



Bank OZK (OZK)

Updated April 18th, 2024, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|---------|
| Current Price: | \$43 | 5 Year CAGR Estimate: | 14.2% | Market Cap: | \$4.7 B |
| Fair Value Price: | \$67 | 5 Year Growth Estimate: | 2.0% | Ex-Dividend Date: | 4/11/24 |
| % Fair Value: | 64% | 5 Year Valuation Multiple Estimate: | 9.3% | Dividend Payment Date: | 4/19/24 |
| Dividend Yield: | 3.6% | 5 Year Price Target | \$74 | Years Of Dividend Growth: | 29 |
| Dividend Risk Score: | A | Retirement Suitability Score: | A | Rating: | Buy |

Overview & Current Events

Bank OZK, previously Bank of the Ozarks, is a regional bank that offers services such as checking, business banking, commercial loans and mortgages to its customers in Arkansas, Florida, North Carolina, Texas, Alabama, South Carolina, New York and California. The \$4.7 billion market cap bank was founded in 1903 and is headquartered in Little Rock, AR. On April 1st, 2024, Bank OZK announced a \$0.39 quarterly dividend, representing a 2.6% raise over the last quarter's payment and an 11.4% raise year-over-year. This marks the company's 55th consecutive quarter of raising its dividend. In mid-April, Bank OZK reported (4/17/24) financial results for the first quarter of fiscal 2024. Total loans and deposits grew 27% and 32%, respectively, over last year's quarter. Net interest income grew 9% over the prior year's quarter, in sharp contrast to most banks, which incurred a decline in net interest income due to higher costs of deposits. Earnings-per-share grew 6%, from \$1.42 to a new all-time high of \$1.51, and exceeded the analysts' consensus by \$0.05. Bank OZK has exceeded the analysts' consensus in 15 of the last 16 quarters. In contrast to most banks, which are being pressured by rising deposit costs, Bank OZK is growing its net interest margin and its earnings. Bank OZK is an exemplary bank and hence we are confident that it will not be affected by the recent turmoil related to regional banks. Management still expects new all-time high earnings-per-share in 2024.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.52 | \$2.09 | \$2.58 | \$3.35 | \$3.24 | \$3.30 | \$2.26 | \$4.49 | \$4.54 | \$5.87 | \$6.10 | \$6.73 |
| DPS | \$0.47 | \$0.55 | \$0.63 | \$0.71 | \$0.80 | \$0.94 | \$1.08 | \$1.13 | \$1.26 | \$1.42 | \$1.56 | \$2.19 |
| Shares¹ | 80 | 90 | 121 | 128 | 129 | 129 | 129 | 128 | 118 | 114 | 110 | 100 |

Bank OZK had grown its profits per share in almost every year since the financial crisis, which was a strong feat for a bank. In the 2011 through 2019 stretch, earnings-per-share grew by nearly 11% per year. Moreover, Bank OZK has not only been growing organically, but over the last decade the bank has repeatedly made acquisitions which management viewed as suitable. Of course, 2020 proved to be a challenge with earnings down materially.

We believe that Bank OZK will remain on its growth trajectory. Factors like general economic growth, a low payout ratio and coming off a conservative base should help results. Non-interest income makes up just a small amount of the bank's profits. This makes Bank OZK relatively independent from factors such as market movements, whereas bigger banks - where trading revenues are more important - are more dependent on such factors.

Due to the record earnings-per-share expected this year, we expect 2% earnings-per-share growth over the next five years. This is much lower than the historical growth rate of Bank OZK but it is warranted due the high comparison base.

Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 21.3 | 20.6 | 15.9 | 14.4 | 12.8 | 9.0 | 10.8 | 8.6 | 9.3 | 6.8 | 7.0 | 11.0 |
| Avg. Yld. | 1.5% | 1.3% | 1.5% | 1.5% | 1.9% | 3.2% | 4.4% | 2.9% | 3.0% | 3.6% | 3.6% | 3.0% |

¹ In millions.

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The valuation of Bank OZK has moved in a relatively wide range over the last decade. The price-to-earnings ratio of the stock exceeded 20 in 2014-2015 whereas it has plunged below 10 in recent years. Our fair value estimate is 11 times earnings, in line with a typical bank. The stock is now trading at a price-to-earnings ratio of 7.0 due to the sell-off of regional banks. If it trades at its fair valuation level in five years, it will enjoy a 9.3% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 31% | 26% | 24% | 21% | 25% | 28% | 48% | 25% | 28% | 24% | 26% | 32% |

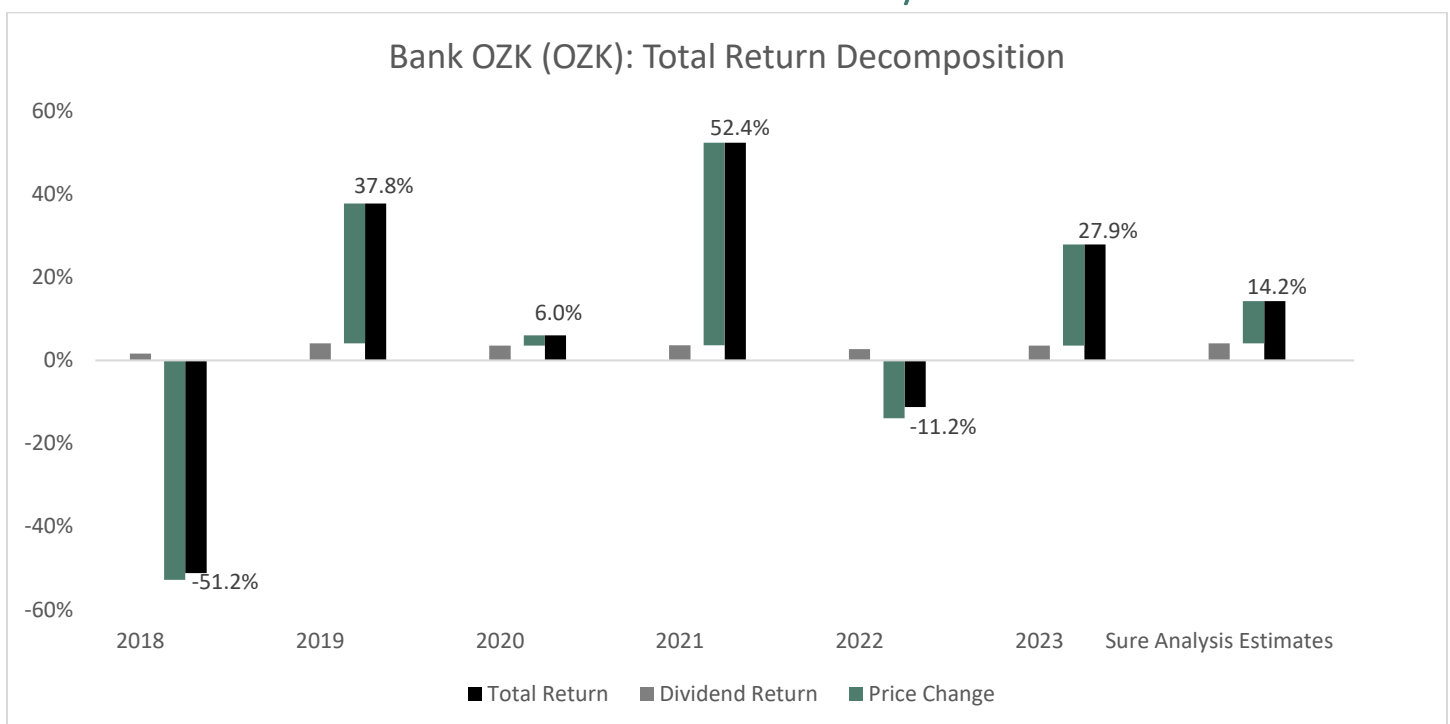
Bank OZK has raised its dividend at a very strong pace over the last decade, with multiple dividend raises each year. The dividend has been raised every quarter dating back to 2010, as an illustration. The payout ratio is still not elevated though, although 2020 saw a temporary uptick due to depressed earnings.

The bank is well positioned in its key markets, due to the opening of new branches and inorganic growth. Bank OZK is the largest bank in its home state of Arkansas. Given also a long history and strong performance during the last financial crisis, Bank OZK is an attractive financial stock. Bank OZK was very stable during the last financial crisis, as one of just a few banks which managed to grow profits.

Final Thoughts & Recommendation

Bank OZK is much smaller than the well-known banks but it has demonstrated strengths in its niche, partly thanks to its exemplary management. It has proved resilient to recessions and has exhibited above-average growth of earnings-per-share and dividend. We expect the bank to easily endure the ongoing downturn of regional banks, which has been caused by the collapse of Silicon Valley Bank, Credit Suisse and First Republic. Bank OZK has grown its deposits 32% over the prior year. The stock has rallied 19% in the last 12 months but it can still offer a 14.2% total annual return over the next five years thanks to 2.0% earnings-per-share growth, a 3.6% dividend yield and a 9.3% annualized valuation tailwind. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 346 | 479 | 695 | 930 | 992 | 984 | 985 | 1,097 | 1,249 | 1,562 |
| SG&A Exp. | 100 | 111 | 163 | 212 | 242 | 264 | 270 | 273 | 245 | 305 |
| D&A Exp. | 13 | 17 | 25 | 34 | 35 | 43 | 44 | 43 | 44 | 41 |
| Net Profit | 119 | 182 | 270 | 422 | 417 | 426 | 292 | 579 | 564 | 691 |
| Net Margin | 34.3% | 38.0% | 38.9% | 45.4% | 42.1% | 43.3% | 29.6% | 52.8% | 45.2% | 44.2% |
| Free Cash Flow | 79 | 184 | 197 | 346 | 619 | 326 | 502 | 509 | 735 | 852 |
| Income Tax | 54 | 94 | 154 | 159 | 137 | 138 | 84 | 174 | 157 | 176 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 6,766 | 9,879 | 18,890 | 21,276 | 22,388 | 23,556 | 27,163 | 26,530 | 27,657 | 34,237 |
| Cash & Equivalents | 150 | 91 | 866 | 440 | 291 | 1,496 | 2,394 | 2,054 | 1,033 | 2,150 |
| Accounts Receivable | 20 | 25 | 52 | 65 | 82 | 75 | 88 | 83 | 125 | 170 |
| Goodwill & Int. Ass. | 106 | 152 | 721 | 709 | 696 | 685 | 675 | 669 | 664 | 661 |
| Total Liabilities | 5,855 | 8,412 | 16,095 | 17,812 | 18,615 | 19,402 | 22,887 | 21,691 | 22,966 | 29,097 |
| Accounts Payable | 37 | 52 | 73 | 186 | 216 | 222 | 252 | 187 | 234 | --- |
| Long-Term Debt | 256 | 322 | 383 | 364 | 439 | 695 | 1,095 | 1,217 | 1,075 | 1,275 |
| Shareholder's Equity | 908 | 1,465 | 2,792 | 3,461 | 3,770 | 4,150 | 4,272 | 4,497 | 4,351 | 4,800 |
| LTD/E Ratio | 0.28 | 0.22 | 0.14 | 0.11 | 0.12 | 0.17 | 0.26 | 0.25 | 0.23 | 0.25 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|-------|-------|-------|-------|-------|------|-------|-------|-------|
| Return on Assets | 2.1% | 2.2% | 1.9% | 2.1% | 1.9% | 1.9% | 1.2% | 2.2% | 2.1% | 2.2% |
| Return on Equity | 15.4% | 15.4% | 12.7% | 13.5% | 11.5% | 10.8% | 6.9% | 13.2% | 12.8% | 14.1% |
| ROIC | 11.1% | 12.3% | 10.9% | 12.0% | 10.4% | 9.4% | 5.7% | 10.1% | 9.5% | 11.3% |
| Shares Out. | 80 | 90 | 121 | 128 | 129 | 129 | 129 | 128 | 121 | 115 |
| Revenue/Share | 4.43 | 5.49 | 6.63 | 7.39 | 7.70 | 7.63 | 7.61 | 8.46 | 10.35 | 13.60 |
| FCF/Share | 1.01 | 2.11 | 1.88 | 2.75 | 4.80 | 2.53 | 3.88 | 3.92 | 6.09 | 7.42 |

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

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