



Midland States Bancorp (MSBI)

Updated February 24th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	12.9%	Market Cap:	\$412 M
Fair Value Price:	\$26	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	5/15/25
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.1%	Dividend Payment Date:	5/23/25
Dividend Yield:	6.5%	5 Year Price Target	\$28	Years Of Dividend Growth:	8
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Midland States Bancorp (MSBI) is the holding company of Midland States Bank, a community bank that was founded in 1881 and is headquartered in Effingham, Illinois. It operates 53 branches in Illinois and Missouri and provides a wide range of banking products and services to individuals, businesses, municipalities and other entities. Midland States Bancorp has total assets of \$7.5 billion and a market capitalization of \$412 million.

In late January, Midland States Bancorp reported (1/23/25) results for the fourth quarter of fiscal 2024. Its net interest margin expand sequentially from 3.10% to 3.19% and its net interest income grew 2%. However, the bank incurred massive charge-offs on loans (\$103 million) and provisions for loan losses (\$93.5 million). As a result, it switched from earnings-per-share of \$0.74 to an excessive loss per share of -\$2.52, missing the analysts' consensus by \$3.19. Management stated that it is taking the right actions to sell non-core loan portfolios to prevent a similar disaster in the future. We believe that the excessive loan losses will not recur this year and hence we expect earnings-per-share of about \$2.50. On the other hand, the excessive loss posted in the fourth quarter raises a big red flag on the quality of management and the risk of this small-cap bank. The stock plunged -20% after the earnings release.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.00	\$2.17	\$0.87	\$2.39	\$2.54	\$1.70	\$3.65	\$3.79	\$3.42	-\$1.05	\$2.50	\$2.76
DPS	\$0.65	\$0.36	\$0.80	\$0.88	\$0.97	\$1.07	\$1.12	\$1.16	\$1.20	\$1.24	\$1.24	\$1.40
Shares²	12.1	14.4	18.3	23.5	24.5	23.3	22.4	22.7	22.0	21.8	21.8	21.0

Midland States Bancorp has acquired seven smaller banks since 2009. As a result, it has grown its asset base by 12% per year on average over the last nine years. It had also grown its earnings-per-share by 6.9% per year on average during 2015-2023 but it incurred a loss in 2024 due to massive loan charge-offs and high deposit costs, which resulted from high interest rates. While we are concerned over the quality of the loan portfolio of the bank, we do not expect material losses from loans to recur this year and thus we expect earnings-per-share of \$2.50 this year. In addition, given our expectations for lower interest rates in the upcoming years, we expect Midland States Bancorp to enjoy an expansion of its net interest margin in the upcoming years. Nevertheless, given the volatile performance record of this bank and our concerns over the quality of its loan portfolio, we expect 2.0% average annual growth of earnings-per-share over the next five years. The bank may exceed our expectations but we prefer to have a meaningful margin of safety.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	---	12.7	36.8	13.4	9.8	9.1	6.8	7.1	7.0	---	7.6	10.2
Avg. Yld.	---	1.3%	2.5%	2.8%	3.9%	6.9%	4.5%	4.3%	5.0%	5.3%	6.5%	5.0%

¹ Estimated date.

² In millions.

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Excluding the years of abnormally high or abnormally low price-to-earnings ratios, Midland States Bancorp has traded at an average price-to-earnings ratio of 10.2 over the last decade. We assume this valuation level as fair for this stock. The stock is currently trading at a price-to-earnings ratio of 7.6, which is lower than the historical average of the bank. If the stock trades at its average valuation level in five years, it will enjoy a 6.1% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	33%	17%	92%	37%	38%	63%	31%	31%	35%	---	50%	51%

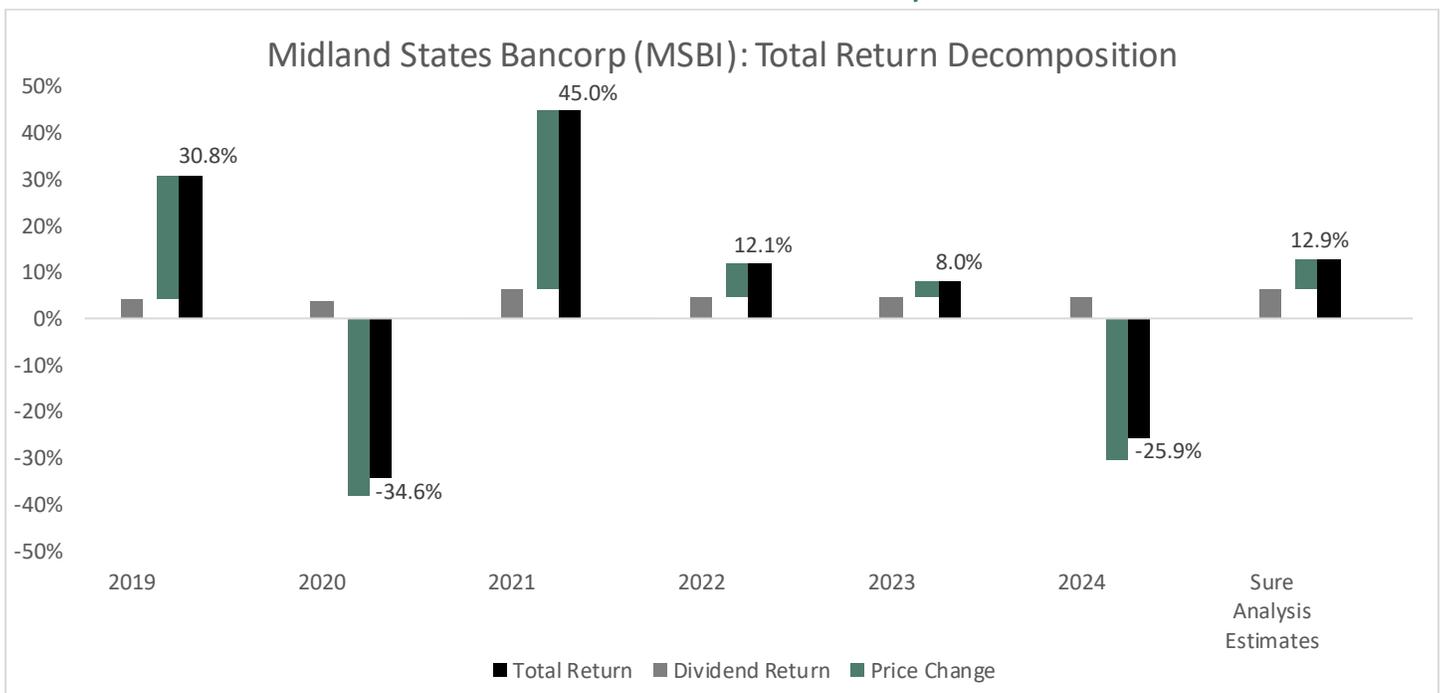
Midland States Bancorp has raised its dividend for 8 consecutive years. The bank is currently offering a 10-year high dividend yield of 6.5%, which is much higher than the 3.0% median dividend yield of the financial sector. However, the stock incurred material losses last year. We also note that the company has grown its dividend by only 3.6% per year on average over the last three years. Overall, the stock is offering an attractive current yield but modest dividend growth should be expected in the upcoming years.

Moreover, Midland States Bancorp has exhibited a volatile performance record and has proved vulnerable to recessions and downturns of the financial sector. It incurred a -33% decrease in its earnings-per-share in 2020 due to the pandemic and posted excessive losses last year, primarily due to credit issues with two customers. Therefore, the stock is suitable only for investors who can tolerate stock price pressure during downturns and wait patiently for the subsequent recovery.

Final Thoughts & Recommendation

Midland States Bancorp has plunged -21% this year due to its daunting recent earnings report. It could offer a 12.9% average annual return over the next five years thanks to 2.0% growth of earnings-per-share, its 6.5% dividend and a 6.1% valuation tailwind. However, due to the high risk related to the quality of the loan portfolio of the bank, we rate it as a hold. We also reiterate that the stock is suitable only for patient investors, who can stomach volatile business performance and a volatile stock price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	161	175	187	251	267	270	283	322	298	300
SG&A Exp.	81	84	101	133	121	89	93	97	101	99
D&A Exp.	13	13	13	16	19	20	16	14	13	---
Net Profit	24	32	16	39	56	23	81	99	75	(13)
Net Margin	15.1%	18.0%	8.6%	15.7%	20.9%	8.3%	28.7%	30.7%	25.3%	-4.5%
Free Cash Flow	67	22	64	90	533	497	332	244	146	---
Income Tax	11	19	10	11	17	9	18	31	32	(9)

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,885	3,234	4,413	5,638	6,087	6,869	7,444	7,856	7,867	7,529
Cash & Equivalents	212	190	215	211	393	337	673	153	134	115
Goodwill & Int. Ass.	120	124	172	255	260	230	215	184	198	192
Total Liabilities	2,652	2,912	3,963	5,029	5,425	6,247	6,780	7,097	7,075	6,793
Long-Term Debt	102	292	590	735	670	949	449	602	604	423
Shareholder's Equity	233	322	447	606	662	621	664	648	681	736
LTD/E Ratio	0.44	0.91	1.31	1.21	1.01	1.53	0.68	0.79	0.76	0.58

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.9%	1.0%	0.4%	0.8%	1.0%	0.3%	1.1%	1.3%	1.0%	-0.2%
Return on Equity	10.7%	11.4%	4.2%	7.5%	8.8%	3.5%	12.7%	13.9%	9.7%	-1.8%
ROIC	7.6%	6.6%	1.9%	3.3%	4.2%	1.6%	6.1%	8.0%	5.5%	-1.1%
Shares Out.	12.1	14.4	18.3	23.5	24.5	23.3	22.4	22.7	22.0	21.7
Revenue/Share	10.87	12.15	10.23	10.68	10.91	11.57	12.56	14.39	13.49	13.79
FCF/Share	4.53	1.52	3.52	3.82	21.77	21.27	14.71	10.88	6.59	---

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

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