Mercantile Bank Corporation (MBWM)

Updated April 22nd, 2025, by Kody Kester

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	13.1%	**Market Cap:**	$653M
Fair Value Price:	$50	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	06/06/25
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.6%	**Dividend Payment Date:**	06/18/25
Dividend Yield:	3.7%	**5 Year Price Target**	$66	**Years Of Dividend Growth:**	14
Dividend Risk Score:	B	**Sector:** Financials		**Rating:**	Buy

Overview & Current Events

Formed in 1997, Mercantile Bank Corporation has established itself as one of Michigan's largest community banks. As of March 31st, 2025, MBWM had $6.1 billion in assets. The company operates more than 40 office locations, mostly in West and Central Michigan. The company also has banking offices in the metro Detroit area, Traverse City area, Saginaw area, and Midland area.

Unsurprisingly, MBWM offers a variety of banking services to an array of customers. That includes personal checking, savings, and term certificate accounts for retail/individual customers. Other products include residential real estate loans, home equity loans, and consumer loans like new and used automobile loans, and credit cards. MBWM also serves commercial and industrial customers with a variety of loans, such as vacant land loans, land development loans, and residential construction loans. The company also offers courier services to some commercial customers and safe deposit facilities at most of its office locations.

Of note, MBWM did acquire an existing shelf insurance agency in 2002. Should it choose to do so, the company could enter the business of selling insurance products like homeowners' insurance, umbrella insurance, small business and life insurance, and private passenger automobile insurance. To this point, though, the company has opted to focus all its efforts on being a community bank.

On April 22nd, MBWM released its first-quarter earnings report for the period ended March 31st, 2025. The company's net interest income edged 2.5% higher over the year-ago period to $48.6 million during the quarter. Growth in earning assets more than countered a 27-basis point decline in net interest margin to 3.47% in the quarter. MBWM's non-interest income fell by 19.9% year-over-year to $8.7 million for the quarter. This was the result of lower levels of interest rate swap income, as well as bank-owned life insurance claims of $0.7 million in the year-ago period. MBWM's diluted EPS decreased by 9.7% over the year-ago period to $1.21 during the quarter. This topped the analyst consensus in the quarter by $0.03.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.62	$1.96	$1.90	$2.53	$3.01	$2.71	$3.69	$3.85	$5.13	$4.93	***$4.80***	***$6.27***
DPS	$0.58	$0.66	$0.74	$0.92	$1.06	$1.12	$1.18	$1.26	$1.34	$1.44	***$1.48***	***$1.93***
Shares[1]	16.4	16.4	16.6	16.5	16.4	16.3	15.8	16.0	16.1	16.1	***16.2***	***16.0***

MBWM has had a tougher time growing lately. We continue to think that the company can return to growth beyond 2025, however. MBWM is showing early signs of turning the corner, with a six-basis point improvement in its net interest margin sequentially in Q1 2025. That's why we are maintaining our expectations of 5.5% annual diluted EPS growth over the next five years off our 2025 diluted EPS estimate of $4.80 for 2025.

[1] 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	15.1	19.2	18.6	11.4	12.2	10.0	9.5	8.7	7.9	9.0	***8.4***	***10.5***
Avg. Yld.	2.4%	1.8%	2.1%	3.2%	2.9%	4.1%	3.4%	3.8%	3.3%	3.2%	***3.7%***	***2.9%***

Over the last 10 years, MBWM's P/E ratio has ranged from as little as the high-single-digits in recent years to as much as the high teens. The average P/E ratio over that time has been right around 12. We believe it's fair to split the difference between this multiple and the five-year average P/E ratio of 9. This yields a fair value P/E ratio of approximately 10.5. That implies the current P/E ratio of 8.4 is well below MBWM's fair value multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	36%	34%	39%	36%	35%	41%	32%	33%	26%	29%	***31%***	***31%***

MBWM's differentiating factor lies in its status as one of the bigger community banks in Michigan. The company faces competition from regional banks and national banks. But few know the communities they serve as well as MBWM. Simply put, the company is big enough to serve the needs of its customers. Yet, it still provides that hometown feeling that many customers prefer.

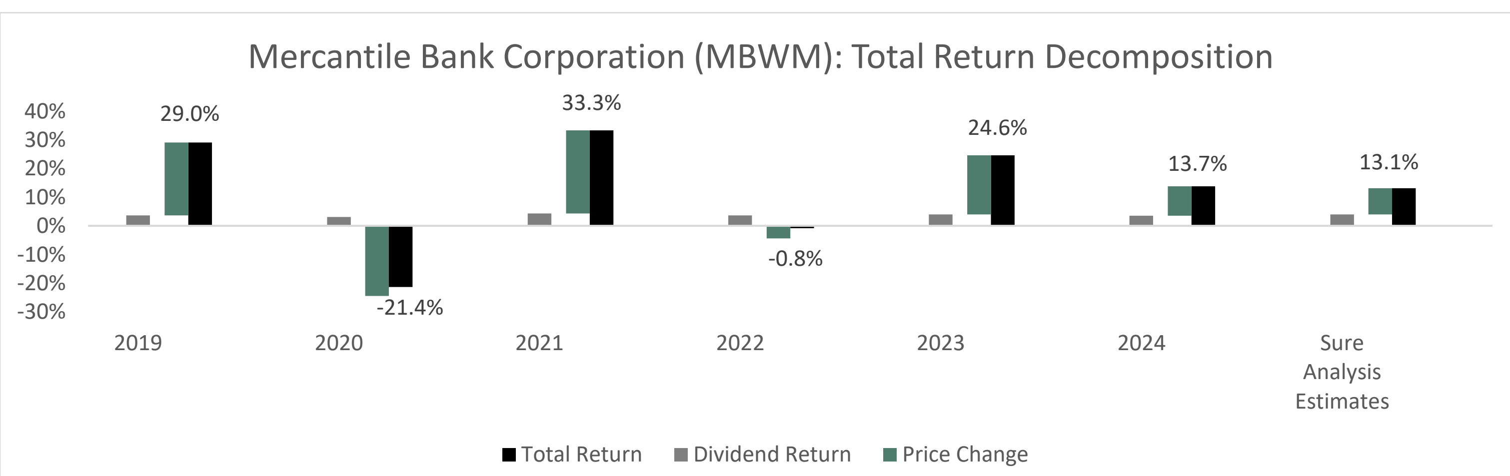
MBWM's loan-to-deposit ratio of 99% as of March 31st is still high for a community bank. However, MBWM counters this risk with great execution. The company's efficiency ratio was 54.3% in the first quarter. This implies that the community bank knows how to manage its non-interest expenses.

As could be imagined for a community bank, MBWM's dividend isn't perfectly safe. It's worth noting that more than half of the company's total loans are related to commercial real estate. MBWM's payout ratio is positioned to be just 31% in 2025. This dividend coverage ratio builds breathing room for the payout to be modestly grown through the current downturn in profitability. This could even provide some flexibility against some further deterioration in the commercial real estate market.

Final Thoughts & Recommendation

MBWM's 3.7% dividend yield, 5.5% annual diluted EPS growth prospects, and 4.6% annual valuation multiple expansion potential could produce 13.1% annual total returns through 2030. That's why we're maintaining our buy rating.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	117	127	129	139	151	167	179	190	226	224
SG&A Exp.	53	54	56	62	65	62	69	68	73	106
D&A Exp.	12	10	10	10	10	9	14	13	11	10
Net Profit	27	32	31	42	49	44	59	61	82	80
Net Margin	23.1%	25.1%	24.3%	30.2%	32.6%	26.4%	32.9%	32.1%	36.4%	35.7%
Free Cash Flow	35	33	33	55	31	29	59	117	60	93
Income Tax	12	15	15	10	11	11	15	15	20	19

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,904	3,083	3,287	3,364	3,633	4,437	5,258	4,873	5,353	6,052
Cash & Equivalents	89	184	200	75	234	626	975	97	131	393
Goodwill & Int.	62	59	57	55	53	52	51	49	49	49
Total Liabilities	2,570	2,742	2,921	2,989	3,216	3,996	4,801	4,431	4,831	5,468
Long-Term Debt	123	220	266	396	401	442	496	446	607	446
Shareholder's Equity	334	341	366	375	417	442	457	441	522	585
LTD/E Ratio	0.37	0.65	0.73	1.06	0.96	1.00	1.09	1.01	1.16	0.76

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.9%	1.1%	1.0%	1.3%	1.4%	1.1%	1.2%	1.2%	1.6%	1.4%
Return on Equity	8.2%	9.5%	8.9%	11.3%	12.5%	10.3%	13.1%	13.6%	17.1%	14.4%
Shares Out.	16.4	16.4	16.6	16.5	16.4	16.3	15.8	16.0	16.1	16.1
Revenue/Share	7.04	7.78	7.81	8.38	9.23	10.29	11.21	12.00	14.09	13.91
FCF/Share	2.10	2.00	2.02	3.34	1.91	1.78	3.69	7.37	3.74	5.78

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