



Ames National Corporation (ATLO)

Updated April 24th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	\$19	5 Year CAGR Estimate:	7.4%	Market Cap:	\$174 M
Fair Value Price:	\$19	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/30/24
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	05/15/24
Dividend Yield:	5.6%	5 Year Price Target	\$22	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Ames National Corporation is a US-based bank holding company that owns and operates five bank subsidiaries in central Iowa. The subsidiaries consist of two national banks (First National Bank, Ames, Iowa and State Bank & Trust Co.) and three state-chartered banks (Boone Bank & Trust Co., Reliance State Bank, and United Bank & Trust NA). The company provides a range of banking services to individuals, businesses, and municipal entities in Iowa. The banks' lending activities consist primarily of short-term and medium-term commercial and agricultural real estate loans, residential real estate loans, agricultural and other business-related loans. As of March 31st, 2024, total assets were \$2.19 billion. Ames National Corp. was founded in 1903, has a market capitalization of \$174 million, and about 250 employees.

On April 21st, 2024, Ames National Corporation released first quarter 2024 results for the period ending March 31st, 2024. For the quarter, the company reported a net income of \$3.2 million, or \$0.36 per share, compared to \$5.1 million, or \$0.57 per share, in the first quarter of 2023. The decrease in earnings is primarily the result of higher interest expense on deposits and other borrowed funds, offset in part by an increase in interest income on loans. The higher interest expense on deposits is due to an increase in market rates and customers seeking higher interest rate options. Deposits totaled \$1.87 billion at the end of the quarter, a decrease of 1%, compared to \$1.90 billion recorded in the year-ago quarter.

Ames National Corporation's net interest margin for the quarter ended at 2.2%, a decrease from 2.3% in the same quarter of 2023. First quarter 2024 loan interest income was \$2.8 million higher than in the first quarter of 2023, primarily due to higher average interest rates and growth in the loan portfolio. Net loans increased to \$1.27 billion compared to \$1.22 billion one year ago, an increase of 4%. This increase was primarily due to growth in the agriculture and 1-4 family loan portfolios. Non-interest income for the reported quarter totaled \$2.3 million as compared to \$2.6 million in the same year-ago quarter, a decrease of 12%. The efficiency ratio was 77.9% for the reported quarter, compared to 70.2% in the same quarter of 2023. Management forecasted earnings for fiscal year 2024 in the range of \$1.45 to \$1.55 per share compared to \$1.20 per share last year. The increase in forecasted earnings from 2023 actual results, is primarily due to maturities of interest-earning assets repricing at market rates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.64	\$1.61	\$1.69	\$1.47	\$1.83	\$1.86	\$2.06	\$2.62	\$2.14	\$1.20	\$1.50	\$1.74
DPS	\$0.72	\$0.78	\$0.83	\$0.87	\$0.92	\$0.95	\$0.99	\$1.03	\$1.07	\$1.08	\$1.08	\$1.25
Shares¹	9	9	9	9	9	9	9	9	9	9	9	9

The bank has had declining earnings of -3.4% per year since 2014 and it hasn't grown over the past five years. We expect earnings to increase by 3% per year for the next five years after the decline from \$2.14 to \$1.20 in 2023.

The company has been able to increase its yearly dividend payout for 13 consecutive years. Over the last five years, the average annual dividend growth rate is 2.6%. In May 2022, the quarterly dividend increased by 3.8% from \$0.26 to \$0.27 per share. The company paid a special dividend of \$0.25 per share in 2018.

¹ In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.0	15.2	15.7	20.6	15.6	14.6	10.3	9.3	11.4	14.0	12.9	12.5
Avg. Yld.	1.9%	3.2%	3.1%	2.9%	3.2%	3.5%	4.7%	4.2%	4.5%	4.5%	5.6%	5.8%

During the past decade shares of Ames National Corporation have traded with an average price-to-earnings ratio of about 14.1 times earnings and today, it stands at 12.9. We are using 12.5 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 5.6% which is above the average yield over the past decade of 3.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	44%	48%	49%	59%	50%	51%	48%	39%	50%	90%	72%	72%

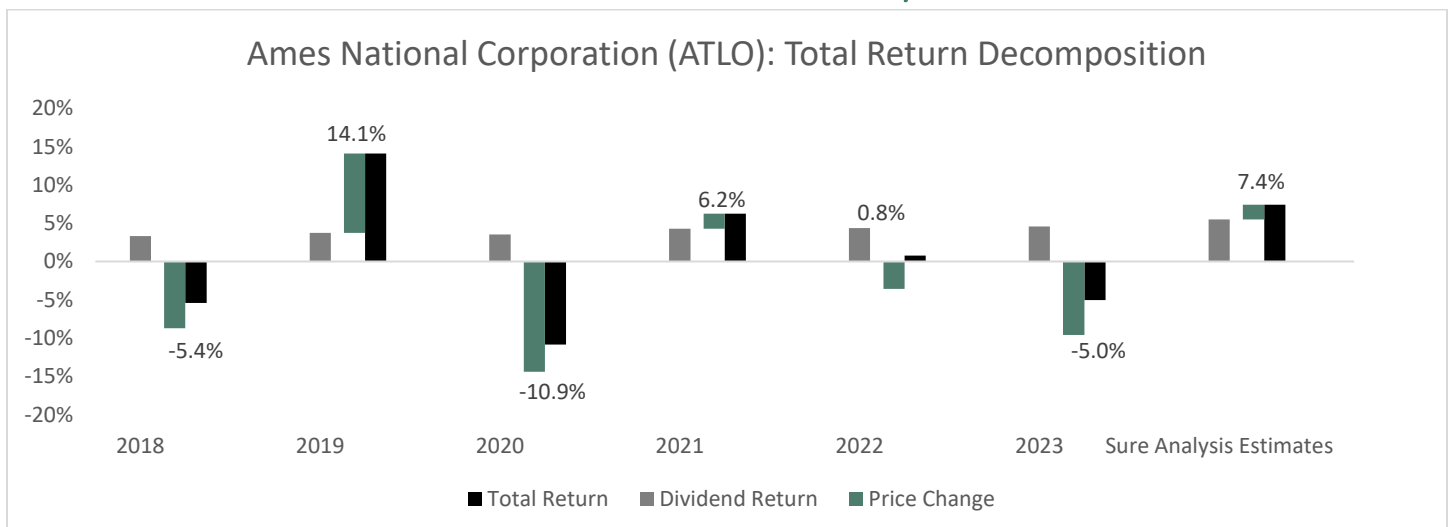
During the past five years, the company's dividend payout ratio has averaged around 48%. The bank's dividend is covered by earnings but something to monitor. Given the expected earnings growth, there is little room for the dividend to continue to grow at the same pace and keep the payout ratio around the average level.

Ames National Corporation is a well-established regional bank that conducts its operations primarily in central, north-central, and south-central Iowa. The bank's income and revenue model are primarily based on the interest income from loans and investment securities, as well as fees and commissions from various financial services. The 2023 earnings results dipped because interest expenses are increasing faster than interest income, with deposit rates rising more quickly than rates on loans and investments. The bank's strategic plan is centered around customer engagement, employee engagement, and continuous improvement initiatives. This plan has proved to be very successful as since the start of 2019, total assets have surged by 46%, loans increased by 38%, and deposits rose by 55%.

Final Thoughts & Recommendation

Ames National Corporation is a US-based bank holding company with an above-average dividend yield, combined with a sound dividend payout ratio. The bank's diversified business model, experienced management, and strategic focus on efficiency, and customer service should support its future earnings growth. We estimate total return potential of 7.4% per year for the next five years based on a 3% earnings-per-share growth, a 5.6% yield, and a valuation headwind. The coming year(s) could be a bumpy road for regional bank stocks. Shares earn a hold rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	44	47	48	48	50	54	65	67	63	54
SG&A Exp.	15	16	16	16	18	20	23	23	24	25
D&A Exp.	1	2	2	2	2	2	2	2	2	2
Net Profit	15	15	16	14	17	17	19	24	19	11
Net Margin	34.3%	31.8%	32.8%	28.4%	34.0%	31.9%	28.8%	35.9%	30.7%	20.4%
Free Cash Flow	18	20	21	18	20	19	28	29	18	14
Income Tax	6	6	7	8	4	4	4	7	6	2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,301	1,327	1,366	1,375	1,456	1,737	1,976	2,137	2,135	2,155
Cash & Equivalents	55	51	61	69	56	144	192	106	43	64
Goodwill & Int.	8	8	8	8	12	16	16	15	14	14
Total Liabilities	1,146	1,165	1,201	1,204	1,283	1,550	1,766	1,929	1,986	1,990
Long-Term Debt	37	32	28	27	15	5	3	3	39	111
Total Equity	155	161	165	171	173	188	209	208	149	166
LTD/E Ratio	0.24	0.20	0.17	0.16	0.08	0.03	0.01	0.01	0.26	0.67

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.1%	1.2%	1.0%	1.2%	1.1%	1.0%	1.2%	0.9%	0.5%
Return on Equity	10.3%	9.5%	9.6%	8.2%	9.9%	9.5%	9.5%	11.5%	10.8%	6.9%
ROIC	8.3%	7.8%	8.2%	7.0%	8.8%	9.0%	9.3%	11.3%	9.7%	4.7%
Shares Out.	9	9	9	9	9	9	9	9	9	9
Revenue/Share	4.77	5.07	5.16	5.18	5.37	5.83	7.16	7.30	6.97	5.99
FCF/Share	1.92	2.19	2.23	1.96	2.16	2.10	3.11	3.14	2.03	1.59

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

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