International Bancshares Corporation (IBOC)

Updated November 12th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$4.43 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	02/14/2025[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date:**	02/28/2025[2]
Dividend Yield:	1.8%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	15
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

International Bancshares Corporation (IBOC) is a financial holding company based in Laredo, Texas. Founded in 1966, International Bancshares is a multi-bank financial holding company that provides banking and financial services through its subsidiary banks in Texas and Oklahoma. International Bancshares has a diverse customer base, including individuals, small businesses, and large corporations. International Bancshares operates in several revenue segments, including commercial and retail banking, wealth management, insurance, and international trade finance.

On November 8th, 2024, the company announced results for the third quarter of 2024. IBOC reported Q3 non-GAAP EPS of $1.60 and net income of $99.8 million for the quarter. This reflected a year-over-year decrease of 3.4%. IBOC posted a slight decrease in earnings for the nine months ended 2024 at $294.1 million, or $4.72 diluted earnings per share, from $305.4 million, or $4.91 per share, for the same period in 2023, which was down 3.7%.

For the quarter, the bank's revenue still remained very strong on the back of growth in interest income from larger investment and loan portfolios, along with favorable rate conditions spurred by prior hikes in interest rate levels from the Federal Reserve. On the other hand, higher interest expenses-fired by surging deposit rates and inflationary pressures on non-interest expenses dampened overall profitability.

Despite these headwinds, IBOC remains committed to its strategic focus on balance sheet optimization, competitive deposit rates, and cost controls. President and CEO Dennis E. Nixon highlighted the bank's emphasis on superior customer service, efficient asset management, and vigilance in responding to rate changes. The bank's assets grew to $15.9 billion as of Sept. 30, 2024, with total net loans increasing to $8.4 billion and deposits rising to $12.1 billion compared to the end of 2023. Nixon expressed confidence in IBOC's ability to maintain industry-leading results, underscoring the company's commitment to balancing traditional banking principles with ongoing efficiency and growth initiatives.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.29	$2.06	$2.03	$2.38	$3.27	$3.13	$2.63	$4.01	$4.79	$6.62	***$7.00***	***$10.29***
DPS	$0.52	$0.58	$0.60	$0.66	$0.75	$1.05	$1.10	$1.15	$1.20	$1.26	***$1.32***	***$2.13***
Shares[3]	67.1	66.6	66.3	66.8	66.6	65.7	63.9	63.5	62.8	62.1	***61.6***	***59.0***

The increase in interest income has been used in conjunction with cost management activities to streamline processes and boost operational efficiencies. To capture the risk of potential losses in the IBOC portfolio resulting from those uncertain economic conditions, management continued to monitor how economic conditions, including a potential recession, impact the loan portfolio and has factored those forecasts into the allowance for credit loss calculation. IBOC's loan portfolio includes commercial, real estate, personal, home improvement, automobile, and other installment and term loans. With interest rates rising, IBOC can charge higher interest rates on these loans, increasing net interest

[1] Estimated ex-dividend date.
[2] Estimated dividend payment date.
[3] Shares in millions.

income. Furthermore, as a financial holding company, IBOC may also be able to invest in higher-yielding fixed-income securities, such as government bonds or corporate bonds, which could also boost its interest income. Lastly, as interest rates rise, depositors may demand higher returns on their savings, and IBOC may need to offer higher interest rates to remain competitive. Considering the current interest rate environment, we maintain our EPS estimate for 2024 of $7.00 with a projected annual EPS growth of 8.0% for the following years. This is lower than the company's CAGR of 12.5% since 2014, but leads to an EPS estimate of $10.29 by 2029. In addition, International Bancshares's DPS had a 10-year and five-year CAGR of 10.3% and 29.6%, respectively, and has consistently increased the dividend payments for the last 15 years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.0	12.7	14.3	15.7	12.6	12.5	12.0	10.7	9.1	6.9	***10.3***	***11.0***
Avg. Yld.	2.1%	2.2%	2.1%	1.8%	1.8%	2.7%	3.5%	2.7%	2.7%	2.8%	***1.8%***	***1.9%***

International Bancshares trades at a forward P/E of 10.3, lower than its long- and medium-term average P/E of 11.7 and 10.2, respectively. Considering the bank's resiliency, we have assumed a stable P/E of 11.0 to value the stock by 2029, in-line with its normalized historical averages, suggesting a target price of $113.

Safety, Quality, Competitive Advantage, & Recession Resiliency

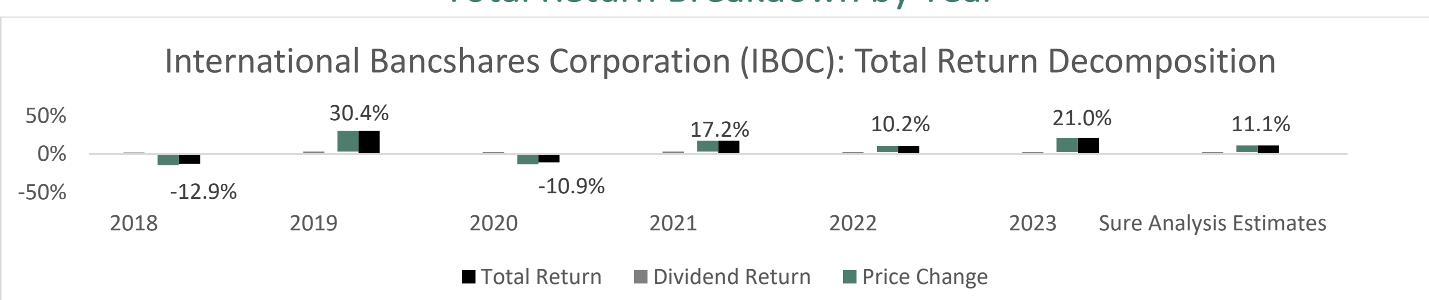
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23%	28%	30%	28%	23%	34%	42%	29%	25%	19%	***19%***	***21%***

International Bancshares has a competitive advantage due to its strong presence in the Texas border region and Mexico, which allows it to serve a diverse and growing customer base. During the 2008 recession, IBOC demonstrated strong performance, with low loan losses and stable earnings, indicating its resilience to economic downturns. Additionally, IBOC has maintained a conservative approach to debt management, with a low debt-to-equity ratio, indicating a solid financial position and ability to weather market fluctuations. IBOC has consistently paid dividends over the past 15 years, with a stable payout ratio of around 28%, suggesting that the bank can potentially continue to increase its dividend distributions in the rising interest rate environment.

Final Thoughts & Recommendation

Looking ahead, International Bancshares is well-positioned to benefit from an economic recovery in the U.S. and the Texas border region, where the bank has a significant presence. Additionally, IBOC's exposure to the Mexican market provides an additional growth opportunity as the country continues to be a key trading partner with the U.S. and experiences economic growth. Thus, we maintain our buy rating premised upon the 11.1% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 8.0%, 1.8% dividend yield, and multiple expansion.

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	525	508	506	527	578	589	538	594	675	833
SG&A Exp.	135	139	142	144	150	155	136	132	139	146
D&A Exp.	26	26	25	25	26	28	28	25	22	22
Net Profit	153	137	134	157	216	205	167	254	300	412
Net Margin	29.1%	26.9%	26.4%	29.9%	37.3%	34.8%	31.1%	42.8%	44.5%	49.5%
Free Cash Flow	143	184	164	183	208	282	298	281	369	447
Income Tax	77	70	63	64	57	55	44	68	82	112

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	12,197	11,773	11,804	12,185	11,872	12,113	14,029	16,046	15,501	15,070
Cash & Equivalents	255	273	269	265	317	257	1,997	3,209	2,088	651
Acc. Receivable	31	32	32	34	37	37	38	31	46	65
Goodwill & Int.	283	283	283	283	283	283	283	283	283	283
Total Liabilities	10,616	10,107	10,079	10,346	9,932	9,995	11,851	13,738	13,457	12,620
Long-Term Debt	1,249	667	894	1,356	866	761	571	571	146	120
Total Equity	1,581	1,666	1,725	1,839	1,940	2,118	2,178	2,308	2,045	2,448
LTD/E Ratio	0.79	0.40	0.52	0.74	0.45	0.36	0.26	0.25	0.07	0.05

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.1%	1.1%	1.3%	1.8%	1.7%	1.3%	1.7%	1.9%	2.7%
Return on Equity	10.2%	8.4%	7.9%	8.8%	11.4%	10.1%	7.8%	11.3%	13.8%	18.3%
ROIC	5.4%	5.3%	5.4%	5.4%	7.2%	7.2%	5.9%	9.0%	11.8%	17.3%
Shares Out.	67.1	66.6	66.3	66.8	66.6	65.7	63.9	63.5	62.8	62.2
Revenue/Share	7.84	7.63	7.64	7.89	8.68	8.96	8.43	9.35	10.74	13.39
FCF/Share	2.13	2.76	2.48	2.73	3.13	4.29	4.67	4.43	5.87	7.18

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