MidWestOne Financial Group (MOFG)

Updated January 28th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$644 M
Fair Value Price:	$37	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	3/3/25
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	3/17/25
Dividend Yield:	3.0%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

MidWestOne Financial Group is a financial holding company that is the parent company of MidWestOne Bank, which was founded in 1934 and is headquartered in Iowa City, Iowa. The bank, which has 59 branches, provides commercial and retail banking products and services to individuals, businesses and institutional customers. MidWestOne operates in Iowa, Minnesota, Wisconsin, Colorado and Florida and has a market capitalization of only $644 million.

On January 23rd, 2025, MidWestOne reported results for Q4-2024. Loans grew 5%, partly thanks to the acquisition of Denver Bancshares, while deposits grew 1.5% vs. the prior year's quarter. Net interest margin expanded from 2.23% to 3.43% thanks to growth of loans and lower deposit costs. The bank had among the lowest net interest margins in the financial sector in 2023 but it returned to normal levels in the most recent quarter. Earnings-per-share grew from an abnormally low level of $0.17 to $0.77 thanks to higher net interest income and the absence of non-recurring losses in the prior year's quarter. We reiterate that the excessive losses from the sales of fixed-income securities incurred in 2023 raise a red flag about the quality of management. Moreover, the bank recently issued ~5 million shares to improve its balance sheet. Fortunately, interest rates have decreased lately and hence the worse seems to be behind the bank.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.42	$1.78	$1.55	$2.48	$2.93	$0.41	$4.37	$3.87	$1.33	$2.23	***$3.10***	***$3.59***
DPS	$0.60	$0.64	$0.67	$0.78	$0.81	$0.88	$0.90	$0.95	$0.97	$0.97	***$0.97***	***$1.12***
Shares[1]	10.4	11.5	12.1	12.2	14.9	16.1	15.9	15.7	15.8	20.9	***21.0***	***21.0***

MidWestOne has been consistently growing its business by acquiring other regional banks. It acquired Iowa First Bancshares in 2022 and Denver Bancshares early last year. As a result, it has grown its loans and its deposits at an average annual rate of 9% and 5%, respectively, over the last three years. On the other hand, the bank has exhibited a volatile performance record over the last decade. It also incurred a -66% slump in earnings-per-share in 2023 due to excessive losses from sales of fixed-income securities. The losses were caused by the impact of the surge of interest rates on the value of fixed-income securities. This is a stern reminder of the inherent risk of this small-cap bank. While the excessive losses do not bode well for the quality of management, MidWestOne is likely to partly recover this year, as the realized losses in 2023 are most likely non-recurring in nature. The bank is also likely to see its net interest margin improve in the upcoming years thanks to the interest rate reductions expected by the Fed. Overall, we expect 3.0% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	12.4	16.6	22.5	13.0	10.2	54.6	6.9	8.1	17.7	11.6	***10.3***	***12.0***
Avg. Yld.	2.0%	2.2%	1.9%	2.4%	2.7%	3.9%	3.0%	3.0%	4.1%	3.8%	***3.0%***	***2.6%***

[1] In millions.

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Excluding the years 2017 and 2020, in which abnormally low earnings resulted in abnormally high price-to-earnings ratios, MidWestOne has traded at an average price-to-earnings ratio of 12.0 over the last decade. We assume this valuation level as fair for this stock. MidWestOne is currently trading at a price-to-earnings ratio of 10.3. If it trades at its fair valuation level in five years, it will enjoy a 3.1% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	25%	36%	43%	31%	28%	215%	21%	25%	73%	43%	***31%***	***31%***

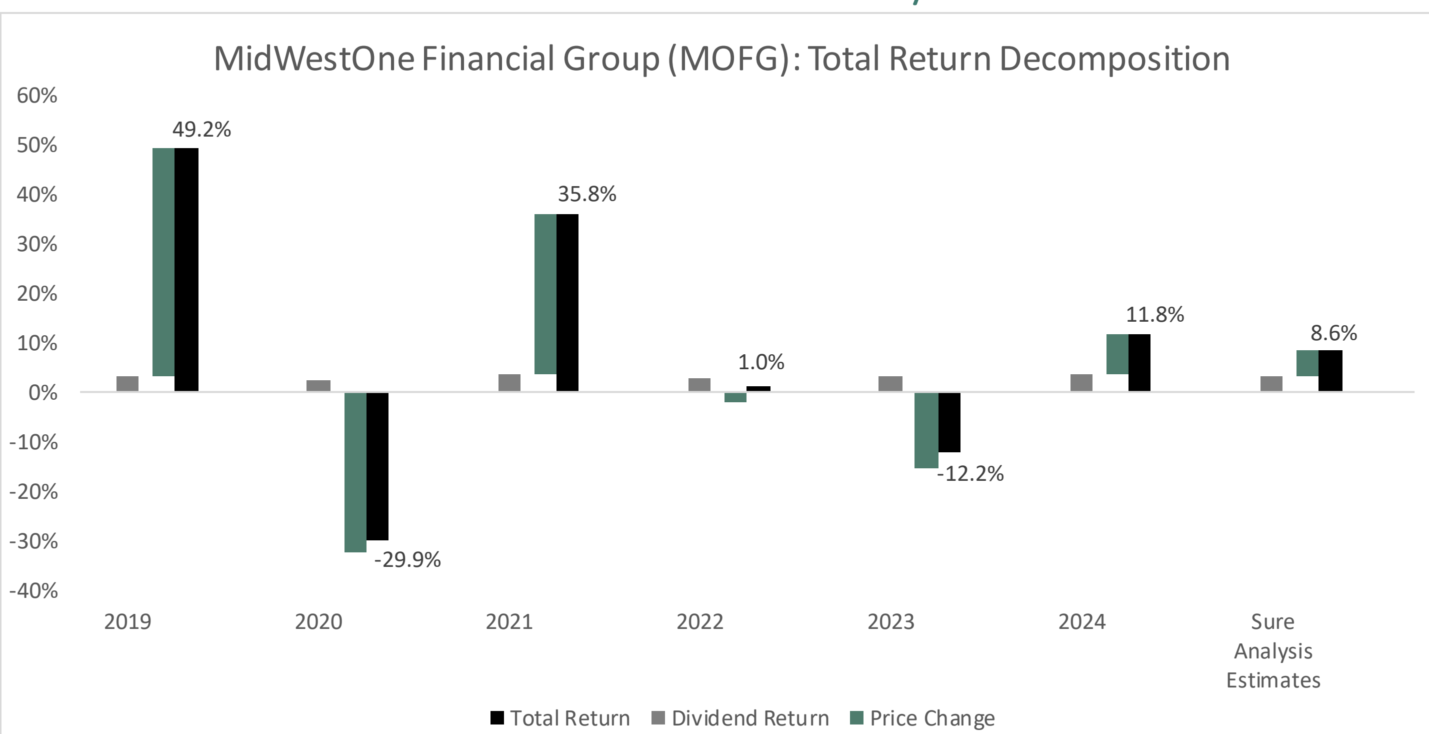
MidWestOne had raised its dividend for 13 consecutive years but it kept its dividend flat last year, thus putting an end to its growth streak. It is also offering a 3.0% dividend yield, with a healthy forward payout ratio of 31%. In addition, the bank has a healthy tier 1 capital ratio of 11.6% while its net loan charge-offs have remained below 0.20% in each of the last eight quarters. Therefore, the dividend appears safe in the absence of a severe downturn.

On the other hand, MidWestOne proved vulnerable to the pandemic, as its earnings-per-share plunged -86% in 2020. It was one of the worst performances in the financial sector in 2020. In addition, the bank was severely hurt by the unexpected surge of inflation, which led the Fed to raise interest rates to 23-year highs within a short period. The excessive losses of the bank in the first quarter of 2023 and its vast underperformance vs. the S&P 500 over the last five years (-5% vs. +85%) are reminders of the inherent risk of this small-cap bank. Overall, MidWestOne does not appear suitable for conservative, income-oriented investors.

Final Thoughts & Recommendation

MidWestOne has just begun to recover from the downturn caused by the surge of interest rates to 23-year highs. With that said, the stock has rallied 60% in the last 15 months, and hence it has become less attractive. The stock could offer an 8.6% average annual return over the next five years thanks to 3.0% growth of earnings-per-share, its 3.0% dividend and a 3.1% valuation tailwind. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	111	123	127	128	175	192	199	214	163	69
SG&A Exp.	46	56	56	58	76	72	76	84	83	89
D&A Exp.	7	8	8	9	3	5	2	10	13	---
Net Profit	25	20	19	30	44	7	69	61	21	(60)
Net Margin	22.6%	16.6%	14.8%	23.6%	24.9%	3.5%	35.0%	28.4%	12.8%	-87.0%
Free Cash Flow	18	33	36	37	45	7	110	88	59	---
Income Tax	8	7	10	8	7	7	20	16	4	(24)

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,980	3,080	3,212	3,291	4,654	5,557	6,025	6,578	6,428	6,236
Cash & Equivalents	47	43	50	45	73	82	204	86	82	205
Goodwill & Int. Ass.	86	82	79	77	131	93	89	106	100	95
Total Liabilities	2,684	2,774	2,872	2,934	4,145	5,041	5,498	6,085	5,903	5,677
Long-Term Debt	133	156	151	224	253	264	154	374	418	117
Shareholder's Equity	296	305	340	357	509	515	527	493	524	560
LTD/E Ratio	0.45	0.51	0.44	0.63	0.50	0.51	0.29	0.76	0.80	0.21

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.1%	0.7%	0.6%	0.9%	1.1%	0.1%	1.2%	1.0%	0.3%	-1.0%
Return on Equity	10.3%	6.8%	5.8%	8.7%	10.1%	1.3%	13.3%	11.9%	4.1%	-11.1%
ROIC	6.9%	4.6%	3.9%	5.7%	6.5%	0.9%	9.5%	7.9%	2.3%	-7.4%
Shares Out.	10.4	11.5	12.1	12.2	14.9	16.1	15.9	15.7	15.8	17.0
Revenue/Share	10.71	10.74	10.49	10.50	11.75	11.89	12.50	13.62	10.34	4.07
FCF/Share	1.72	2.84	2.99	3.03	3.03	0.44	6.89	5.58	3.72	---

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