Merchants Bancorp (MBIN)

Updated December 15th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	11.8%	**Market Cap:**	$1.76 B
Fair Value Price:	$46	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	12/13/2024
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.8%	**Dividend Payment Date:**	01/02/2025
Dividend Yield:	0.9%	**5 Year Price Target**	$65	**Years Of Dividend Growth:**	7
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Merchants Bancorp, headquartered in Carmel, Indiana, operates six branches across the state, providing community banking services alongside its national mortgage banking platform. The company is a top lender in affordable multi-family housing and healthcare facility financing, managing over $18.7 billion in total assets and $12.9 billion in total deposits as of September 30th, 2024. It also specializes in mortgage warehousing, supporting independent mortgage bankers nationwide, and SBA lending, focusing on small business growth and development. The bank generated $1.08 billion in total interest income last year. It currently has a market cap of $1.76 billion.

On October 28th, 2024, Merchants Bancorp reported its Q3 results for the period ending September 30th, 2024. The bank posted net income of $61.3 million, down 25% from $81.5 million in Q3 2023, with EPS of $1.17 down from $1.68 a year earlier. The decline was mainly due to a $6.7 million negative fair market value adjustment to servicing rights and higher reserves for credit losses, reflecting the impact of rising interest rates and economic uncertainty. Still, its tangible book value per share increased 25% to $32.38. For FY2024, we believe the bank will achieve EPS close to $5.79.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	$0.90	$0.98	$1.52	$1.38	$1.58	$3.85	$4.78	$4.49	$5.66	***$5.79***	***$8.12***
DPS	---	$0.13	$0.13	$0.03	$0.16	$0.19	$0.21	$0.24	$0.28	$0.32	***$0.36***	***$0.55***
Shares[1]	---	31.6	31.7	33.9	43.1	43.1	43.2	43.3	43.3	43.3	***44.4***	***45.0***

Merchants Bancorp's EPS rose from $0.90 in 2015 to $1.58 in 2019, driven by robust growth in multi-family mortgage banking and servicing income. During this period, the company undertook strategic acquisitions to bolster its operations and market presence. In 2018, it acquired Farmers-Merchants Bank of Illinois, strengthening its foothold in community banking. That year, acquiring NattyMac, a warehouse lending platform, boosted its mortgage warehousing capabilities.

In 2020, EPS skyrocketed to $3.85 as historically low interest rates spurred a wave of refinancing and strong demand for single-family and multi-family lending. The bank also capitalized on its expertise in securitization, adding liquidity to its balance sheet and fueling additional loan growth.

By 2021, EPS grew to $4.78, reflecting enduring strength in mortgage banking and warehouse lending and expansion in SBA lending. The pandemic-driven boom moderated in 2022, with EPS declining slightly to $4.49, as higher rates began to impact origination volumes. Nevertheless, disciplined cost management and a diversified portfolio helped mitigate the effects of a cooling market. In 2023, EPS climbed to $5.66, supported by a 9% increase in loans sold into the secondary market and continued gains in multi-family lending. The company also benefited from its focus on affordable housing financing, a resilient segment amidst broader market uncertainty.

Moving forward, we believe Merchants can grow its EPS by 7%, supported by lasting demand for affordable multi-family housing financing, enduring expansion in its warehouse lending platform, and increased efficiency through securitization of loans sold into the secondary market. Additionally, its focus on SBA lending and strategic growth in healthcare and

[1] Share count is in millions.

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senior housing financing provides further opportunities to capitalize on resilient and growing sectors. We have also set our dividend growth estimate at 9%, which we believe the company can afford rather comfortably. The company has increased its dividend for 7 consecutive years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	8.0	11.2	8.7	3.3	4.8	5.9	4.9	***6.6***	***8.0***
Avg. Yld.	---	---	---	0.2%	1.0%	1.4%	1.7%	1.0%	1.1%	1.2%	***0.9%***	***0.9%***

Merchants Bancorp's P/E has consistently traded at a discount compared to industry peers, reflecting its niche focus on multi-family mortgage banking and perceived reliance on cyclical mortgage markets. While we believe a soft discount is appropriate, the stock appears too cheap at its current levels considering its earnings strength in recent years. We have set our fair multiple at 8.0, implying the possibility of a noteworthy multiple expansion ahead.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	14%	13%	2%	12%	12%	5%	5%	6%	6%	***6%***	***7%***

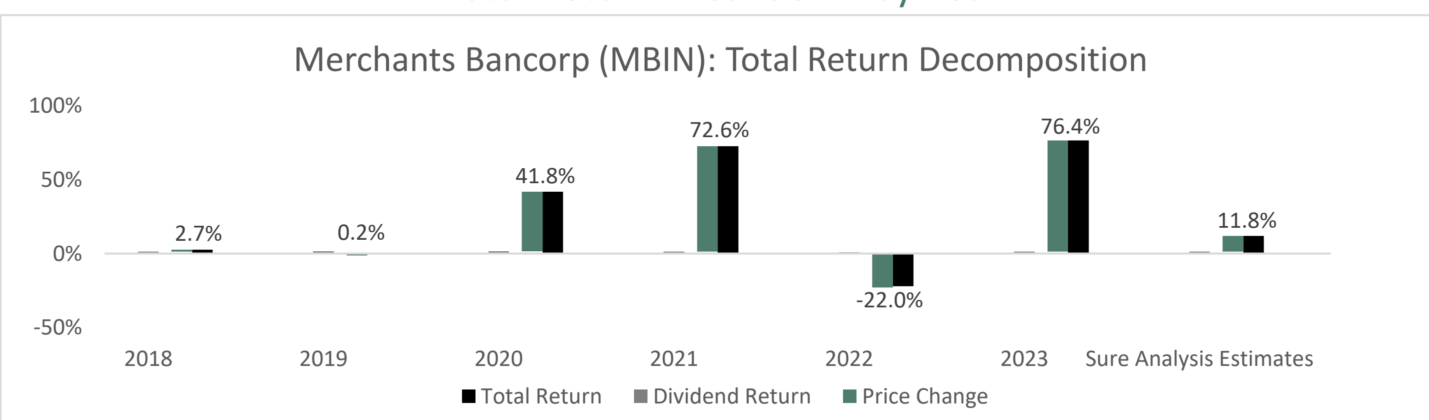
Merchants' competitive advantages stem from its specialized focus on multi-family mortgage banking and warehouse lending, areas where it holds significant market share. Its ability to securitize loans, as evidenced by the $629 million healthcare loan securitization it achieved this past October, improves its capital efficiency while reducing credit risk exposure. The bank's robust capital position, with a CET1 ratio of 9.0% as of its most recent filings, also underpins its financial stability.

However, the industry's competitive landscape poses challenges, with larger players offering broader services and scale advantages. Additionally, the bank operates in sectors susceptible to market downturns, such as mortgage origination and real estate financing. While its targeted focus and strong operational model mitigate some risks, fluctuating rates and economic uncertainties could pressure growth in the near term.

Final Thoughts & Recommendation

Merchants Bancorp's investment case is supported by its strong position in multi-family mortgage banking, efficient loan securitization, and steady growth in warehouse lending. With healthy capital ratios and continued focus on affordable housing and healthcare financing, we believe the bank is well-positioned to deliver sustainable growth despite industry cyclicality. We forecast annualized returns of 11.8% moving forward, powered by our 7% EPS growth estimate, the tiny starting dividend yield of 0.9%, and the possibility of a 3.8% annual valuation tailwind. Thus, shares earn a buy 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.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue		66	78	110	135	165	343	428	440	559
SG&A Exp.		13	15	22	33	41	65	88	93	122
D&A Exp.		0	0	0	0	1	2	2	2	3
Net Profit		28	33	55	63	77	181	227	220	279
Net Margin		42.8%	42.3%	49.6%	46.6%	46.9%	52.7%	53.1%	50.0%	49.9%
Free Cash Flow		117	(152)	(178)	189	(1,271)	(879)	(53)	967	(364)
Income Tax		19	22	22	21	25	63	78	71	69

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets		2,269	2,719	3,393	3,884	6,372	9,645	11,279	12,615	16,953
Cash & Equivalents		447	446	360	337	507	180	1,033	226	584
Total Liab.		2,121	2,512	3,026	3,463	5,718	8,835	10,123	11,155	15,251
Accounts Payable		2								
Long-Term Debt		57	57	57	195	181	1,236	874	910	964
Total Equity		138	165	326	380	441	598	793	960	1,201
LTD/E Ratio		0.39	0.28	0.15	0.46	0.28	1.52	0.76	0.62	0.57

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets			1.3%	1.8%	1.7%	1.5%	2.3%	2.2%	1.8%	1.9%
Return on Equity			18.7%	19.1%	15.9%	14.4%	24.7%	23.1%	16.8%	17.7%
ROIC			14.1%	15.9%	12.1%	10.7%	12.5%	11.1%	10.0%	11.1%
Shares Out.		31.6	31.7	33.9	43.1	43.1	43.2	43.3	43.3	43.3
Revenue/Share		2.09	2.47	3.25	3.13	3.82	7.94	9.87	10.15	12.90
FCF/Share		3.69	(4.81)	(5.25)	4.38	(29.48)	(20.35)	(1.22)	22.32	(8.40)

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