Unity Bancorp, Inc. (UNTY)

Updated October 14th, 2024, by Kody Kester

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$376M
Fair Value Price:	$40	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	12/12/24
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	12/27/24
Dividend Yield:	1.4%	**5 Year Price Target**	$56	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Founded in 1991 under the name First Community Bank, Unity Bancorp, Inc. is a community bank. UNTY serves as the holding company of Unity Bank.

The company is a full-service commercial bank that mostly serves businesses and consumers in Bergen, Hunterdon, Middlesex, Morris, Ocean, Somerset, Union, and Warren counties in New Jersey. To a lesser extent, Unity Bank reaches into the New York City metropolitan area and Northampton County in Pennsylvania with its banking locations and online services. As of September 30th, UNTY had $2.5 billion in assets.

The bank's savings products offered to customers include personal and business checking accounts, savings accounts, and money market accounts. UNTY also provides Small Business Administration loans, commercial loans, mortgage loans, home equity loans, and personal loans. Additionally, the company offers debit and credit cards, safe deposit boxes, and internet and mobile banking services.

Among banks with less than $5 billion in assets, Bank Director ranks UNTY as the 13th best in the nation. The company's commitment to meeting the needs of customers earned it this distinction. Not to mention that UNTY's efficiency placed it fifth among all banks under $5 billion in assets for return on assets at around 1.8%.

On October 11th, the community bank released its financial results for the third quarter ended September 30th. UNTY's net interest income grew by 5.6% year-over-year to $24.9 million during the quarter. Higher loan balances and an expansion in the net interest margin to 4.16% helped push net interest income higher in the quarter. UNTY's diluted EPS surged 10.3% higher over the year-ago period to $1.07 for the quarter. This topped the analyst consensus by $0.12 during the quarter. Aside from the greater net interest income base, disciplined cost management helped power this respectable diluted EPS growth rate in the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.81	$1.12	$1.38	$1.20	$2.01	$2.14	$2.19	$3.43	$3.59	$3.84	***$3.96***	***$5.55***
DPS	$0.09	$0.13	$0.17	$0.23	$0.27	$0.31	$0.32	$0.36	$0.43	$0.48	***$0.52***	***$0.73***
Shares[2]	8.4	9.3	10.5	10.6	10.8	10.9	10.5	10.4	10.6	10.1	***10.0***	***9.5***

In the past decade, UNTY's diluted EPS has almost quintupled. Now that the bank is dealing with a larger earnings base, this probably won't be replicated in the coming years. However, we continue to believe that diluted EPS growth can be in the high-single-digits annually over the medium term. This is because additional rate cuts from the Federal Reserve can boost UNTY's net interest margin and aid in diluted EPS growth.

In recent years, the company's share count has gradually moved lower over time. We still expect a modest 5% reduction in the share count through 2029 versus the current level.

[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	10.5	10.1	11.4	16.5	10.0	10.3	8.0	7.7	7.6	7.7	***9.5***	***10.0***
Avg. Yld.	1.1%	1.1%	1.1%	1.2%	1.3%	1.4%	1.8%	1.4%	1.6%	1.6%	***1.4%***	***1.3%***

Over the past decade, UNTY's P/E ratio has ranged from as low as the high-single-digits to the mid-teens. This explains the average P/E ratio of 10 over that time. Since the company's growth profile looks to be intact and it is one of the best community banks in the country, we believe that a return to a P/E ratio of 10 is a fair assumption. Relative to the current P/E ratio of 9.5, this is a small margin of safety.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	11%	12%	12%	19%	13%	14%	15%	10%	12%	13%	***14%***	***14%***

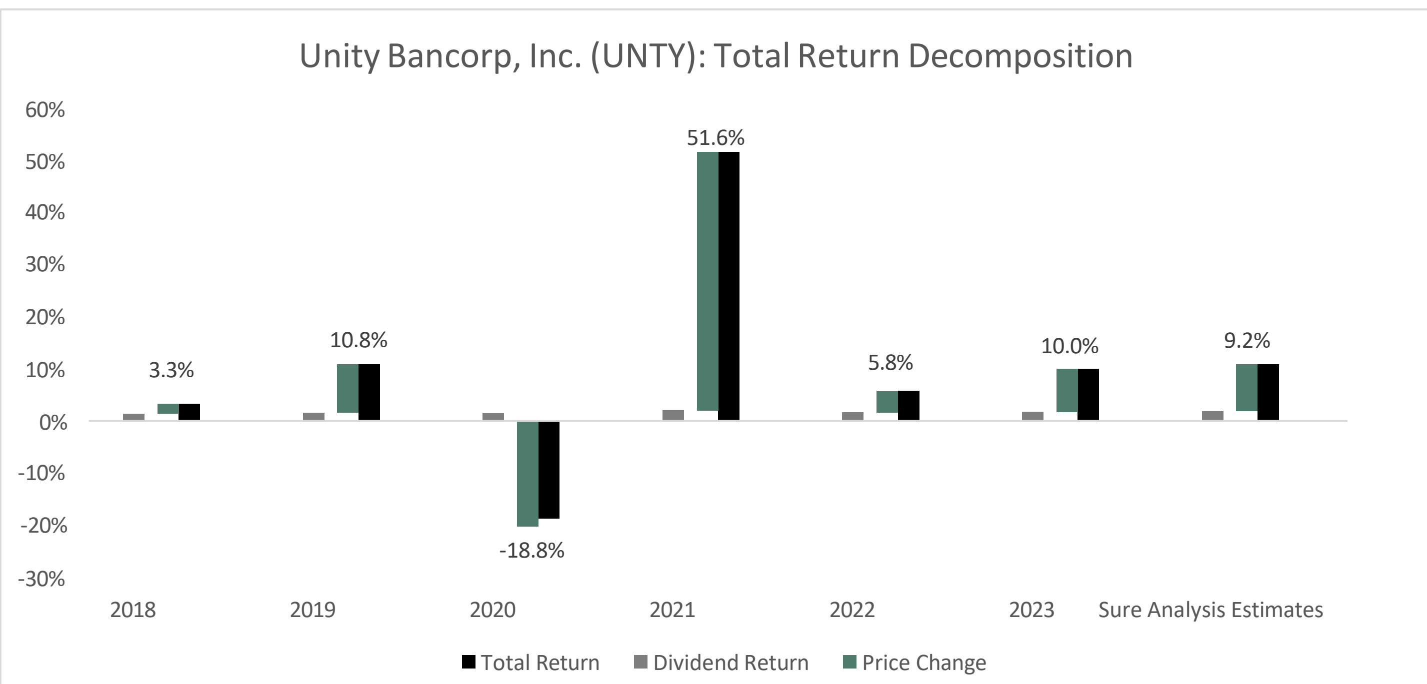
UNTY has managed to achieve a lot in its 33-year operating history. As one of the leading banks headquartered in New Jersey, the company blends the feeling of a bigger bank with the hometown charm of a smaller bank. This keeps existing customer retention elevated and attracts new customers as well.

The company's asset quality is reasonably strong, too. As of September 30th, the company's nonperforming assets ratio was 0.60%. UNTY's dividend payout ratio is another plus. As it has for most of the past 10 years, this is set to remain in the low teens in 2024. That provides a sizable buffer for the company to extend its 11-year dividend growth streak with dividend growth at least matching diluted EPS growth in the years ahead.

Final Thoughts & Recommendation

UNTY's 1.4% dividend yield, 7.0% annual diluted EPS growth potential, and 1.0% annual valuation multiple upside could generate 9.2% annual total returns in the next five years. Shares have rallied since our last update, and the current 9.2% return potential falls a bit short of our buy threshold, so we're downgrading the stock to a hold rating for that reason.

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	37	42	46	53	63	66	77	88	98	101
SG&A Exp.	16	18	19	21	24	24	25	28	30	33
D&A Exp.	1	1	1	1	2	2	2	2	3	2
Net Profit	6	10	13	13	22	24	24	36	38	40
Net Margin	17.4%	22.9%	28.6%	24.1%	34.8%	35.8%	30.9%	41.0%	39.4%	39.3%
Free Cash Flow	11	2	(1)	13	37	32	22	31	41	46
Income Tax	3	5	7	10	5	7	7	12	13	13

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,009	1,085	1,190	1,455	1,579	1,719	1,959	2,034	2,445	2,579
Cash & Equivalents	29	23	22	24	20	21	23	245	115	195
Accounts Receivable	4	4	4	5	6	7	10	10	13	14
Goodwill & Int. Ass.	2	2	2	2	2	2	2	2	2	2
Total Liabilities	939	1,006	1,084	1,337	1,441	1,558	1,785	1,828	2,206	2,317
Accounts Payable	0	0	0	0	0	0	0	0	1	2
Long-Term Debt	125	92	131	285	220	293	210	50	393	367
Shareholder's Equity	70	78	106	118	138	161	174	206	239	261
LTD/E Ratio	1.79	1.18	1.24	2.42	1.59	1.83	1.21	0.24	1.64	1.40

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.9%	1.2%	1.0%	1.4%	1.4%	1.3%	1.8%	1.7%	1.6%
Return on Equity	10.1%	12.9%	14.3%	11.5%	17.1%	15.8%	14.1%	19.0%	17.3%	15.9%
ROIC	3.9%	5.2%	6.5%	4.0%	5.8%	5.8%	5.6%	11.3%	8.7%	6.3%
Shares Out.	8.4	9.3	10.5	10.6	10.8	10.9	10.5	10.4	10.6	10.1
Revenue/Share	4.21	4.45	4.83	4.98	5.77	5.99	7.08	8.35	9.12	9.76
FCF/Share	1.27	0.22	(0.08)	1.20	3.40	2.95	2.01	2.97	3.85	4.45

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