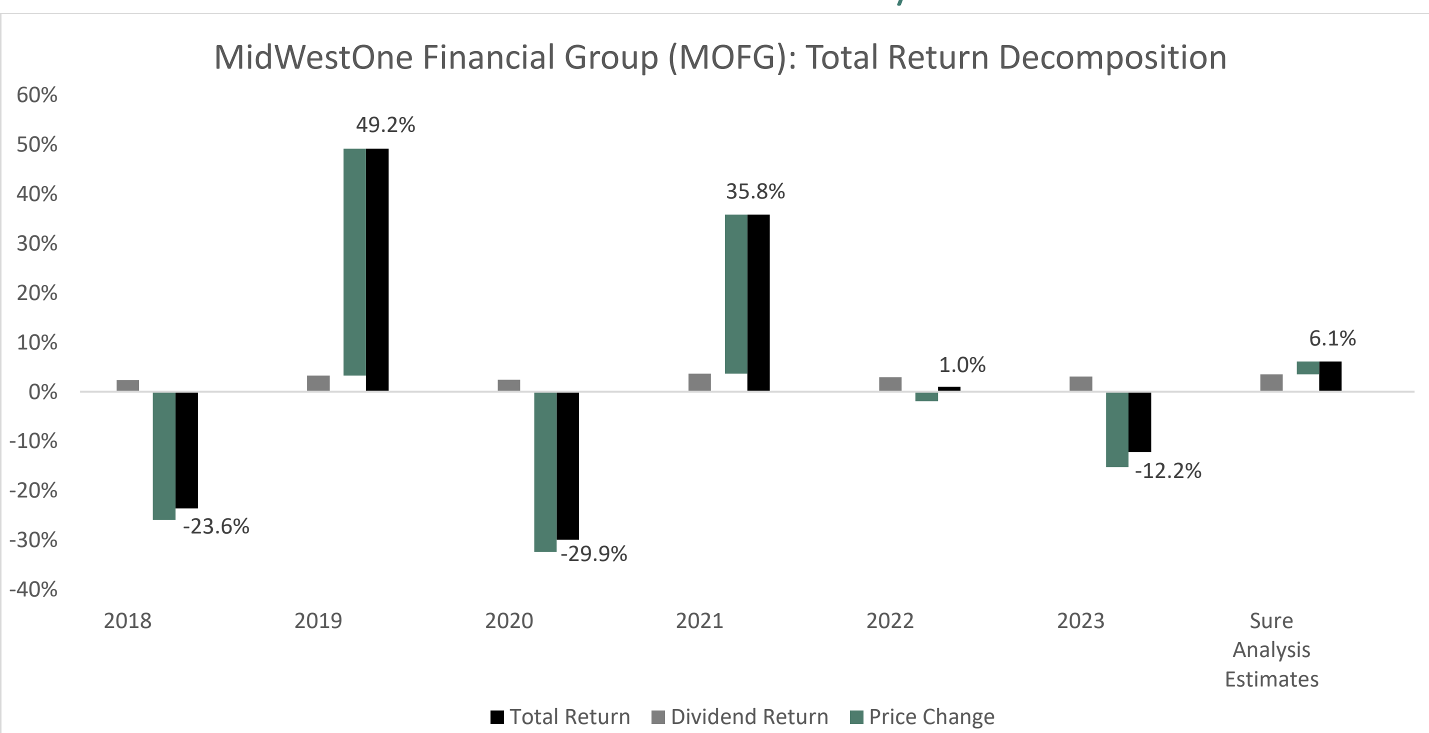
MidWestOne has raised its dividend for 13 consecutive years. It is also offering a 3.3% dividend yield, with a decent payout ratio of 42%. In addition, the bank has a healthy tier 1 capital ratio of 11.8% while its net loan charge-offs have remained below 0.20% in each of the last seven quarters. Therefore, the dividend appears safe in the absence of a severe downturn.

On the other hand, MidWestOne proved vulnerable to the pandemic, as its earnings-per-share plunged -86% in 2020. It was one of the worst performances in the financial sector in 2020. In addition, the bank was severely hurt by the unexpected surge of inflation, which led the Fed to raise interest rates to 23-year highs within a short period. The excessive losses of the bank in the first quarter of 2023 and its vast underperformance vs. the S&P 500 over the last five years (-10% vs. +92%) are reminders of the inherent risk of this small-cap bank. Overall, MidWestOne does not appear suitable for conservative, income-oriented investors.

## Final Thoughts & Recommendation

MidWestOne has just begun to recover from the downturn caused by the surge of interest rates to 23-year highs. With that said, the stock has rallied 46% in the last 12 months, and hence it has become less attractive. We expect the stock to offer a 6.1% average annual return over the next five years thanks to 4.0% growth of earnings-per-share and its 3.3% dividend, partly offset by a -1.0% valuation headwind. The stock receives 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.*

# MidWestOne Financial Group (MOFG)

*Updated October 30th, 2024 by Aristofanis Papadatos*

## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 70 | 111 | 123 | 127 | 128 | 175 | 192 | 199 | 214 | 163 |
| **SG&A Exp.** | 27 | 46 | 56 | 56 | 58 | 76 | 72 | 76 | 84 | 83 |
| **D&A Exp.** | 3 | 7 | 8 | 8 | 9 | 3 | 5 | 2 | 10 | 13 |
| **Net Profit** | 19 | 25 | 20 | 19 | 30 | 44 | 7 | 69 | 61 | 21 |
| **Net Margin** | 26.4% | 22.6% | 16.6% | 14.8% | 23.6% | 24.9% | 3.5% | 35.0% | 28.4% | 12.8% |
| **Free Cash Flow** | 11 | 18 | 33 | 36 | 37 | 45 | 7 | 110 | 88 | 59 |
| **Income Tax** | 7 | 8 | 7 | 10 | 8 | 7 | 7 | 20 | 16 | 4 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 1,800 | 2,980 | 3,080 | 3,212 | 3,291 | 4,654 | 5,557 | 6,025 | 6,578 | 6,428 |
| **Cash & Equivalents** | 23 | 47 | 43 | 50 | 45 | 73 | 82 | 204 | 86 | 82 |
| **Goodwill & Int. Ass.** | 11 | 86 | 82 | 79 | 77 | 131 | 93 | 89 | 106 | 100 |
| **Total Liabilities** | 1,608 | 2,684 | 2,774 | 2,872 | 2,934 | 4,145 | 5,041 | 5,498 | 6,085 | 5,903 |
| **Long-Term Debt** | 108 | 133 | 156 | 151 | 224 | 253 | 264 | 154 | 374 | 418 |
| **Shareholder's Equity** | 193 | 296 | 305 | 340 | 357 | 509 | 515 | 527 | 493 | 524 |
| **LTD/E Ratio** | 0.56 | 0.45 | 0.51 | 0.44 | 0.63 | 0.50 | 0.51 | 0.29 | 0.76 | 0.80 |

## Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 1.0% | 1.1% | 0.7% | 0.6% | 0.9% | 1.1% | 0.1% | 1.2% | 1.0% | 0.3% |
| **Return on Equity** | 10.0% | 10.3% | 6.8% | 5.8% | 8.7% | 10.1% | 1.3% | 13.3% | 11.9% | 4.1% |
| **ROIC** | 6.2% | 6.9% | 4.6% | 3.9% | 5.7% | 6.5% | 0.9% | 9.5% | 7.9% | 2.3% |
| **Shares Out.** | 8.4 | 10.4 | 11.5 | 12.1 | 12.2 | 14.9 | 16.1 | 15.9 | 15.7 | 15.8 |
| **Revenue/Share** | 8.32 | 10.71 | 10.74 | 10.49 | 10.50 | 11.75 | 11.89 | 12.50 | 13.62 | 10.34 |
| **FCF/Share** | 1.30 | 1.72 | 2.84 | 2.99 | 3.03 | 3.03 | 0.44 | 6.89 | 5.58 | 3.72 |

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