



# Alerus Financial (ALRS)

Updated February 4<sup>th</sup>, 2025 by Aristofanis Papadatos

## Key Metrics

|                             |      |                                            |       |                                  |                      |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|----------------------|
| <b>Current Price:</b>       | \$21 | <b>5 Year CAGR Estimate:</b>               | 5.2%  | <b>Market Cap:</b>               | \$536 M              |
| <b>Fair Value Price:</b>    | \$20 | <b>5 Year Growth Estimate:</b>             | 2.0%  | <b>Ex-Dividend Date:</b>         | 3/13/25 <sup>1</sup> |
| <b>% Fair Value:</b>        | 103% | <b>5 Year Valuation Multiple Estimate:</b> | -0.6% | <b>Dividend Payment Date:</b>    | 4/11/25              |
| <b>Dividend Yield:</b>      | 3.8% | <b>5 Year Price Target</b>                 | \$23  | <b>Years Of Dividend Growth:</b> | 19                   |
| <b>Dividend Risk Score:</b> | B    | <b>Retirement Suitability Score:</b>       | A     | <b>Rating:</b>                   | Hold                 |

## Overview & Current Events

Alerus Financial is a financial services company headquartered in North Dakota. Its operations date back to 1879, when it was originally founded as the Bank of Grand Forks, one of the first banks in Dakota. In 2000, it changed its name to Alerus Financial to reflect its evolution from a traditional community bank to a financial services company. Alerus Financial provides financial solutions to businesses and consumers through four distinct business segments—banking, retirement and benefit services, wealth management and mortgage. Instead of focusing on the broader population, it targets specific business and consumer segments, which offer significant growth potential. The bank has a market cap of \$536 million and is characterized by prudent management. As a result, it has raised its dividend for 19 consecutive years.

On July 1<sup>st</sup>, 2022, Alerus Financial acquired Metro Phoenix Bank for \$85.3 million in an effort to grow its presence in Arizona. As the deal value is 16% of the current market cap of Alerus Financial, it is obviously significant for the bank.

On May 15<sup>th</sup>, 2024, Alerus Financial agreed to acquire HMN Financial (HMNF) for ~\$116.4 million in an all-stock deal. As per the terms of the deal, the shareholders of HMNF received 1.25 shares of Alerus Financial for each share they owned. The combined company has 29 branches in the Midwest and Arizona and enjoys economies of scale. The deal is expected to be immediately accretive to earnings and closed in October-2024.

On January 28<sup>th</sup>, 2025, Alerus Financial reported results for Q4-2024. It grew its loans and its deposits both by 32% sequentially thanks to the acquisition of HMN Financial. Net interest margin expanded from 2.23% to 3.20% and net interest income surged 70%. As a result, earnings-per-share grew 42%, from \$0.31 to \$0.44, beating the analysts' estimates by \$0.04. Obviously, the aforementioned acquisition greatly improved the net interest margin and the earnings-per-share of the bank. Thanks to this acquisition, we expect a great increase in earnings-per-share this year, from \$0.98 to \$1.70.

## Growth on a Per-Share Basis

| Year                      | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025          | 2030          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.21 | \$1.00 | \$1.07 | \$1.84 | \$1.91 | \$2.52 | \$2.97 | \$2.10 | \$0.58 | \$0.98 | <b>\$1.70</b> | <b>\$1.88</b> |
| <b>DPS</b>                | \$0.42 | \$0.44 | \$0.48 | \$0.53 | \$0.57 | \$0.60 | \$0.63 | \$0.72 | \$0.76 | \$0.79 | <b>\$0.80</b> | <b>\$0.96</b> |
| <b>Shares<sup>2</sup></b> | 13.9   | 14.0   | 14.0   | 14.1   | 15.1   | 17.4   | 17.5   | 20.2   | 20.0   | 25.1   | <b>26.0</b>   | <b>30.0</b>   |

Alerus Financial has exhibited a decent but volatile performance record over the last decade. If the bank meets our forecast for earnings-per-share of \$1.70 this year, it will have grown its earnings-per-share at a 3.5% average annual rate over the past decade. The bank is trying to grow primarily via the acquisition of smaller peers. The recent acquisition of HMN financial, which is the largest and marked the 26<sup>th</sup> acquisition in the history of the bank, is likely to prove a material growth driver in the upcoming years. Alerus Financial incurred material losses from the sale of securities amid high interest rates in 2023-2024 but it is likely to recover in the upcoming years, assisted by the interest rate reductions expected by the Fed. Overall, given the high comparison base formed this year, we assume 2.0% average annual growth of earnings-per-share over the next five years.

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

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## Valuation Analysis

| Year      | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now  | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 16.2 | 17.7 | 18.0 | 13.0 | 10.6 | 8.2  | 10.1 | 11.7 | 31.7 | 21.6 | 12.4 | 12.0 |
| Avg. Yld. | 2.1% | 2.5% | 2.5% | 2.2% | 2.8% | 2.9% | 2.1% | 2.9% | 4.1% | 3.7% | 3.8% | 4.3% |

Alerus Financial is trading at a price-to-earnings ratio of 12.4, which is lower than the 10-year average price-to-earnings ratio of 15.9 of the stock. We assume a fair earnings multiple of 12.0 for the stock, in line with the norm for banks. If the stock trades at this valuation level in five years, it will incur a -0.6% annualized drag.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 35%  | 44%  | 45%  | 29%  | 30%  | 24%  | 21%  | 34%  | 131% | 81%  | 47%  | 51%  |

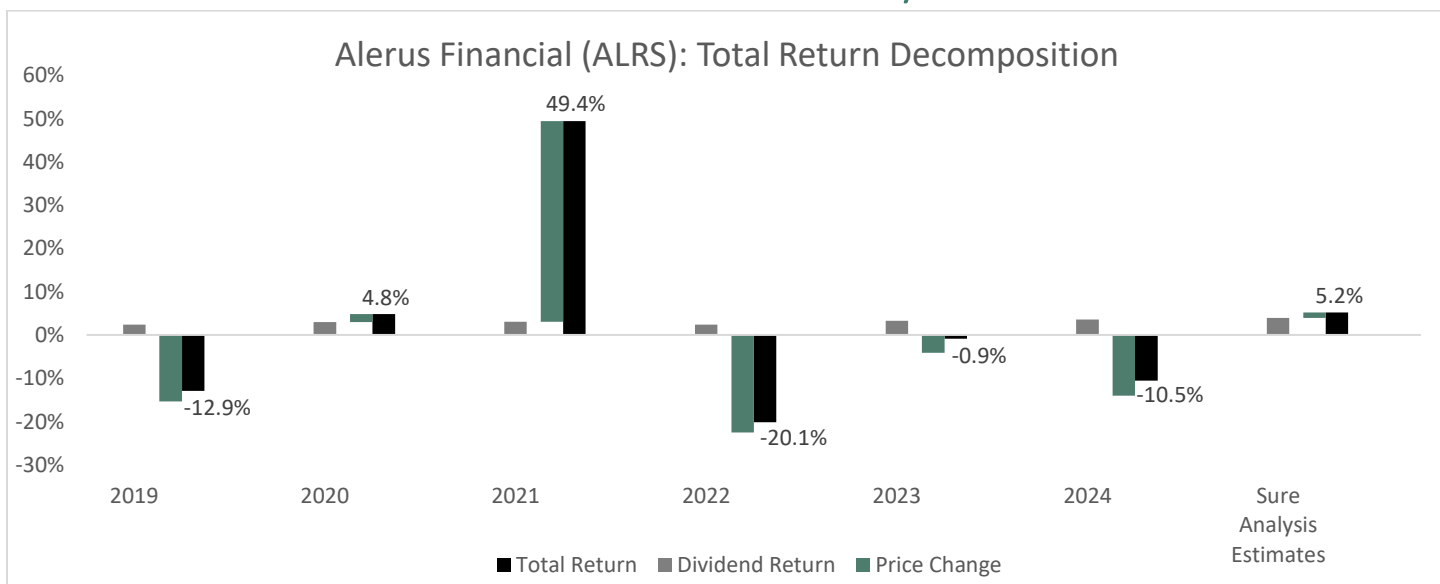
Alerus Financial has fairly prudent management, which is focused on maintaining healthy credit quality metrics. During the last 25 years, the bank has maintained an average net loan charge-off ratio of only 0.3%. Thanks to its cautious strategy, the company has proved resilient to recessions. Most banks faced material loan losses due to the pandemic in 2020, but Alerus Financial proved resilient to this crisis thanks to its defensive business model. The bank grew its earnings-per-share in both 2020 and 2021, though its earnings have now dipped due to the decrease in the value of the fixed-income investments of the bank caused by high interest rates.

Alerus Financial raised its dividend by 5.2% last year. As a result, it has raised its dividend for 19 consecutive years and is currently offering a dividend yield of 3.8%. Given its healthy payout ratio of 47% and its reliable business performance, the bank can continue raising its dividend for many more years.

## Final Thoughts & Recommendation

Alerus Financial has promising growth prospects thanks to its acquisition of Metro Phoenix Bank and HMN Financial, which marked the largest acquisition in the history of the bank. In addition, the bank has endured the turmoil caused by the collapse of a few banks. The stock has rallied 50% in the last 21 months and hence it has become less attractive. It could offer a 5.2% average annual return over the next five years thanks to 2.0% earnings-per-share growth and its 3.8% dividend, partly offset by a -0.6% 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        | 137   | 166  | 168  | 176   | 186   | 228   | 230   | 209   | 166  | 220  |
| SG&A Exp.      | 81    | 89   | 71   | 73    | 77    | 92    | 97    | 84    | 79   | 91   |
| D&A Exp.       | 9     | 11   | 10   | 9     | 9     | 9     | 9     | 8     | 9    | ---  |
| Net Profit     | 17    | 14   | 15   | 26    | 30    | 45    | 53    | 40    | 12   | 21   |
| Net Margin     | 12.5% | 8.5% | 8.9% | 14.7% | 15.9% | 19.6% | 22.9% | 19.1% | 7.2% | 9.6% |
| Free Cash Flow | 20    | 32   | 45   | 50    | 16    | (26)  | 147   | 101   | 26   | ---  |
| Income Tax     | 7     | 7    | 18   | 7     | 9     | 14    | 16    | 12    | 4    | 7    |

## Balance Sheet Metrics

| Year                 | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets         | 1,745 | 2,051 | 2,136 | 2,179 | 2,357 | 3,014 | 3,393 | 3,780 | 3,908 | 5,265 |
| Cash & Equivalents   | 266   | 207   | 122   | 41    | 144   | 173   | 242   | 58    | 130   | 61    |
| Goodwill & Int. Ass. | 25    | 65    | 59    | 54    | 50    | 58    | 54    | 72    | 66    | 139   |
| Total Liabilities    | 1,562 | 1,882 | 1,956 | 1,982 | 2,071 | 2,684 | 3,033 | 3,423 | 3,539 | 4,767 |
| Long-Term Debt       | 69    | 58    | 88    | 58    | 58    | 58    | 59    | 432   | 373   | 298   |
| Shareholder's Equity | 183   | 169   | 180   | 197   | 286   | 330   | 359   | 357   | 369   | 499   |
| LTD/E Ratio          | 0.38  | 0.34  | 0.49  | 0.29  | 0.20  | 0.18  | 0.16  | 1.21  | 1.01  | 0.60  |

## Profitability & Per Share Metrics

| Year             | 2015 | 2016  | 2017  | 2018  | 2019  | 2020   | 2021  | 2022  | 2023 | 2024  |
|------------------|------|-------|-------|-------|-------|--------|-------|-------|------|-------|
| Return on Assets | 1.1% | 0.7%  | 0.7%  | 1.2%  | 1.3%  | 1.7%   | 1.6%  | 1.1%  | 0.3% | 0.5%  |
| Return on Equity | 9.7% | 8.0%  | 8.6%  | 13.7% | 12.2% | 14.5%  | 15.3% | 11.2% | 3.2% | 4.9%  |
| ROIC             | 7.7% | 5.9%  | 6.1%  | 9.9%  | 9.9%  | 12.2%  | 13.1% | 6.6%  | 1.5% | 2.7%  |
| Shares Out.      | 13.9 | 14.0  | 14.0  | 14.1  | 15.1  | 17.4   | 17.5  | 18.9  | 20.1 | 21.3  |
| Revenue/Share    | 9.80 | 11.83 | 12.03 | 12.50 | 12.32 | 13.05  | 13.17 | 11.06 | 8.25 | 10.31 |
| FCF/Share        | 1.47 | 2.31  | 3.21  | 3.54  | 1.08  | (1.50) | 8.43  | 5.36  | 1.28 | ---   |

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

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