Unity Bancorp, Inc. (UNTY)

Updated January 16th, 2025, by Kody Kester

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	10.8%	**Market Cap:**	$463M
Fair Value Price:	$48	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	03/13/25
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	03/28/25
Dividend Yield:	1.1%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Founded in 1991 under the name First Community Bank, Unity Bancorp, Inc. is a community bank. UNTY serves as the holding company of Unity Bank.

The company is a full-service commercial bank that mostly serves businesses and consumers in Bergen, Hunterdon, Middlesex, Morris, Ocean, Somerset, Union, and Warren counties in New Jersey. To a lesser extent, Unity Bank reaches into the New York City metropolitan area and Northampton County in Pennsylvania with its banking locations and online services. As of December 31st, UNTY had $2.7 billion in assets.

The bank offers customers savings products including personal and business checking accounts, savings accounts, and money market accounts. UNTY also provides Small Business Administration loans, commercial loans, mortgage loans, home equity loans, and personal loans. Additionally, the company offers debit and credit cards, safe deposit boxes, and internet and mobile banking services.

Among banks with less than $5 billion in assets, Bank Director ranks UNTY as the 13th best in the nation. The company's commitment to meeting the needs of customers earned it this distinction. Not to mention that UNTY's efficiency placed it fifth among all banks under $5 billion in assets for return on assets at around 1.8%.

On January 15th, the community bank shared its financial results for the fourth quarter ended December 31st, 2024. UNTY's net interest income rose by 10.2% over the year-ago period to $26.5 million in the quarter. Greater loan balances and a 31-basis point expansion in the net interest margin helped the company's net interest income move higher during the quarter. UNTY's diluted EPS jumped 17.7% year-over-year to $1.13 for the quarter. That came in $0.07 above the analyst consensus in the quarter. Total noninterest expenses increased at a slower rate than net interest income, which helped the diluted EPS growth rate outpace topline growth during the quarter.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.12	$1.38	$1.20	$2.01	$2.14	$2.19	$3.43	$3.59	$3.84	$4.06	***$4.80***	***$7.39***
DPS	$0.13	$0.17	$0.23	$0.27	$0.31	$0.32	$0.36	$0.43	$0.48	$0.52	***$0.52***	***$0.76***
Shares[2]	9.3	10.5	10.6	10.8	10.9	10.5	10.4	10.6	10.1	10.0	***10.0***	***9.5***

In the last decade, UNTY's diluted EPS has nearly quadrupled. Since the bank is dealing with a larger earnings base, this probably won't be replicated in the coming years. However, we still think that diluted EPS growth can be in the high-single-digits annually over the medium term. This is because further rate cuts from the Federal Reserve can expand UNTY's net interest margin and aid in diluted EPS growth.

The company's share count has steadily moved lower in recent years. We predict this will continue and we are maintaining our expectations of a 5% reduction in the share count through 2030 versus the current level.

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[1] Estimate

[2] 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	10.1	11.4	16.5	10.0	10.3	8.0	7.7	7.6	7.7	10.7	***9.6***	***10.0***
Avg. Yld.	1.1%	1.1%	1.2%	1.3%	1.4%	1.8%	1.4%	1.6%	1.6%	1.2%	***1.4%***	***1.0%***

Over the past 10 years, UNTY's P/E ratio has varied from as low as the high-single-digits to the mid-teens. This explains the average P/E ratio of 10 over that time. Since the company's growth profile looks to be holding up and it is one of the best community banks in the country, we believe that a return to a P/E ratio of 10 is a reasonable assumption. Relative to the current P/E ratio of 9.6, this represents a slight discount to our fair value estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	12%	12%	19%	13%	14%	15%	10%	12%	13%	13%	***11%***	***10%***

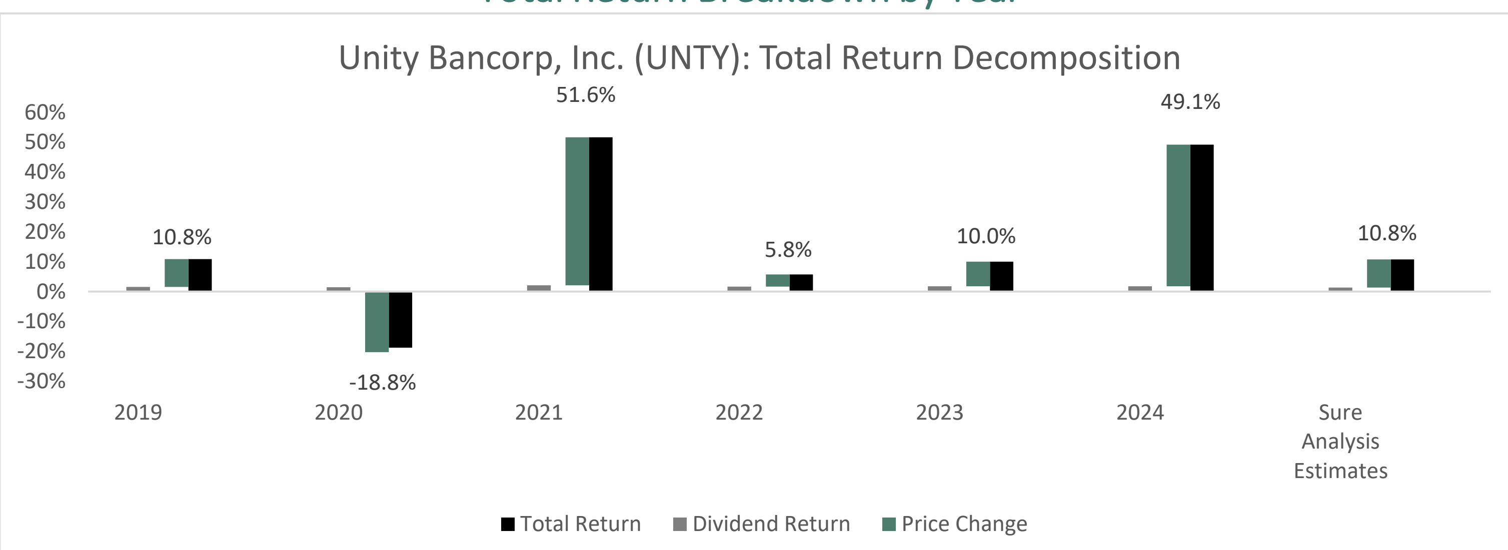
UNTY has managed to achieve a lot in its 34-year operating history. As one of the leading banks headquartered in New Jersey, the company blends the feeling of a bigger bank with the hometown charm of a smaller bank. This keeps existing customer retention elevated and attracts new customers as well.

The company's asset quality is reasonably strong, too. As of December 31st, the company's nonperforming assets ratio was 0.57%. UNTY's dividend payout ratio is another plus. As it has for most of the past 10 years, this is set to be in the low double-digits in 2025. That provides a sizable buffer for the company to build on its 11-year dividend growth streak with dividend growth almost matching diluted EPS growth in the years ahead.

Final Thoughts & Recommendation

UNTY's 1.1% dividend yield, 9.0% annual diluted EPS growth potential, and 0.8% annual valuation multiple expansion could produce 10.8% annual total returns through 2030. This is sufficient for us to upgrade shares back to a buy 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	42	46	53	63	66	77	88	98	101	106
SG&A Exp.	18	19	21	24	24	25	28	30	33	33
D&A Exp.	1	1	1	2	2	2	2	3	2	-
Net Profit	10	13	13	22	24	24	36	38	40	41
Net Margin	22.9%	28.6%	24.1%	34.8%	35.8%	30.9%	41.0%	39.4%	39.3%	38.6%
Free Cash Flow	2	(1)	13	37	32	22	31	41	46	-
Income Tax	5	7	10	5	7	7	12	13	13	13

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,085	1,190	1,455	1,579	1,719	1,959	2,034	2,445	2,579	2,654
Cash & Equivalent	23	22	24	20	21	23	245	115	195	180
Accounts Receivab	4	4	5	6	7	10	10	13	14	13
Goodwill & Int.	2	2	2	2	2	2	2	2	2	2
Total Liabilities	1,006	1,084	1,337	1,441	1,558	1,785	1,828	2,206	2,317	2,358
Accounts Payable	0	0	0	0	0	0	0	1	2	2
Long-Term Debt	92	131	285	220	293	210	50	393	367	231
Shareholder's Equi	78	106	118	138	161	174	206	239	261	296
LTD/E Ratio	1.18	1.24	2.42	1.59	1.83	1.21	0.24	1.64	1.40	0.78

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.9%	1.2%	1.0%	1.4%	1.4%	1.3%	1.8%	1.7%	1.6%	1.6%
Return on Equity	12.9%	14.3%	11.5%	17.1%	15.8%	14.1%	19.0%	17.3%	15.9%	14.9%
ROIC	5.2%	6.5%	4.0%	5.8%	5.8%	5.6%	11.3%	8.7%	6.3%	7.2%
Shares Out.	9.3	10.5	10.6	10.8	10.9	10.5	10.4	10.6	10.1	10.2
Revenue/Share	4.45	4.83	4.98	5.77	5.99	7.08	8.35	9.12	9.76	10.38
FCF/Share	0.22	(0.08)	1.20	3.40	2.95	2.01	2.97	3.85	4.45	-

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

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