Mercantile Bank Corporation (MBWM)

Updated July 22nd, 2025, by Kody Kester

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$788M
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.5%	**Ex-Dividend Date:**	09/05/25
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Dividend Payment Date:**	09/17/25
Dividend Yield:	3.1%	**5 Year Price Target**	$70	**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 June 30th, 2025, MBWM had $6.2 billion in assets. The bank 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.

On July 22nd, MBWM announced that it would be merging with Eastern Michigan Financial Corporation in a cash and stock transaction valued at $95.8 million (0.7116 shares of common stock of MBWM will be issued for each share of EFIN owned, and $32.32 in cash per share will also be paid). EFIN's 12 branches will expand MBWM's office footprint into Eastern and Southeast Michigan. The combined company would have had $6.7 billion in combined assets as of June 30th. MBWM anticipates the transaction will be 11% accretive to its diluted EPS once cost savings are completed. The deal is expected to close in Q4 2025.

On the same day, MBWM also shared its financial results for the second quarter ended June 30th. The company's net interest income grew by 5.1% year-over-year to $49.5 million in the quarter. A 6.8% uptick in the average loan balance more than neutralized a 14-basis-point contraction in the net interest margin to 3.49% during the quarter. MBWM's non-interest income surged 18.4% over the year-ago period to $11.5 million for the quarter. This was mostly due to higher mortgage banking income and interest rate swap income in the quarter. MBWM's diluted EPS rose by 18.8% year-over-year to $1.39 during the quarter. That exceeded the analyst consensus by $0.14 for the quarter. MBWM also upped its quarterly dividend per share by 2.7% to $0.38.

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	***$4.87***	***$6.36***
DPS	$0.58	$0.66	$0.74	$0.92	$1.06	$1.12	$1.18	$1.26	$1.34	$1.44	***$1.52***	***$1.99***
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 still believe that the company can return to growth. Not only will MBWM likely close the EFIN acquisition by the end of the year. The company is beginning a full core banking system transformation later this year with Jack Henry, too. That will be completed by Q1 2027, improving operating efficiency. This is why we continue to think that MBWM can grow diluted EPS by 5.5% annually off the 2025 base of $4.87.

[1] Share count is 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	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	***10.0***	***11.0***
Avg. Yld.	2.4%	1.8%	2.1%	3.2%	2.9%	4.1%	3.4%	3.8%	3.3%	3.2%	***3.1%***	***2.8%***

Over the last 10 years, MBWM's P/E ratio has varied from as low as the high single digits in recent years to as high as the high teens. The average P/E ratio over that time has been right around 12. Moving forward, we believe it's fair to assign a fair value of 11. Relative to the current-year P/E ratio of 10, this represents a discount to fair value.

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.

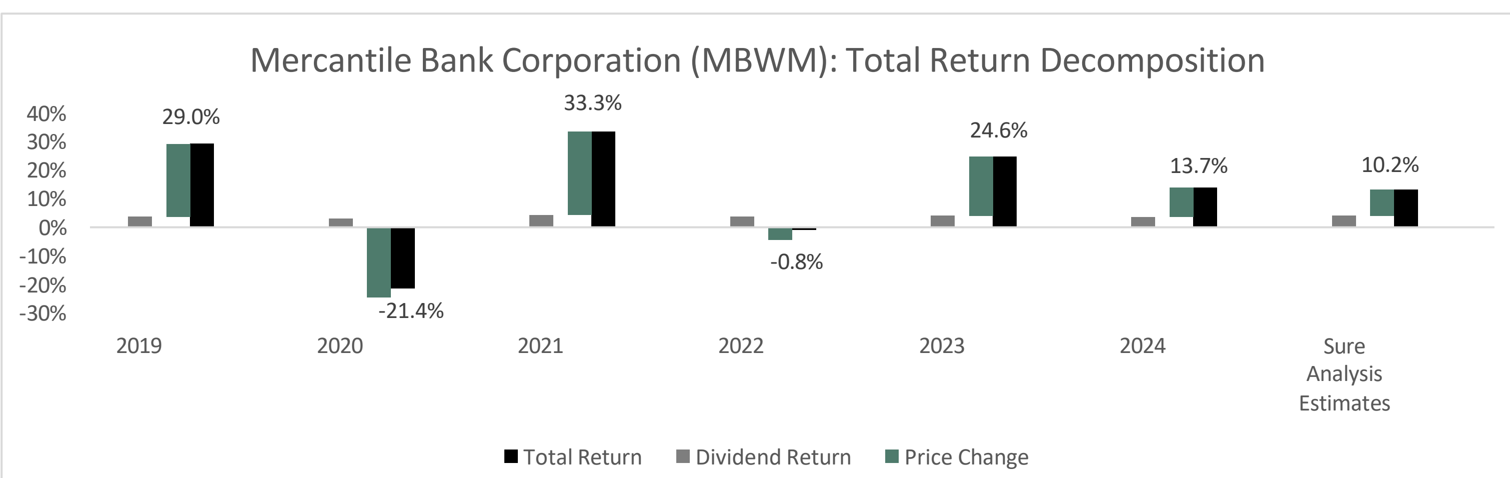
MBWM's loan-to-deposit ratio of 100% as of June 30th is still high for a community bank. However, MBWM counters this risk with great execution. The company's efficiency ratio was 54.8% in Q2 2025. This implies that the community bank knows how to manage its non-interest expenses.

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 commercial 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 3.1% dividend yield, 5.5% annual diluted EPS growth prospects, and 2.0% annual valuation multiple expansion potential could deliver 10.2% annual total returns through 2030. As a result, we're maintaining our buy 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	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.