Mercantile Bank Corporation (MBWM)

Updated January 21st, 2025, by Kody Kester

Key Metrics

Current Price:	$47	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$756M
Fair Value Price:	$52	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	03/06/25
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	03/19/25
Dividend Yield:	3.2%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Formed in 1997, Mercantile Bank Corporation has established itself as one of Michigan's largest community banks. As of December 31st, 2024, MBWM had $6 billion in assets. The company operates more than 40 office locations, mostly in West and Central Michigan. The company also has banking offices in the metro Detroit area, Traverse City area, Saginaw area, and Midland area.

Unsurprisingly, MBWM offers a variety of banking services to an array of customers. That includes personal checking, savings, and term certificate accounts for retail/individual customers. Other products include residential real estate loans, home equity loans, and consumer loans like new and used automobile loans, and credit cards. MBWM also serves commercial and industrial customers with a variety of loans, such as vacant land loans, land development loans, and residential construction loans. The company also offers courier services to some commercial customers and safe deposit facilities at most of its office locations.

Of note, MBWM did acquire an existing shelf insurance agency in 2002. Should it choose to do so, the company could enter the business of selling insurance products like homeowners' insurance, umbrella insurance, small business and life insurance, and private passenger automobile insurance. To this point, though, the company has opted to focus all its efforts on being a community bank.

On January 21st, MBWM shared its financial results for the fourth quarter ended December 31st. The company's net interest income decreased by 0.6% year-over-year to $48.4 million in the quarter. Loan growth (+6.9% to $4.5 billion) was more than offset by a 51-basis point decline in the company's net interest margin to 3.41% during the quarter. MBWM's non-interest income climbed 22.6% over the year-ago period to $10.2 million for the quarter. That was due to higher levels of mortgage banking income, treasury management fees, and bank-owned life insurance income. MBWM's diluted EPS fell by 2.4% year-over-year to $1.22 in the quarter. This was $0.08 ahead of the analyst consensus during the quarter.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.62	$1.96	$1.90	$2.53	$3.01	$2.71	$3.69	$3.85	$5.13	$4.93	***$4.70***	***$6.14***
DPS	$0.58	$0.66	$0.74	$0.92	$1.06	$1.12	$1.18	$1.26	$1.34	$1.44	***$1.48***	***$1.93***
Shares[1]	16.4	16.4	16.6	16.5	16.4	16.3	15.8	16.0	16.1	16.1	***16.1***	***15.9***

MBWM has had a tougher time growing lately. We still believe that the company can return to growth beyond 2025, though. This is because the rate cuts in recent months from the Federal Reserve should eventually be digested by the economy. That should help the community bank's net interest margins improve and restore it to mid-single-digit annual diluted EPS through 2030.

[1] Share count is in millions.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	15.1	19.2	18.6	11.4	12.2	10.0	9.5	8.7	7.9	9.0	***10.0***	***11.0***
Avg. Yld.	2.4%	1.8%	2.1%	3.2%	2.9%	4.1%	3.4%	3.8%	3.3%	3.2%	***3.2%***	***2.9%***

Over the last 10 years, MBWM's P/E ratio has varied from as low as the high-single-digits in recent years to the high teens. The average P/E ratio over that time has been around 12. We continue to think that the company's fair value multiple is around 11. That suggests the current P/E ratio of 10.0 is below MBWM's fair value multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	36%	34%	39%	36%	35%	41%	32%	33%	26%	29%	***31%***	***31%***

MBWM's differentiating factor lies in its status as one of the bigger community banks in Michigan. The company faces competition from regional banks and national banks. But few know the communities they serve as well as MBWM. Simply put, the company is big enough to serve the needs of its customers. Yet, it still provides that hometown feeling that many customers prefer.

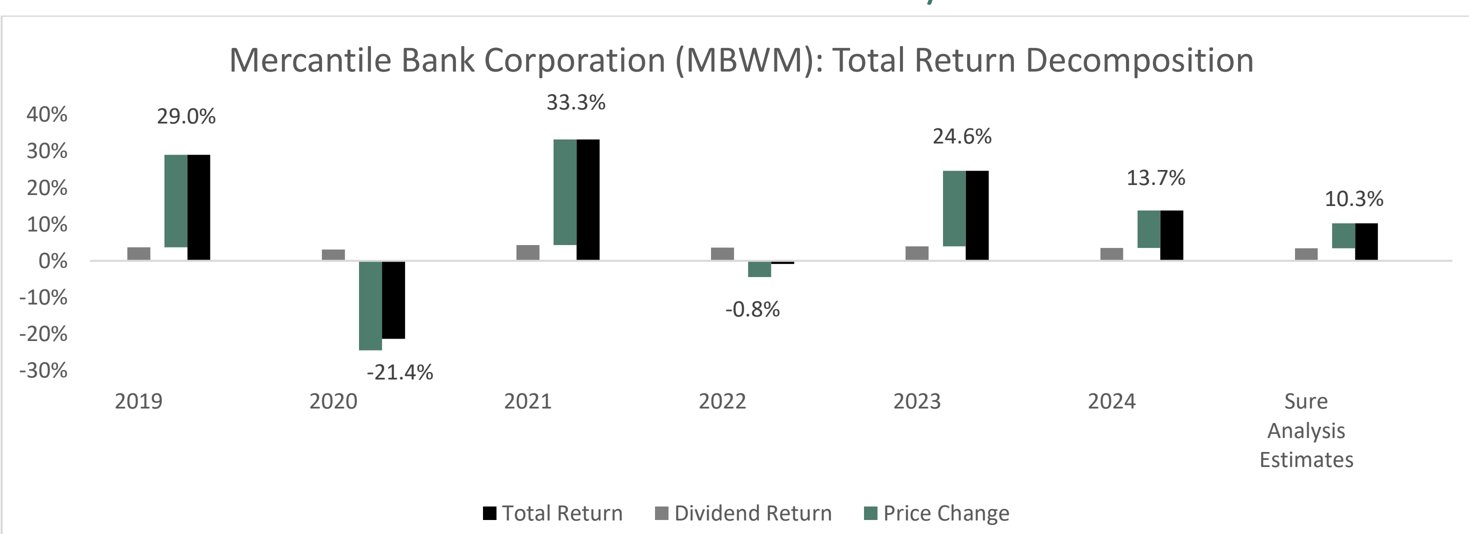
MBWM's loan-to-deposit ratio of 98% as of December 31st is still high for a community bank. However, MBWM counters this risk with great execution. The company's efficiency ratio was 57.8% in the fourth quarter. This implies that the community bank knows how to manage its non-interest expenses.

As could be imagined for a community bank, MBWM's dividend isn't perfectly safe. It's worth noting that approximately half of the company's total loans are related to commercial real estate. MBWM's payout ratio is positioned to be just 31% in 2025. This dividend coverage ratio builds breathing room for the payout to be modestly grown through the current downturn in profitability. This could even provide some flexibility against some further deterioration in the commercial real estate market.

Final Thoughts & Recommendation

MBWM's 3.2% dividend yield, 5.5% annual diluted EPS growth prospects, and 1.9% annual valuation multiple upside could generate 10.3% annual total returns over the next five years. This return forecast is high enough for us to maintain our 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	88	117	127	129	139	151	167	179	190	226
SG&A Exp.	42	53	54	56	62	65	62	69	68	73
D&A Exp.	8	12	10	10	10	10	9	14	13	11
Net Profit	17	27	32	31	42	49	44	59	61	82
Net Margin	19.7%	23.1%	25.1%	24.3%	30.2%	32.6%	26.4%	32.9%	32.1%	36.4%
Free Cash Flow	12	35	33	33	55	31	29	59	117	60
Income Tax	8	12	15	15	10	11	11	15	15	20

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,893	2,904	3,083	3,287	3,364	3,633	4,437	5,258	4,873	5,353
Cash & Equivalents	162	89	184	200	75	234	626	975	97	131
Goodwill & Int. Ass.	65	62	59	57	55	53	52	51	49	49
Total Liabilities	2,565	2,570	2,742	2,921	2,989	3,216	3,996	4,801	4,431	4,831
Long-Term Debt	108	123	220	266	396	401	442	496	446	607
Shareholder's Equity	328	334	341	366	375	417	442	457	441	522
LTD/E Ratio	0.33	0.37	0.65	0.73	1.06	0.96	1.00	1.09	1.01	1.16

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	0.9%	1.1%	1.0%	1.3%	1.4%	1.1%	1.2%	1.2%	1.6%
Return on Equity	7.2%	8.2%	9.5%	8.9%	11.3%	12.5%	10.3%	13.1%	13.6%	17.1%
ROIC	5.2%	6.0%	6.3%	5.2%	6.0%	6.2%	5.2%	6.4%	6.6%	8.2%
Shares Out.	17.0	16.4	16.4	16.6	16.5	16.4	16.3	15.8	16.0	16.1
Revenue/Share	6.48	7.04	7.78	7.81	8.38	9.23	10.29	11.21	12.00	14.09
FCF/Share	0.91	2.10	2.00	2.02	3.34	1.91	1.78	3.69	7.37	3.74

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