Midland States Bancorp (MSBI)

Updated November 11th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$587 M
Fair Value Price:	$23	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	11/18/24
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Dividend Payment Date:**	11/25/24
Dividend Yield:	4.8%	**5 Year Price Target**	$30	**Years Of Dividend Growth:**	8
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Midland States Bancorp (MSBI) is the holding company of Midland States Bank, a community bank that was founded in 1881 and is headquartered in Effingham, Illinois. It operates 53 branches in Illinois and Missouri and provides a wide range of banking products and services to individuals, businesses, municipalities and other entities. Midland States Bancorp has total assets of $7.8 billion and a market capitalization of $587 million.

In late October, Midland States Bancorp reported (10/24/24) financial results for the third quarter of fiscal 2024. In contrast to many banks, which experienced a sequential improvement in net interest margin, Midland States Bancorp saw its net interest margin contract further, from 3.12% to 3.10%. Net interest income remained flat. On the other hand, the bank reduced drastically its provisions for loan losses off an abnormally high level in the previous quarter. As a result, earnings-per-share grew from $0.20 to $0.74, and exceeded the analysts' consensus by $0.10. Midland States Bancorp has not seen its net interest margin recover yet but at least this metric stabilized in the third quarter. Moreover, as the Fed has just begun reducing interest rates, the net interest margin of the bank is likely to recover in the upcoming quarters. Nevertheless, with only one quarter left for this year, we still expect a material decrease (-41%) in earnings-per-share this year, from $3.42 to $2.00.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.53	$2.00	$2.17	$0.87	$2.39	$2.54	$1.70	$3.65	$3.79	$3.42	***$2.00***	***$2.68***
DPS	$0.59	$0.65	$0.36	$0.80	$0.88	$0.97	$1.07	$1.12	$1.16	$1.20	***$1.24***	***$1.44***
Shares[1]	6.0	12.1	14.4	18.3	23.5	24.5	23.3	22.4	22.7	22.0	***21.5***	***21.0***

Midland States Bancorp has acquired seven smaller banks since 2009. As a result, it has grown its asset base by 12% per year on average over the last eight years. It has also grown its earnings-per-share by 6.9% per year on average over the last eight years. However, the bank is poised to incur a ~41% decrease in earnings this year, mostly due to high deposit costs, which have resulted from nearly 23-year high interest rates. If the bank meets our forecast for earnings-per-share this year, it will have posted flat earnings-per-share over the last nine years. Fortunately, the Fed has just begun reducing interest rates and expects to reduce them further, from 4.50%-4.75 now to 2.75%-3.0% in 2026. As a result, Midland States Bancorp is likely to enjoy an expansion of its net interest margin in the upcoming years. Given the low comparison base formed this year but also the somewhat volatile performance record of this bank, we expect 6.0% average annual growth of earnings-per-share over the next five years, roughly in line with the 8-year average of the company.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	12.7	36.8	13.4	9.8	9.1	6.8	7.1	7.0	***13.0***	***11.3***
Avg. Yld.	---	---	1.3%	2.5%	2.8%	3.9%	6.9%	4.5%	4.3%	5.0%	***4.8%***	***4.8%***

[1] In millions.

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Excluding the years of abnormally high or abnormally low price-to-earnings ratios, Midland States Bancorp has traded at an average price-to-earnings ratio of 11.3 over the last decade. We assume this valuation level as fair for this stock. The stock is currently trading at a price-to-earnings ratio of 13.0, which is higher than the historical average of the bank. If the stock trades at its average valuation level in five years, it will incur a -2.8% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	111%	33%	17%	92%	37%	38%	63%	31%	31%	35%	***62%***	***54%***

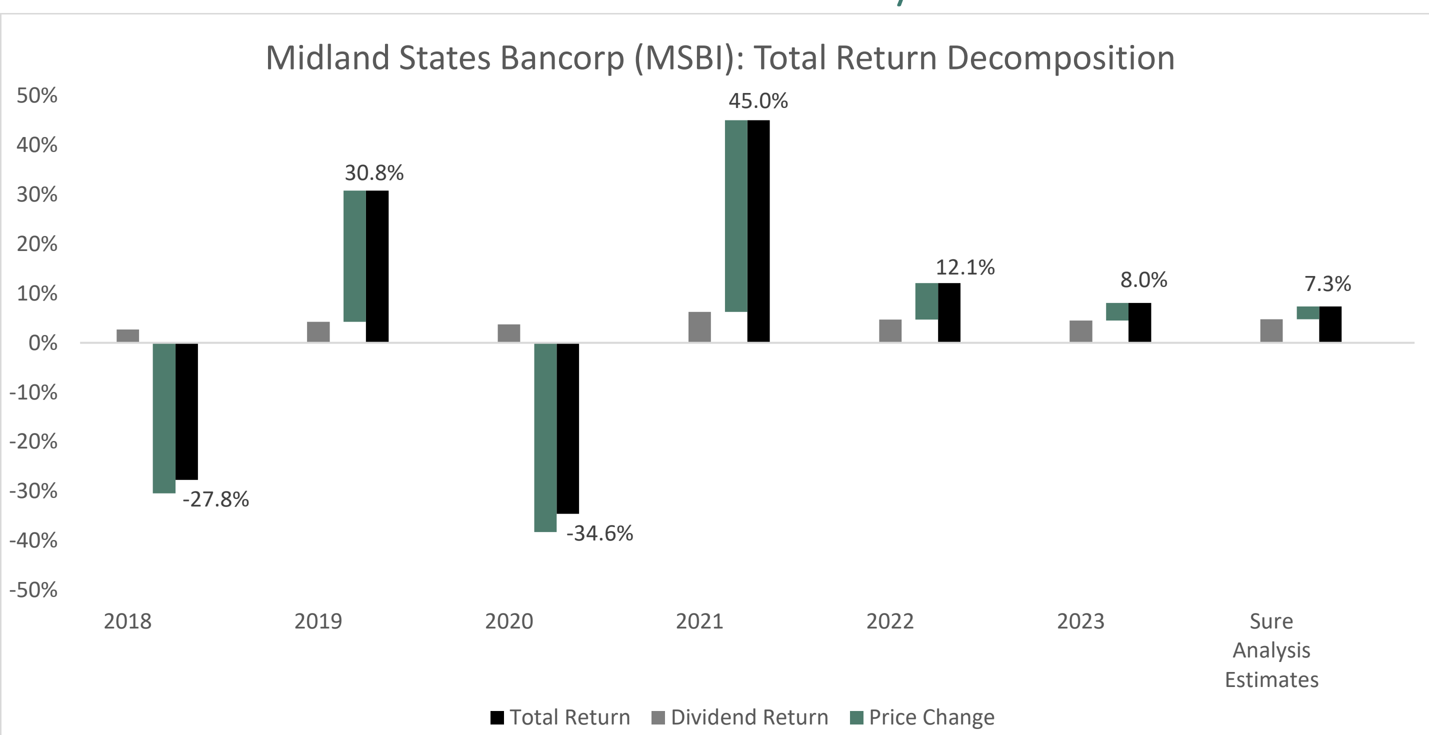
Midland States Bancorp has raised its dividend for 8 consecutive years. The bank is currently offering a dividend yield of 4.8%, which is much higher than the 2.9% median dividend yield of the financial sector. However, the stock has an elevated payout ratio of 62%, which is much higher than the 40% median payout ratio of the financial sector. We also note that the company has grown its dividend by only 3.6% per year on average over the last three years. Overall, the stock is offering an attractive current yield but modest dividend growth should be expected in the upcoming years.

Moreover, Midland States Bancorp has exhibited a somewhat volatile performance record and has proved vulnerable to recessions and downturns of the financial sector. It incurred a -33% decrease in its earnings-per-share in 2020 due to the pandemic and is poised to incur an approximate -41% decrease in its bottom line this year, mostly due to the impact of high interest rates on its net interest margin and credit issues with two customers. Therefore, the stock is suitable only for investors who can tolerate stock price pressure during downturns and wait patiently for the subsequent recovery.

Final Thoughts & Recommendation

Midland States Bancorp has rallied 18% since our last research report, in September, but it remains reasonably valued. It could offer a 7.3% average annual return over the next five years thanks to 6.0% growth of earnings-per-share and its 4.8% dividend, partly offset by a -2.8% valuation headwind. We lower our rating from "buy" to "hold" and reiterate that the stock is suitable only for patient investors, who can stomach volatile business performance and a volatile stock price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	81	161	175	187	251	267	270	283	322	298
SG&A Exp.	44	81	84	101	133	121	89	93	97	101
D&A Exp.	6	13	13	13	16	19	20	16	14	13
Net Profit	11	24	32	16	39	56	23	81	99	75
Net Margin	13.4%	15.1%	18.0%	8.6%	15.7%	20.9%	8.3%	28.7%	30.7%	25.3%
Free Cash Flow	19	67	22	64	90	533	497	332	244	146
Income Tax	5	11	19	10	11	17	9	18	31	32

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,677	2,885	3,234	4,413	5,638	6,087	6,869	7,444	7,856	7,867
Cash & Equivalents	160	212	190	215	211	393	337	673	153	134
Goodwill & Int. Ass.	120	120	124	172	255	260	230	215	184	198
Total Liabilities	2,457	2,652	2,912	3,963	5,029	5,425	6,247	6,780	7,097	7,075
Long-Term Debt	81	102	292	590	735	670	949	449	602	604
Shareholder's Equity	219	233	322	447	606	662	621	664	648	681
LTD/E Ratio	0.37	0.44	0.91	1.31	1.21	1.01	1.53	0.68	0.79	0.76

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets		0.9%	1.0%	0.4%	0.8%	1.0%	0.3%	1.1%	1.3%	1.0%
Return on Equity	6.6%	10.7%	11.4%	4.2%	7.5%	8.8%	3.5%	12.7%	13.9%	9.7%
ROIC		7.6%	6.6%	1.9%	3.3%	4.2%	1.6%	6.1%	8.0%	5.5%
Shares Out.	6.0	12.1	14.4	18.3	23.5	24.5	23.3	22.4	22.7	22.0
Revenue/Share	5.43	10.87	12.15	10.23	10.68	10.91	11.57	12.56	14.39	13.49
FCF/Share	1.25	4.53	1.52	3.52	3.82	21.77	21.27	14.71	10.88	6.59

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