Prosperity Bancshares Inc. (PB)

Updated January 30th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$7.6 B
Fair Value Price:	$72	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	3/14/2025
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	4/1/2025
Dividend Yield:	2.9%	**5 Year Price Target**	$96	**Years Of Dividend Growth:**	21
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Prosperity Bancshares Inc. was formed in 1983 as a vehicle to acquire the former Allied Bank - chartered in 1949 as the First National Bank of Edna, Texas - which is now known as Prosperity Bank. The bank's main operation is receiving deposits from the general public and using the capital to originate commercial and consumer loans. The bank operates 274 branches in the greater Houston area and some neighboring counties in Texas and 14 more branches in Oklahoma. The company also has the following operations: wealth management, retail brokerage, and mortgage banking investment services. The bank's main lending focus is commercial mortgages, followed by residential mortgages. The company has a market capitalization of $7.6 billion.

On October 11th 2022, Prosperity Bancshares agreed to acquire First Bancshares and Lone Star State Bancshares, which are based in Texas and have 21 bank offices in total. Now that the two acquisitions have been completed, Prosperity Bancshares has more than $6 billion of assets in West Texas and is the largest bank in Midland and Odessa markets.

In late January, Prosperity Bancshares reported (1/29/25) financial results for the fourth quarter of fiscal 2024. Non-performing loans remained low, at 0.23% of interest-earning assets, and loans dipped -1% sequentially. Net interest margin expanded for a third consecutive quarter, from 2.95% to 3.05%, and net interest income grew 2%. Earnings-per-share grew 34%, assisted by lower provisions for loan losses. Prosperity Bancshares has a reputation for its disciplined management and thus it has easily endured the pandemic and high interest rates in recent years. Its record earnings in 2020-2021 and its dividend hikes in 2020-2021 are testaments to its resilience to downturns. The bank also proved resilient to the downturn caused by the collapse of Silicon Valley Bank, Credit Suisse and First Republic. We expect Prosperity Bancshares to outperform most of its peers whenever the financial industry faces its next downturn.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$4.09	$3.94	$3.92	$4.61	$4.52	$5.68	$5.60	$5.73	$4.51	$5.05	***$5.50***	***$7.36***
DPS	$1.12	$1.24	$1.38	$1.49	$1.64	$1.87	$1.99	$2.11	$2.21	$2.26	***$2.32***	***$3.02***
Shares[1]	70.0	69.5	69.5	69.9	94.7	92.6	92.2	91.3	93.7	95.3	***97.0***	***100.0***

Prosperity Bancshares grew its earnings-per-share at a 5.1% average annual rate in the decade leading to 2022, primarily thanks to strong economic activity in Texas and Oklahoma. Texas has the fastest-growing population and one of the highest economic growth rates in the nation. It is also expected to outperform most other states in economic growth in the upcoming years. Prosperity Bancshares stalled from 2014 to 2017 and incurred a -21% decrease in its bottom line in 2023, primarily due to the high costs related to the aforementioned acquisitions. We expect the bank to benefit from these two acquisitions and grow its earnings-per-share by 6.0% per year on average over the next five years. The bank initiated a quarterly dividend of $0.025 per share in January-1999 and has grown it at a fast clip to $0.58 per quarter. In the last five years, the bank has raised its dividend by 4.4% per year on average. Thanks to its low payout ratio (42%) and its promising growth prospects, it should be able to continue raising its dividend at a healthy pace.

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[1] In millions.

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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.8	18.3	17.7	13.5	15.4	10.5	13.0	12.5	13.7	13.5	***14.4***	***13.0***
Avg. Yld.	2.1%	2.4%	2.1%	2.1%	2.4%	3.1%	2.7%	3.0%	3.6%	3.3%	***2.9%***	***3.2%***

Prosperity Bancshares is currently trading at a price-to-earnings ratio of 14.4, which is higher than its 10-year average earnings multiple of 13.9. We assume a fair earnings multiple of 13.0, which is the equal to the 6-year average. If the stock trades at its fair valuation level in five years, it will incur a -2.0% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	27%	31%	35%	32%	36%	33%	36%	37%	49%	45%	***42%***	***41%***

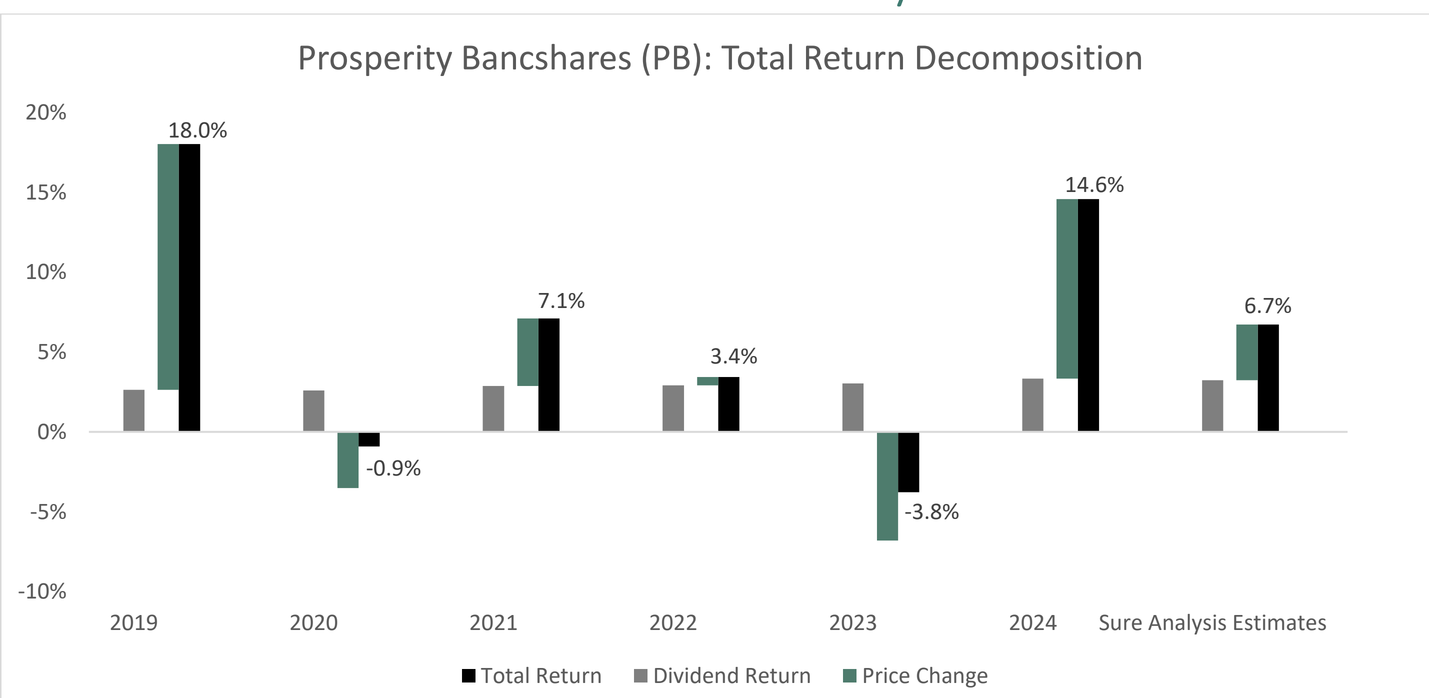
Prosperity Bancshares believes that its competitive advantage is in its presence in areas with strong economic growth and excellent growth opportunities through acquisitions, new banking center locations and business development.

Moreover, Prosperity Bancshares has proved resilient to recessions. In the coronavirus crisis, the bank managed to post record earnings-per-share. In addition, the bank was able to grow immensely in the previous recession. During the Great Recession (2008-2009), its stock rallied 36% throughout the year despite a declining broad market. The company was also able to grow its earnings-per-share by an outstanding 29% and its book value per share by nearly 7%.

Final Thoughts & Recommendation

Prosperity Bancshares is conservatively managed and endured the pandemic as well as the downturn of regional banks without any problem. The stock has rallied 45% in 15 months, as the bank endured the downturn of regional banks and the Fed has begun reducing interest rates. As a result, the stock has become less attractive. It could offer a 6.7% average annual return over the next five years thanks to 6.0% earnings growth and its 2.9% dividend, partly offset by a -2.0% potential valuation headwind. 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	736	734	716	728	796	1,122	1,098	1,114	1,069	1,146
SG&A Exp.	228	232	227	241	256	343	344	339	369	380
D&A Exp.	22	22	19	18	20	31	30	29	31	---
Net Profit	287	274	272	322	333	529	519	525	419	479
Net Margin	39.0%	37.4%	38.0%	44.2%	41.8%	47.1%	47.3%	47.1%	39.2%	41.8%
Free Cash Flow	301	329	379	305	384	560	676	464	612	---
Income Tax	144	134	134	81	87	116	140	142	115	133

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	22,037	22,331	22,587	22,693	32,186	34,059	37,834	37,690	38,548	39,567
Cash & Equivalents	563	436	392	411	574	1,343	2,548	424	458	1,972
Accounts Receivable	52	53	56	57	81	82	66	88	96	---
Goodwill & Int. Ass.	1,918	1,947	1,940	1,934	3,310	3,305	3,293	3,283	3,460	3,569
Total Liabilities	18,574	18,689	18,763	18,641	26,215	27,929	31,407	30,990	31,469	32,128
Accounts Payable	2	2	3	4	9	3	1	4	35	---
Long-Term Debt	491	991	505	1,031	1,430	---	---	1,850	3,725	3,200
Shareholder's Equity	3,463	3,642	3,824	4,053	5,971	6,131	6,427	6,699	7,079	7,438
LTD/E Ratio	0.14	0.27	0.13	0.25	0.24	---	---	0.28	0.53	0.43

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.3%	1.2%	1.2%	1.4%	1.2%	1.6%	1.4%	1.4%	1.1%	1.2%
Return on Equity	8.5%	7.7%	7.3%	8.2%	6.6%	8.7%	8.3%	8.0%	6.1%	6.6%
ROIC	7.8%	6.4%	6.1%	6.8%	5.3%	7.8%	8.3%	7.0%	4.3%	4.5%
Shares Out.	70.0	69.5	69.5	69.9	94.7	92.6	92.2	91.6	92.9	95.0
Revenue/Share	10.50	10.53	10.31	10.42	10.83	12.06	11.85	12.2	11.51	12.06
FCF/Share	4.30	4.73	5.46	4.37	5.23	6.02	7.29	5.07	6.59	---

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