



Farmers & Merchants Bancorp (FMCB)

Updated April 23rd, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$999	5 Year CAGR Estimate:	14.9%	Market Cap:	\$699 M
Fair Value Price:	\$1,488	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	6/10/2025 ¹
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.3%	Dividend Payment Date:	6/30/2025
Dividend Yield:	1.9%	5 Year Price Target	\$1,898	Years Of Dividend Growth:	59
Dividend Risk Score:	A	Sector:	Financials	Rating:	Hold

Overview & Current Events

Founded in 1916, Farmers & Merchants Bancorp is a locally owned and operated community bank with 33 locations in California. Due to its small market cap (\$699 million) and its low liquidity, it passes under the radar of most investors. Nevertheless, F&M Bank has paid uninterrupted dividends for 89 consecutive years and has raised its dividend for 59 consecutive years. As a result, it is a Dividend King.

The company is conservatively managed and, until nine years ago, had not made an acquisition since 1985. However, in the last nine years, it has begun to pursue growth more aggressively. It acquired Delta National Bancorp in 2016 and increased its locations by 4. Moreover, in late 2018, it acquired Bank of Rio Vista, which has helped F&M Bank to further expand in the San Francisco East Bay Area.

In mid-April, F&M Bank reported (4/16/25) financial results for the first quarter of fiscal 2025. The bank grew its earnings-per-share 8% over the prior year's quarter, from \$30.56 to a new all-time high of \$32.86. Loans dipped -3% while deposits remained essentially flat. Net interest income grew 3% thanks to an expansion of net interest margin from 4.14% to 4.20%. Management remains optimistic for the foreseeable future, as the bank enjoys one of the widest net interest margins in its sector. We reiterate that F&M Bank is one of the most resilient banks during downturns, such as the pandemic, a potential recession or the financial turmoil caused by the collapse of Silicon Valley Bank, Credit Suisse and First Republic. Given the positive business performance of F&M Bank, we still expect record earnings-per-share of \$125.00 this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$34.82	\$37.44	\$35.03	\$56.82	\$71.18	\$74.03	\$84.03	\$96.55	\$116.61	\$121.02	\$125	\$159.54
DPS	\$12.90	\$13.10	\$13.55	\$13.70	\$14.20	\$14.75	\$15.30	\$16.15	\$17.10	\$18.10	\$18.60	\$22.50
Shares²	786.6	794.0	809.8	801.2	787.0	793.6	789.2	767.9	747.5	699.5	690.0	650.0

In 2018, F&M Bank enjoyed a nice tailwind from its reduced tax rate and posted impressive earnings growth. In 2019, the bank posted impressive growth again, mostly thanks to its takeover of Bank of Rio Vista. However, the bank cannot keep growing at this pace. Before 2018, F&M Bank grew its earnings-per-share at a 10-year average annual rate of 2.2%. The Fed is likely to reduce interest rates in the upcoming years and thus it will probably help F&M Bank expand its net interest margin thanks to lower deposit costs. In addition, share repurchases are likely to constitute a material growth driver, given the cheap valuation of the stock. We expect 5.0% annual earnings-per-share growth until 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.8	17.3	16.9	12.2	10.8	9.9	10.2	9.8	8.3	8.0	8.0	11.9
Avg. Yld.	2.5%	2.3%	2.2%	2.0%	1.9%	2.0%	1.8%	1.7%	1.8%	1.9%	1.9%	1.2%

¹ Estimated date for semiannual dividend.

² In thousands.

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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F&M Bank is trading at a price-to-earnings ratio of 8.0, which is much lower than the 10-year average price-to-earnings ratio of 11.9 of the stock. We assume this as a fair earnings multiple for this small-cap stock. If the stock reaches our fair value estimate over the next five years, it will enjoy an 8.3% annualized valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	37.5%	35.3%	33.2%	24.1%	19.9%	19.9%	18.2%	16.7%	14.7%	15.0%	14.9%	14.1%

F&M Bank is a prudently managed bank, which has always targeted a conservative capital ratio. The bank currently has a total capital ratio of 15.2%, which results in the highest regulatory classification of “well capitalized.” Moreover, its credit quality remains exceptionally strong, as there are extremely few non-performing loans and leases in its portfolio. The conservative management results in lower leverage and thus slower growth than leveraged banks during boom times but protects the company from recessions, such as the fierce recession that resulted from the pandemic.

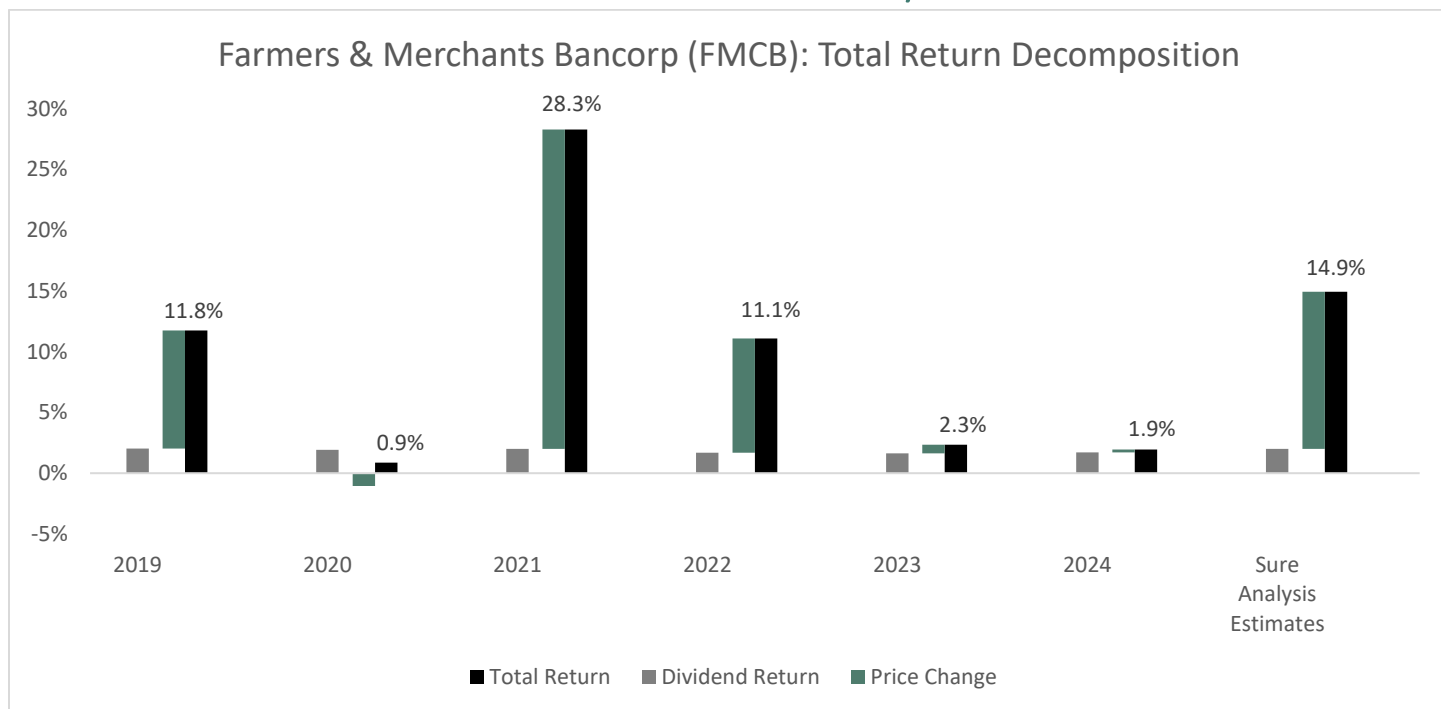
The merits of this strategy were on display during the Great Recession. While most banks saw their earnings collapse, F&M Bank incurred a modest -9% decrease in its earnings-per-share, from \$28.69 in 2008 to \$25.57 in 2009, and kept raising its dividend. That was certainly outstanding performance in the struggling financial sector.

The prudent management of the company is also confirmed by its exceptional dividend growth record. The banks that operate with high leverage cannot achieve such long dividend growth streaks because a recession always shows up after a few years and punishes those that are exposed. On the other hand, F&M Bank has grown its dividend by only 3.8% per year on average during the last decade. This is a slow growth rate, particularly given the lackluster 1.9% dividend yield.

Final Thoughts & Recommendation

F&M Bank is a conservatively managed small-cap bank, which is resilient to the impact of high interest rates on net interest margin. We expect the stock to offer a 14.9% average annual return over the next five years thanks to 5.0% growth of earnings-per-share, a 1.9% dividend and an 8.3% valuation tailwind. The stock receives a hold rating. In addition, investors should always keep in mind the risks of stocks with such a small market cap and low trading liquidity.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	100	112	123	140	155	163	179	199	227	227
SG&A Exp.	42	44	48	52	57	58	66	67	76	77
D&A Exp.	2	2	2	3	3	3	3	2	2	3
Net Profit	27	30	28	46	56	59	66	75	88	88
Net Margin	27.3%	26.4%	23.1%	32.6%	36.1%	36.0%	37.0%	37.8%	38.8%	38.9%
Free Cash Flow	35	33	36	53	65	50	58	98	88	101
Income Tax	17	16	26	14	19	19	22	25	28	34

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2615	2922	3075	3434	3722	4550	5178	5327	5309	5370
Cash & Equivalents	59	99	187	146	295	384	715	588	411	213
Accounts Receivable	88	100	99	126	129	130	18	22	29	30
Total Liabilities	2364	2642	2776	3123	3353	4127	4715	4842	4759	4797
Accounts Payable	76	50	42	50	64	56	---	73	81	---
Long-Term Debt	10	10	10	10	10	10	10	10	10	10
Shareholder's Equity	252	280	300	311	369	424	463	485	550	573
D/E Ratio	0.04	0.04	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.1%	1.1%	0.9%	1.4%	1.6%	1.4%	1.4%	1.4%	1.7%	1.7%
Return on Equity	11.3%	11.2%	9.8%	14.9%	16.5%	14.8%	15.0%	15.8%	17.1%	15.8%
ROIC	10.8%	10.8%	9.5%	14.4%	16.0%	14.4%	14.6%	15.5%	16.7%	15.6%
Shares Out.	786.6	794.0	809.8	801.2	787.0	793.6	789.2	777.7	757.3	730.9
Revenue/Share	127.45	141.61	151.80	174.27	197.06	205.56	227.16	256.25	300.16	311.08
FCF/Share	43.99	41.95	44.07	66.39	82.98	63.54	73.32	125.47	116.69	138.64

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

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