



Independent Bank Corp. (IBCP)

Updated May 14th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	9.0%	Market Cap:	\$671 M
Fair Value Price:	\$36	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	5/5/25
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	5/15/25
Dividend Yield:	3.3%	5 Year Price Target	\$43	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Sector: Financials		Rating:	Hold

Overview & Current Events

Independent Bank Corporation (IBCP) was founded in 1864 and is headquartered in Grand Rapids, Michigan. It operates 60 offices across Michigan's Lower Peninsula and provides a full range of financial services, including commercial banking, mortgage lending, consumer banking, investments and insurance. Independent Bank has a market capitalization of \$671 million.

Independent Bank has a somewhat concentrated loan portfolio. Commercial loans, mortgage loans and installment loans comprise 45%, 39% and 16%, respectively, of total loans. In addition, the bank has a striking difference from the vast majority of regional banks. Most regional banks incurred a sharp decline in net interest margin in 2023 due to the surge of interest rates to a 23-year high and the resultant increase in deposit costs. Independent Bank managed to maintain an essentially flat net interest margin and grew its earnings-per-share in 2023 thanks to strong loan growth. On the other hand, the bank has a current net interest margin of 3.49%, which is in line with the average of its peers.

In late April, Independent Bank reported (4/24/25) financial results for the first quarter of fiscal 2025. Loans and deposits grew 3% and 1%, respectively, on an annualized basis. Net interest margin expanded from 3.30% in the prior year's quarter to 3.49%. As a result, net interest income grew 9%. Earnings-per-share grew 4%, from \$0.71 to \$0.74, exceeding the analysts' consensus by \$0.04. The bank has exceeded the analysts' estimates for 10 consecutive quarters. Book value per share grew 13% over the prior year's quarter. Moreover, the Fed reduced interest rates late last year and hence we expect Independent Bank to see its net interest margin improve further in the upcoming quarters, albeit at a modest pace.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.86	\$1.05	\$0.95	\$1.68	\$2.00	\$2.53	\$2.88	\$2.44	\$2.80	\$3.16	\$3.10	\$3.77
DPS	\$0.26	\$0.34	\$0.42	\$0.60	\$0.72	\$0.80	\$0.84	\$0.88	\$0.92	\$0.96	\$1.04	\$1.28
Shares¹	23.2	21.7	21.7	23.8	23.2	22.2	21.5	21.3	21.0	21.1	21.1	20.0

Independent Bank has grown its earnings-per-share consistently over the last decade. It has grown its bottom line at a 15.6% average annual rate over the last decade and at a 9.6% average annual rate over the last five years. This growth has resulted primarily from organic growth of commercial and mortgage loans, which has been fueled by sustained growth of the deposits of the bank. As there are no signs of fatigue on this front, we expect the bank to continue growing its loans and deposits in the upcoming years. In addition, the Fed began reducing interest rates last year and expects to reduce them further in the upcoming years (but not this year). As a result, Independent Bank is likely to enjoy an expansion of its net interest margin in the upcoming years. On the other hand, we prefer to be somewhat conservative, given the small market capitalization of this regional bank and the somewhat high comparison base formed by the nearly all-time high expected earnings-per-share this year. Therefore, we have assumed 4.0% average annual growth of earnings-per-share over the next five years.

¹ In millions.

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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	16.0	15.1	22.5	14.2	10.9	6.2	7.6	8.9	7.1	9.3	10.3	11.5
Avg. Yld.	1.9%	2.1%	2.0%	2.5%	3.3%	5.1%	3.8%	4.1%	4.6%	3.3%	3.3%	3.0%

Excluding the year 2017, in which a decrease in earnings resulted in an abnormally high price-to-earnings ratio, Independent Bank has traded at an average price-to-earnings ratio of 11.5 over the last decade. We assume this valuation level as fair for this stock. Independent Bank is currently trading at a price-to-earnings ratio of 10.3, which is lower than the historical average of the bank. If the stock trades at its fair valuation level in five years, it will enjoy a 2.2% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	30%	32%	44%	36%	36%	32%	29%	36%	33%	30%	34%	34%

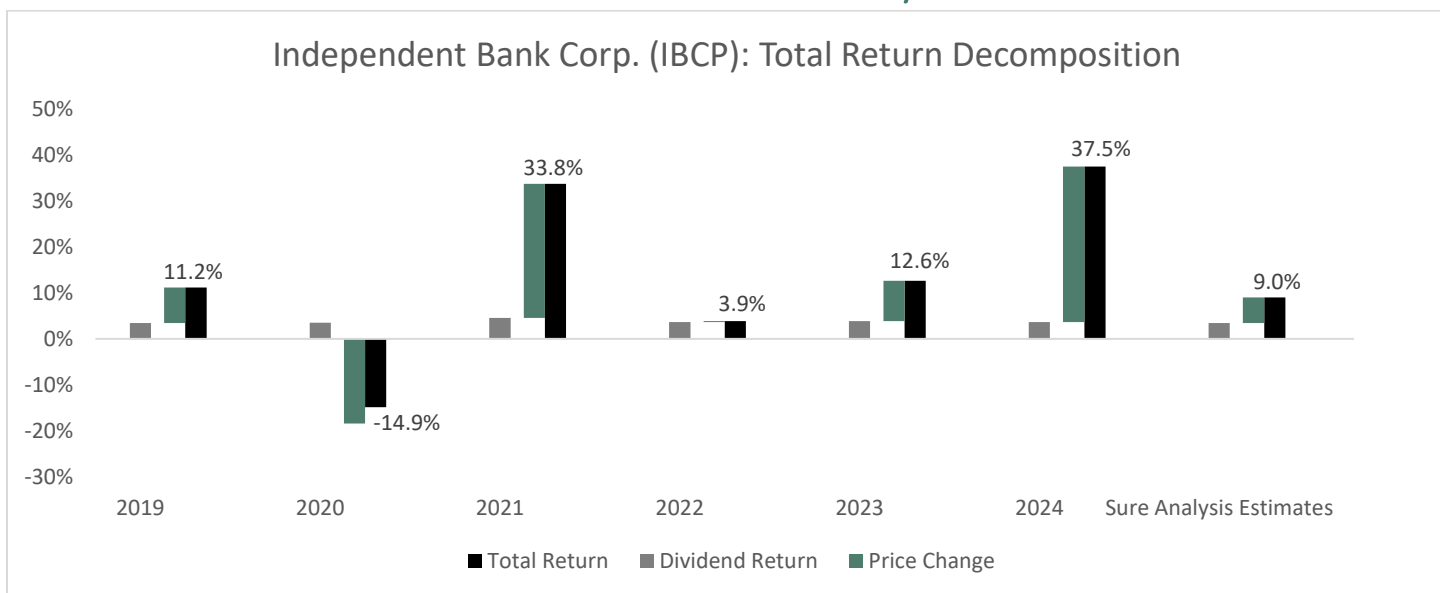
Independent Bank has raised its dividend by 8% this year and thus it has raised its dividend for 11 consecutive years. However, it is currently offering a low dividend yield of 3.3%, as the stock has more than doubled in the last two years. The yield of the stock is slightly higher than the 3.2% median dividend yield of the financial sector. On the bright side, the bank has a healthy payout ratio of 34% and hence it can keep raising its dividend meaningfully for years.

Independent Bank has a healthy tier 1 capital ratio of 11.9%. It also proved resilient to the pandemic, as it grew its earnings-per-share in 2020. However, the stock ignored the fundamentals and plunged -50% within a few weeks during that downturn. Therefore, the stock is suitable only for investors who can stomach high stock price volatility and remain patient during recessions and downturns of the financial sector.

Final Thoughts & Recommendation

Thanks to an improved economic outlook, which includes lower inflation and lower interest rates, the stock of Independent Bank has more than doubled in the last two years. As a result, it has become less attractive. The stock could offer a 9.0% average annual return over the next five years thanks to 4.0% growth of earnings-per-share, its 3.3% dividend and a 2.2% valuation tailwind. It thus 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	109	117	129	153	164	198	199	205	200	216
SG&A Exp.	63	64	68	76	82	82	83	85	84	91
D&A Exp.	5	5	7	6	6	9	12	11	10	10
Net Profit	20	23	20	40	46	56	63	63	59	67
Net Margin	18.4%	19.4%	15.9%	26.0%	28.2%	28.4%	31.6%	31.0%	29.5%	31.0%
Free Cash Flow	19	20	34	41	30	54	104	89	70	55
Income Tax	9	10	18	9	11	13	14	14	15	16

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,409	2,549	2,789	3,353	3,565	4,204	4,705	5,000	5,264	5,338
Cash & Equivalents	98	89	57	71	66	119	109	74	170	120
Goodwill & Int. Ass.	15	16	17	56	53	50	58	73	73	77
Total Liabilities	2,158	2,300	2,524	3,014	3,215	3,814	4,306	4,652	4,859	4,883
Long-Term Debt	48	45	83	65	103	109	109	165	129	124
Shareholder's Equity	251	249	265	339	350	390	398	348	404	455
LTD/E Ratio	0.19	0.18	0.31	0.19	0.29	0.28	0.27	0.48	0.32	0.27

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.9%	0.9%	0.8%	1.3%	1.3%	1.4%	1.4%	1.3%	1.2%	1.3%
Return on Equity	8.0%	9.1%	8.0%	13.2%	13.5%	15.2%	16.0%	17.0%	15.7%	15.5%
ROIC	6.7%	7.7%	6.4%	10.6%	10.8%	11.8%	12.5%	12.4%	11.3%	12.0%
Shares Out.	23.2	21.7	21.7	23.8	23.2	22.2	21.5	21.3	21.0	21.1
Revenue/Share	4.68	5.40	5.96	6.45	7.09	8.91	9.12	9.61	9.47	10.20
FCF/Share	0.80	0.93	1.59	1.73	1.27	2.44	4.78	4.18	3.29	2.62

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

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