



# Landmark Bancorp, Inc. (LARK)

Updated May 7<sup>th</sup>, 2023, by Patrick Neuwirth

## Key Metrics

|                             |      |  |       |   |          |
|-----------------------------|------|--|-------|---|----------|
| <b>Current Price:</b>       | \$20 | <b>5 Year CAGR Estimate:</b>               | 12.1% | <b>Market Cap:</b>                        | \$99m    |
| <b>Fair Value Price:</b>    | \$21 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date<sup>1</sup>:</b>      | 05/16/23 |
| <b>% Fair Value:</b>        | 93%  | <b>5 Year Valuation Multiple Estimate:</b> | 1.5%  | <b>Dividend Payment Date<sup>1</sup>:</b> | 05/31/23 |
| <b>Dividend Yield:</b>      | 4.3% | <b>5 Year Price Target</b>                 | \$30  | <b>Years Of Dividend Growth:</b>          | 21       |
| <b>Dividend Risk Score:</b> | A    | <b>Retirement Suitability Score:</b>       | A     | <b>Rating:</b>                            | Buy      |

## Overview & Current Events

Landmark Bancorp, Inc. (LARK) is a financial holding company. The company's business consists of the ownership of Landmark National Bank and Landmark Risk Management, Inc. The bank is predominantly engaged in the business of attracting deposits from the community and using such deposits, together with borrowings and other funds, to originate one-to-four family residential real estate, construction and land, commercial real estate, commercial, agriculture, municipal, and consumer loans. In addition, the company invests in certain investment and mortgage-related securities. As of the first quarter of 2023, the company's total assets were \$1.5 billion, total gross loans were \$869.82 million, and total deposits were \$1.3 billion. Landmark Bancorp has 31 branch offices in 24 communities across the state of Kansas. The company was founded in 1885 and has 270 employees.

On October 1, 2022, Landmark completed the acquisition of Freedom, a one-bank holding company with gross loans of \$118.0 million and deposits of \$150.4 million.

On May 2<sup>nd</sup>, 2023, Landmark Bancorp released its first quarter 2023 results for the period ending March 31<sup>st</sup>, 2023. For the quarter the company reported earnings of \$3.4 million which represents a 9.7% increase compared to the \$3.1 million earned for the same quarter last year. Reported earnings per diluted share for the same periods were \$0.64 and \$0.59, an increase of 8.5% year-over-year. The increase in earnings was primarily driven by continued solid loan growth, lower expenses, improved net interest margin, and good credit quality. Compared to the fourth quarter 2022, total gross loans increased by \$19.6 million, or 9.4% on an annualized basis. Deposits decreased \$6.6 million, or 2.1%, during the first quarter of 2023 as expected mainly due to a seasonal decline in public fund deposit balances. Net interest income increased \$2.3 million, or 26.6%, compared to the first quarter of 2022, but declined \$939,000, or 7.9%, from the prior quarter as rising interest rates impacted funding costs. The company's net interest margin increased to 3.31% during the first quarter of 2023 as compared to 2.99% in the first quarter of last year, but declined from 3.53% in the prior quarter. For the reporting period, the return on average assets was 0.90%, the return on average equity was 12.04%, and the efficiency ratio was 70.1%.

## Growth on a Per-Share Basis

| Year                      | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          | 2028          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.01 | \$1.69 | \$2.17 | \$1.81 | \$0.87 | \$2.07 | \$2.10 | \$3.72 | \$3.44 | \$1.88 | <b>\$2.36</b> | <b>\$3.31</b> |
| <b>DPS</b>                | \$0.47 | \$0.49 | \$0.51 | \$0.57 | \$0.60 | \$0.63 | \$0.66 | \$0.69 | \$0.73 | \$0.84 | <b>\$0.84</b> | <b>\$1.18</b> |
| <b>Shares<sup>2</sup></b> | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5             | 5             |

The company has grown earnings by 7.1% per year over the past nine years and 2.7% over the past five years. We expect earnings to increase by 7% per year for the next five years. The company has been able to increase its dividend for an impressive 21 consecutive years. Over the last five years, the average annual dividend growth rate is 5.9%. In February 2022, the company increased its quarterly dividend by 5.0% from \$0.20 to \$0.21 per share. The company also declared a 5% stock dividend payable in December 2022.

<sup>1</sup> Estimated date

<sup>2</sup> 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      | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023        | 2028        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | 10.6 | 11.0 | 9.5  | 11.7 | 29.8 | 9.7  | 11.7 | 6.4  | 7.0  | 9.6  | <b>8.4</b>  | <b>9.0</b>  |
| Avg. Yld. | 1.9% | 3.4% | 2.8% | 2.7% | 2.6% | 3.3% | 3.0% | 3.3% | 2.7% | 3.7% | <b>4.3%</b> | <b>4.0%</b> |

During the past decade shares of Landmark Bancorp have traded with an average price-to-earnings ratio of about 11.7 and today, it stands at 8.4. We are using 9 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 4.3% which is above the average yield over the past decade of 3.1%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023       | 2028       |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 47%  | 29%  | 24%  | 31%  | 69%  | 30%  | 31%  | 19%  | 21%  | 45%  | <b>36%</b> | <b>36%</b> |

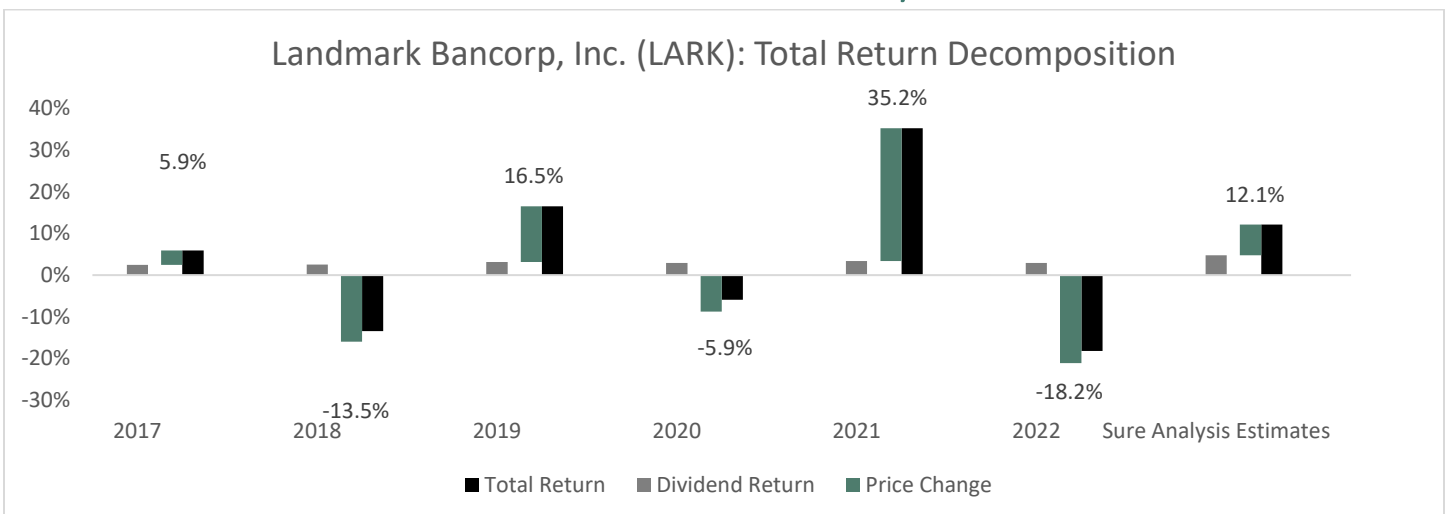
During the past five years, the company's dividend payout ratio has averaged around 35%. Landmark Bancorp's dividend is at the moment comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Landmark Bancorp has demonstrated a solid financial performance combined with a sound asset quality track record and has a business model focused on community banking. As a result, the company has an impressive track record of 21 consecutive years of dividend increases. Landmark Bancorp has actually increased its dividends by  $\geq 5\%$  each year since 2001. Landmark Bancorp's business model is primarily built upon lending money to local businesses and residents within the local communities the bank serves. The funding of those loans is done by gathering local deposits through their 31 branch offices. The bank has a diversified loan portfolio and a low-cost core deposit base. The non-interest income is also stable and diversified based on fees and services charges, gains on sales of loans and bank owned life insurance. The company has shown a decent track record of organic and acquisitive growth since 2000 including the recent acquisition of Freedom Bancshares, Inc.

## Final Thoughts & Recommendation

Landmark Bancorp is an old and well-established regional bank active in 24 communities across the state of Kansas. The company has a solid dividend track record and an average yield over the past decade of 3.1%. We estimate total return potential of 12.1% per year for the next five years based on a 7% earnings-per-share growth, the dividend, and a small valuation tailwind. The shares earn a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>        | 30    | 40    | 43    | 41    | 33    | 43    | 46    | 64    | 61    | 53    |
| <b>SG&amp;A Exp.</b>  | 12    | 17    | 18    | 18    | 17    | 18    | 19    | 22    | 22    | 20    |
| <b>Net Profit</b>     | 5     | 8     | 11    | 9     | 4     | 10    | 11    | 19    | 18    | 10    |
| <b>Net Margin</b>     | 15.7% | 20.3% | 24.5% | 21.9% | 13.1% | 24.0% | 23.1% | 30.5% | 29.7% | 18.9% |
| <b>Free Cash Flow</b> | 11    | 7     | 6     | 18    | 2     | 20    | 8     | 14    | 30    | 24    |
| <b>Income Tax</b>     | 1     | 3     | 4     | 2     | (1)   | 1     | 1     | 5     | 5     | 1.4   |

## Balance Sheet Metrics

| Year                          | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020  | 2021  | 2022  |
|-------------------------------|------|------|------|------|------|------|------|-------|-------|-------|
| <b>Total Assets</b>           | 829  | 863  | 878  | 911  | 929  | 986  | 998  | 1,188 | 1,329 | 1,503 |
| <b>Cash &amp; Equivalents</b> | 30   | 13   | 14   | 20   | 17   | 19   | 14   | 90    | 197   | 32    |
| <b>Acc. Receivable</b>        | 11   | 10   | 11   | 13   | 13   | 13   | 11   | 14    | 13    | 26    |
| <b>Goodwill &amp; Int.</b>    | 22   | 22   | 22   | 22   | 21   | 21   | 20   | 21    | 22    | 40    |
| <b>Total Liabilities</b>      | 766  | 792  | 798  | 826  | 842  | 894  | 890  | 1,061 | 1,193 | 1,391 |
| <b>Accounts Payable</b>       | 10   | 11   | 12   | 12   | 10   | 13   | 13   | 17    | 16    | 23    |
| <b>Long-Term Debt</b>         | 69   | 77   | 71   | 73   | 53   | 42   | 25   | 22    | 22    | 68    |
| <b>Total Equity</b>           | 63   | 72   | 81   | 85   | 88   | 92   | 109  | 127   | 136   | 111   |
| <b>LTD/E Ratio</b>            | 1.10 | 1.07 | 0.88 | 0.86 | 0.61 | 0.45 | 0.23 | 0.17  | 0.16  | 0.61  |

## Profitability & Per Share Metrics

| Year                    | 2013 | 2014  | 2015  | 2016  | 2017 | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|------|-------|-------|-------|------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 0.6% | 1.0%  | 1.2%  | 1.0%  | 0.5% | 1.1%  | 1.1%  | 1.8%  | 1.4%  | 0.7%  |
| <b>Return on Equity</b> | 7.4% | 12.0% | 13.8% | 10.8% | 5.1% | 11.6% | 10.6% | 16.6% | 13.7% | 8.0%  |
| <b>ROIC</b>             | 3.7% | 5.8%  | 7.0%  | 5.8%  | 2.9% | 7.6%  | 8.0%  | 13.8% | 11.8% | 5.7%  |
| <b>Shares Out.</b>      | 5    | 5     | 5     | 5     | 5    | 5     | 5     | 5     | 5     | 5     |
| <b>Revenue/Share</b>    | 6.12 | 7.95  | 8.45  | 7.88  | 6.31 | 8.17  | 8.66  | 12.18 | 11.52 | 10.02 |
| <b>FCF/Share</b>        | 2.36 | 1.44  | 1.14  | 3.55  | 0.30 | 3.76  | 1.51  | 2.76  | 5.68  | 4.56  |

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

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