



# Landmark Bancorp, Inc. (LARK)

Updated May 9<sup>th</sup>, 2024, by Patrick Neuwirth

## Key Metrics

|                             |         |  |       |                                  |          |
|-----------------------------|---------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$18.98 | <b>5 Year CAGR Estimate:</b>               | 12.3% | <b>Market Cap:</b>               | \$95 M   |
| <b>Fair Value Price:</b>    | \$21.60 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date:</b>         | 05/14/24 |
| <b>% Fair Value:</b>        | 88%     | <b>5 Year Valuation Multiple Estimate:</b> | 2.6%  | <b>Dividend Payment Date:</b>    | 05/29/24 |
| <b>Dividend Yield:</b>      | 4.4%    | <b>5 Year Price Target</b>                 | \$29  | <b>Years Of Dividend Growth:</b> | 21       |
| <b>Dividend Risk Score:</b> | B       | <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 2024, the company's total assets were \$1.55 billion, total gross loans were \$964 million, and total deposits were \$1.29 billion. Landmark Bancorp has 31 branch offices in 24 communities across the state of Kansas. The company was founded in 1885 and has 275 employees.

On May 1<sup>st</sup>, 2024, Landmark Bancorp announced its financial results for the first quarter of the fiscal year 2024, ending March 31<sup>st</sup>, 2024. For the quarter, the company reported earnings of \$2.8 million, a slight increase from the \$2.6 million earned in the fourth quarter of 2023 and a decrease from the \$3.4 million reported for the same quarter last year. Reported earnings per diluted share for the quarter were \$0.51, compared to \$0.48 in the fourth quarter of 2023 and \$0.61 in the same quarter last year. The change in earnings for the first quarter was primarily due to continued solid loan growth and controlled expenses, despite a slight decrease in net interest income.

Compared to the fourth quarter of 2023, total gross loans increased by \$15.4 million, or 6.5% on an annualized basis, reflecting strong demand across residential mortgage, construction, and commercial loans. Deposits decreased by \$22.7 million during the quarter, which raises some concerns about the bank's liquidity and its capacity to fund future loans. Net interest income amounted to \$10.7 million, representing a 1.3% decrease from the previous quarter. This reduction was primarily due to higher interest expenses on deposits, which may continue to pressure margins if interest rates rise or competitive pressures increase. The company's net interest margin slightly increased to 3.12% during the first quarter from 3.11% in the fourth quarter. For the reporting period, the return on average assets was 0.72%, the return on average equity was 8.88%, and the efficiency ratio was 73.0%. Credit quality remains a strong point, with very low net loan charge-offs (\$7,000 for the quarter) and non-accrual loans making up only 0.38% of gross loans.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024          | 2029          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.54 | \$1.97 | \$1.65 | \$0.79 | \$1.88 | \$1.91 | \$3.54 | \$3.26 | \$1.79 | \$2.23 | <b>\$2.40</b> | <b>\$3.21</b> |
| <b>DPS</b>                | \$0.49 | \$0.51 | \$0.57 | \$0.60 | \$0.63 | \$0.66 | \$0.69 | \$0.73 | \$0.80 | \$0.84 | <b>\$0.84</b> | <b>\$1.12</b> |
| <b>Shares<sup>1</sup></b> | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5      | 5             | 5             |

The company has grown earnings by 4.2% per year since 2014 and 4.7% over the past five years. We expect earnings to increase by 6% 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 4.9%. In February 2022, the company increased its quarterly dividend by 5.0% from \$0.20 to \$0.21 per share.

<sup>1</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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The company also declared a 5% stock dividend payable in December 2023. This is the 23<sup>rd</sup> consecutive year that the company has declared a 5% stock dividend.

## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now  | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 11.0 | 9.5  | 11.7 | 29.8 | 9.7  | 11.7 | 6.4  | 7.0  | 9.6  | 8.3  | 7.9  | 9.0  |
| Avg. Yld. | 1.9% | 2.8% | 2.7% | 2.6% | 3.3% | 3.0% | 3.3% | 2.7% | 3.7% | 4.0% | 4.4% | 3.9% |

During the past decade shares of Landmark Bancorp have traded with an average price-to-earnings ratio of about 11.5 and today, it stands at 7.9. We are using 9 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The stock's dividend yield is currently 4.4% which is above the average yield of 3.2% for the past decade.

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

| Year   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 32%  | 26%  | 35%  | 76%  | 34%  | 35%  | 19%  | 22%  | 45%  | 38%  | 35%  | 35%  |

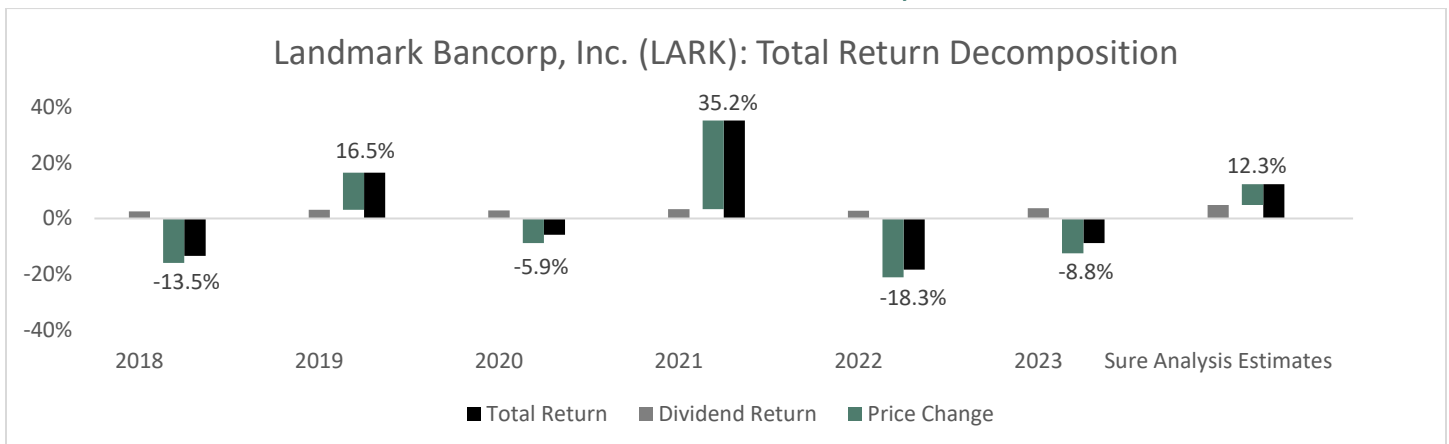
During the past five years, the company's dividend payout ratio has averaged around 32%. Landmark Bancorp's dividend is at the moment comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio 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 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 offers an above average yield. We estimate total return potential of 12.3% per year for the next five years based on a 6% 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           | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue        | 40    | 43    | 41    | 33    | 43    | 46    | 64    | 61    | 53    | 57    |
| SG&A Exp.      | 17    | 18    | 18    | 17    | 18    | 19    | 22    | 22    | 20    | 23    |
| Net Profit     | 8     | 11    | 9     | 4     | 10    | 11    | 19    | 18    | 10    | 12    |
| Net Margin     | 20.3% | 24.5% | 21.9% | 13.1% | 24.0% | 23.1% | 30.5% | 29.7% | 18.9% | 21.6% |
| Free Cash Flow | 7     | 6     | 18    | 2     | 20    | 8     | 14    | 30    | 24    | 12    |
| Income Tax     | 3     | 4     | 2     | (1)   | 1     | 1     | 5     | 5     | 1.4   | 2.0   |

## Balance Sheet Metrics

| Year               | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020  | 2021  | 2022  | 2023  |
|--------------------|------|------|------|------|------|------|-------|-------|-------|-------|
| Total Assets       | 863  | 878  | 911  | 929  | 986  | 998  | 1,188 | 1,329 | 1,503 | 1,562 |
| Cash & Equivalents | 13   | 14   | 20   | 17   | 19   | 14   | 90    | 197   | 32    | 32    |
| Acc. Receivable    | 10   | 11   | 13   | 13   | 13   | 11   | 14    | 13    | 26    | 29    |
| Goodwill & Int.    | 22   | 22   | 22   | 21   | 21   | 20   | 21    | 22    | 40    | 39    |
| Total Liabilities  | 792  | 798  | 826  | 842  | 894  | 890  | 1,061 | 1,193 | 1,391 | 1,435 |
| Accounts Payable   | 11   | 12   | 12   | 10   | 13   | 13   | 17    | 16    | 23    | ---   |
| Long-Term Debt     | 77   | 71   | 73   | 53   | 42   | 25   | 22    | 22    | 68    | 86    |
| Total Equity       | 72   | 81   | 85   | 88   | 92   | 109  | 127   | 136   | 111   | 127   |
| LTD/E Ratio        | 1.07 | 0.88 | 0.86 | 0.61 | 0.45 | 0.23 | 0.17  | 0.16  | 0.61  | 0.68  |

## Profitability & Per Share Metrics

| Year             | 2014  | 2015  | 2016  | 2017 | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 1.0%  | 1.2%  | 1.0%  | 0.5% | 1.1%  | 1.1%  | 1.8%  | 1.4%  | 0.7%  | 0.8%  |
| Return on Equity | 12.0% | 13.8% | 10.8% | 5.1% | 11.6% | 10.6% | 16.6% | 13.7% | 8.0%  | 10.3% |
| ROIC             | 5.8%  | 7.0%  | 5.8%  | 2.9% | 7.6%  | 8.0%  | 13.8% | 11.8% | 5.7%  | 6.2%  |
| Shares Out.      | 5.25  | 5.34  | 5.45  | 5.54 | 5.57  | 5.60  | 5.50  | 5.52  | 5.51  | 5.48  |
| Revenue/Share    | 7.95  | 8.45  | 7.88  | 6.31 | 8.17  | 8.66  | 12.18 | 11.52 | 10.02 | 10.31 |
| FCF/Share        | 1.44  | 1.14  | 3.55  | 0.30 | 3.76  | 1.51  | 2.76  | 5.68  | 4.56  | 2.12  |

Notes: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Accounts Payable data was not yet available from our data provider.

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