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M&F Bancorp, Inc. (MFBP – OTC)

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May 13, 2022

Price:	\$6.50	EPS *	2020A:	\$0.51	P/E	2020A:	12.7x
52 Wk. Range:	\$6.20 - \$8.00	(FY: DEC)	2021A:	\$1.36		2021A:	4.8x
Div/Div Yld:	\$0.09 / 1.4%		2022E:	\$1.36		2022E:	4.8x
Shrs/Mkt Cap:	2.0 mm / \$12.9 mm	Tang. Book Value:		\$11.29	Price/Tang. Book Value:		0.58x

* EPS are diluted.

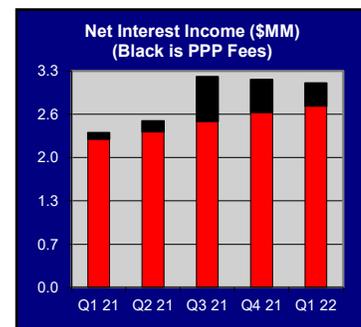
Background

M&F Bancorp, Inc., headquartered in Durham, North Carolina, is a bank holding company whose subsidiary is Mechanics and Farmers Bank (“Bank”). With \$370 million in assets as of March 31, 2022, the Company conducts its operations through branch offices of M&F Bank, which are located in five major cities in North Carolina: Durham, Charlotte, Raleigh, Greensboro and Winston-Salem. In addition to M&F Bank’s branch offices, the Bank owns six ATMs. The Bank actively supports economic development in each of its markets, which can provide a competitive advantage in the marketplace. Trading in the stock is limited, although the Company’s common stock is quoted in the over-the-counter market through the OTC Pink under the symbol “MFBP.”

First Quarter of 2022 Earnings Increased 60%, EPS Beat Projections By \$0.15 Per Share

M&F Bancorp reported excellent results for the first quarter of 2022, with earnings that outperformed our projections by \$0.15 per share. The quarter was characterized by strong overall growth in revenues, which in turn led to excellent earnings and improved profitability measures. Balance sheet growth was also good, with loans showing a solid increase even excluding PPP loans. Finally, asset quality remained sound, with NPAs/assets at only 0.26% at the end of the quarter.

Net income available to common stockholders (after \$45,000 in preferred stock dividends) was \$783,000, or \$0.40 per diluted share, for the first quarter of 2022, up 60% from \$490,000, or \$0.25 per diluted share, in the year-ago quarter. The largest driver of the higher earnings was unusually strong growth in net interest income, although earnings also benefitted from a solid increase in noninterest income. Specifically, net interest income was up 32% to \$3,114,000 in 2022’s first quarter from \$2,361,000 in the year-ago quarter, benefiting from higher PPP fees (\$401,000 in 2022’s first quarter, versus \$103,000 in the year-ago quarter), as well as increases in the net interest margin and average earning assets. Specifically, the net interest margin was 3.65% in 2022’s first quarter, up 38 basis points from 3.27% in the year-ago quarter, while average earning assets increased 18% over this period. As can be seen from the adjacent chart, the impact of varying levels of PPP fees has obscured the trends in net interest income, but if



we reflect the net interest income excluding such fees, we see that the upward trend (red bar) has been quite consistent. Noninterest income (excluding gains on sales of repossessed assets) was also impressive, increasing 20% to \$1,112,000 in the first quarter of 2022 from \$929,000 in the year-ago quarter. Nearly every component of noninterest income had growth over the past year, with the largest component of noninterest income (money service business income, which was 48% of the total) growing 10% to \$537,000 in 2022’s first quarter from \$487,000 in 2021’s first quarter. Commissions from the sales of financial products increased to \$122,000 compared to \$6,000 during the prior year

SYMBOL: MFBP

ASSETS: \$370 MILLION

HQ: DURHAM, NC

CONTACT:
RANDALL C. HALL
(919) 313-3600

1ST QUARTER HIGHLIGHTS:

EPS: \$0.40 vs. \$0.25

NET INTEREST INCOME
INCREASED 32%

AVERAGE EARNING ASSETS GREW
19%, WHILE THE MARGIN
IMPROVED 38 BASIS POINTS

NONINTEREST INCOME,
EXCLUDING GAINS ON SALE OF
FIXED ASSETS, WAS UP 20%

MONEY SERVICE BUSINESS
INCOME, WHICH ACCOUNTED FOR
48% OF TOTAL NONINTEREST
INCOME, INCREASED 10%

NONINTEREST EXPENSE WAS UP 14% DUE TO ADDITIONAL STAFFING AND PPP RELATED EXPENSES

M&F BANCORP'S ROAA, ROAE AND EFFICIENCY RATIO ALL SHOWED IMPROVEMENT COMPARED TO THE YEAR-AGO QUARTER

M&F'S STOCK HAS PERFORMED WELL AND ITS DIVIDEND YIELD WAS BETTER THAN ITS NC PEER GROUP MEDIAN

THE BANK CONTINUES TO INVEST HEAVILY IN ITS BANKING PLATFORM

FROM 3/31/21 TO 3/31/22:

TOTAL ASSETS WERE UP 8%, DEPOSITS INCREASED 9% AND NET LOANS GREW 23%

EQUITY/ASSETS: 10.72%

CAPITAL WILL STRENGTHEN FURTHER FROM ITS PARTICIPATION IN THE U.S. TREASURY EMERGENCY CAPITAL INVESTMENT INITIATIVE

NPAS/ASSETS: 0.26%

RESERVES/LOANS: 0.96%, OR 1.04% EXCLUDING PPP LOANS

**EPS (Loss):
2020A: \$ 0.51
2021A: \$ 1.36
2022E: \$ 1.36**

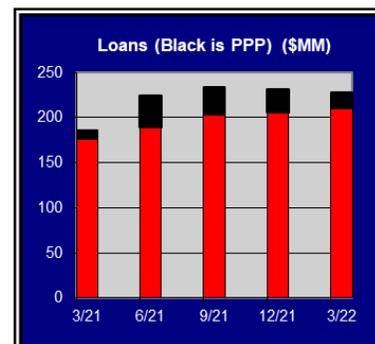
quarter, which was part of the previously discussed (our report dated 2/18/22) fee sharing arrangement with the asset management arm of J.P. Morgan. Noninterest expense was \$3,180,000 for the first quarter of 2022, which was up 14% from \$2,780,000 in the year-ago quarter, with the most significant increases being in salaries and employee benefits (due to increased staffing), as well as amortization of previously deferred salaries associated with PPP loan originations.

Not surprisingly, the Company's profitability and efficiency ratios improved considerably. As can be seen from the adjacent table, M&F Bancorp's ROAA increased to 0.83% in the most recent quarter, up from 0.61% in the year-ago quarter, while the ROAE grew to 12.6% from 8.3%. The efficiency ratio also improved to 75.2% in 2022's first quarter from 83.8% in the year-ago quarter. The Company's strong performance has been reflected in the stock's performance as well, as the shares have had excellent long-term growth, especially on a three-year basis and compared to peer banks. The dividend yield was also higher than for its peers. We expect the remainder of 2022 to continue to be strong, partly based on the fact that balance sheet momentum remains good, that margins and new sources of noninterest income are growing and that there is still about \$611,000 in PPP fees remaining to be accreted. At the same time, the Bank continues to invest heavily in its banking platform, such as launching three new product/service offerings (the Zelle network and a new online deposit account opening tool) as well as providing its customers free access to 16,000 Chase Bank ATMs.

PROFITABILITY & EFFICIENCY RATIOS, OTHER PERFORMANCE MEASURES (%)			
	<u>Q1 21</u>	<u>Q1 22</u>	
ROAA	0.61	0.83	
ROAE	8.30	12.60	
Efficiency Ratio	83.8	75.2	
			<u>NC Peer</u>
	<u>MFBP</u>	<u>Group</u>	<u>Median</u>
Total Return 3-Year	206	17	
Total Return 5-Year	29	17	
Div. Yield	1.38	0.32	

Loans, Net of PPP, Increased 19% Over the Past Year

M&F Bancorp had solid balance sheet growth over the past year, with particularly strong growth in loans. To be specific, from March 31, 2021 to March 31, 2022, total assets grew 8%, deposits were up 9% and net loans increased 23%. Period end loans, net of PPP loans (the red bar in the adjacent chart), still had strong growth of 19% over the past year. Noninterest-bearing deposits increased 8% from March 31, 2021 to March 31, 2022. M&F Bancorp's capital position was solid at March 31, 2022, with shareholders' equity of \$39.7 million, or 10.72% of total assets. Its capital position will be significantly expanded as a result of its pending receipt of \$80 million in capital from the U.S. Treasury Emergency Capital Investment Program.



Asset Quality Remained Sound at the End of 2022's First Quarter

At March 31, 2022, nonperforming assets ("NPAs" which include nonaccruing loans, accruing loans more than 90 days past due and OREO but excludes performing TDRs), totaled \$963,000, or 0.26% of total assets, compared to \$824,000, or 0.23% of total assets, at December 31, 2021, and \$856,000, or 0.25% of total assets, at the year-ago date. The allowance for loan losses was \$2,194,000, or 0.96% of gross loans (1.04% excluding PPP loans) at March 31, 2022, versus \$2,581,000, or 1.39% of gross loans, at the year-ago date.

Projections Increased

We are raising our 2022 earnings estimate to \$2.7 million, or \$1.36 per diluted share, from \$1.05 projected previously. As of March 31, 2022, there were still \$611,000 in PPP fees left to be accreted.

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