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M&F Bancorp, Inc. (MFBP – OTC)

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August 9, 2022

Price:	\$12.55	EPS *	2020A:	\$0.51	P/E	2020A:	24.6x
52 Wk. Range:	\$6.20 - \$12.55	(FY: DEC)	2021A:	\$1.36		2021A:	9.2x
Div/Div Yld:	\$0.10 / 0.8%		2022E:	\$1.70		2022E:	7.4x
Shrs/Mkt Cap:	2.0 mm / \$24.8 mm	Tang. Book Value:		\$10.53	Price/Tang. Book Value:		1.19x

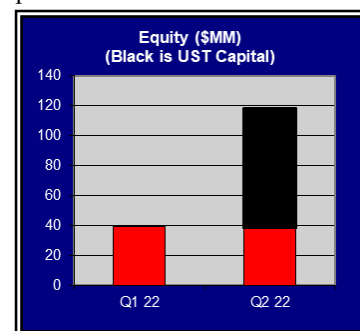
* EPS are diluted.

Background

M&F Bancorp, Inc., headquartered in Durham, North Carolina, is a bank holding company whose subsidiary is Mechanics and Farmers Bank (“Bank”). With \$451 million in assets as of June 30, 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.”

Earnings Were Strong, as EPS Beat Estimates by \$0.11 Per Share; \$80 MM Capital Raised

M&F Bancorp had a particularly important quarter in the three months ended June 30, 2022. One of the most important events was the completion of a \$80 million capital raise, which was achieved through the issuance of 80,000 shares of Senior Non-Cumulative Perpetual Series E Preferred Stock and was part of the U.S. Treasury Emergency Capital Investment Program. The capital is inexpensive (the stock does not pay a dividend for the first two years and pays a rate between 0.5% and 2.0% in years three through 10 based on certain lending qualifications), and essentially triples the capital base of the Company. That paves the way for growth for many years to come and puts the Company in a highly secure position to invest for the future, as well as to continue its mission of serving underserved parts of the market. Consistent with that mission, the Bank also received a \$171,000 Bank Enterprise Award (“BEA”) in the quarter, a recognition of the Bank’s past and continued commitment to this area of lending. Finally, it was a significant quarter simply based on the strength of the results. Earnings were up an impressive 62% and EPS outperformed projections by \$0.11. Core loan growth (excluding PPP) was also solid, and asset quality remained sound. We would also note that the stock price performance has been quite strong and has been significantly outperforming most comparable banks.



SYMBOL: MFBP

ASSETS: \$451 MILLION

HQ: DURHAM, NC

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2ND QUARTER HIGHLIGHTS:

\$80 MILLION IN NEW CAPITAL WAS RAISED IN THE QUARTER, WHICH TRIPLES THE CAPITAL BASE OF THE BANK

THE NEW CAPITAL PAVES THE WAY FOR THE BANK’S LONG-TERM GROWTH

THE BANK ALSO RECEIVED A BANK ENTERPRISE AWARD OF \$171,000

EPS: \$0.47 vs. \$0.29

NET INCOME GREW 62%, WHILE ADJUSTED PRETAX EARNINGS WERE UP 69%

NET INTEREST INCOME INCREASED 27%

In terms of specific results, net income available to common stockholders (after \$45,000 in preferred stock dividends) was \$921,000, or \$0.47 per diluted share, in 2022’s second quarter, up 62% from \$568,000, or \$0.29 per diluted share, in the year-ago quarter. There were a few unusual factors that impacted earnings, which included: 1) a provision for loan losses of \$146,000 in 2022’s second quarter versus a reversal of \$140,000 in the year-ago quarter; 2) the previously mentioned \$171,000 in BEA in 2022’s second

	2021	2022
Quarterly Results (\$000s)	Q2	Q2
Net Income	568	921
Pretax Income	808	1,216
Eliminate:		
Provision	(140)	146
Bank Enterprise Award	-	(171)
PPP Fees	(167)	(342)
Adjusted Pretaxed Earnings	501	849

AVERAGE EARNING ASSETS WERE UP 7%, AND THE MARGIN IMPROVED 61 BASIS POINTS

NONINTEREST INCOME INCREASED 22% EVEN EXCLUDING THE BEA

NONINTEREST EXPENSE WAS UP 14%, DUE IN PART TO PPP-RELATED COSTS

FIRST HALF HIGHLIGHTS:

EPS: \$0.86 vs. \$0.54

FROM 6/30/21 TO 6/30/22:

LOANS EXCLUDING PPP LOANS WERE UP 15%, DEPOSITS GREW 5% AND TOTAL ASSETS WERE UP 26%

EQUITY/ASSETS: 26.2%

TOTAL RETURN OF MFBP SHARES IS IMPRESSIVE AND EXCEEDS THOSE OF MOST COMPARABLE BANKS

NPAS/ASSETS: 0.21%

RESERVES/LOANS: 1.04%, OR 1.07% EXCLUDING PPP LOANS

**EPS (LOSS):
2020A: \$ 0.51
2021A: \$ 1.36
2022E: \$ 1.70**

quarter, and 3) PPP fees of \$342,000 for 2022's second quarter versus \$167,000 in the year-ago quarter. Excluding these factors, pretax adjusted earnings were up an impressive 69% over the two respective periods. Net interest income was up 27% to \$3,232,000 in the second quarter of 2022 from \$2,538,000 in the year-ago quarter, due to a combination of average earning asset growth (+7%) and improvement in the net interest margin (3.82% in 2022's second quarter, versus 3.21% in the year-ago quarter). Excluding PPP fees, net interest income increased 22%. Noninterest income was also a meaningful contributor to total revenue growth, as it increased significantly (even excluding the BEA) in the quarter as well. Specifically, noninterest income (excluding the BEA) was up 22% to \$1,274,000 in the second quarter of 2022 from \$1,045,000 in the year-ago quarter. Much of this growth came from commissions from sales of financial products, which totaled \$231,000 in 2022's second quarter versus none the year-ago quarter. Noninterest expense grew 14% from the year-ago quarter, some of which was due to increased benefits associated with previously deferred salaries relating to PPP loan originations.

For the first half of 2022, M&F Bancorp had net income available to common stockholders of \$1,704,000, or \$0.86 per diluted share, which was up 61% from \$1,058,000, or \$0.54 per diluted share, in the year-ago period. Net interest income grew 30%, noninterest income was up 28% and noninterest expense grew 14%. There was a provision of \$136,000 in 2022's first six months, as compared to a reversal for loan losses of \$218,000 in 2021's first half.

Loans, Net of PPP, Were Up 15% Over the Past Year

From a balance sheet standpoint, it was a great quarter as well. Again, the biggest news was the completion of the \$80 million capital raise. But on a more granular level, loans (excluding PPP loans) increased 15% from June 30, 2021 to June 30, 2022, while deposits were up 5% and total assets grew 26%. The asset growth was mainly due to higher cash and equivalents, reflecting the \$80 million capital infusion. (Obviously, this amount of cash and equivalents should decline as funds are deployed into loans and investments.) Reflecting this additional capital, shareholders' equity totaled \$118 million, or 26.2% of total assets, at June 30, 2022, as compared to \$41 million, or 11.5% of total assets, at the year-ago date.

Stock Price Has Been Performing Well

On a final note, we would point out that the market has been taking note of the progress at the Company, as reflected by the recent strong performance of MFBP's stock price. On a year-to-date basis, the stock is up 77%, while it is up 59% over the past year, 412% over the past three years and 137% over the past five years. All of these figures exceed the appreciation of most of the Company's peers.

	Total Return (%)	
	MFBP	NC Peer Group Median
YTD	77.1	-5.3
One-Year	59.1	-1.5
Three-Year	411.5	22.3
Five-Year	137.2	22.3

NPAs Decreased 3% Compared to March 31, 2022

M&F Bancorp's asset quality remained sound as of June 30, 2022, with nonperforming assets ("NPAs" which include nonaccruing loans, accruing loans more than 90 days past due and OREO but excludes performing TDRs), of \$938,000, or 0.21% of total assets, versus \$963,000, or 0.26% of total assets, at March 31, 2022 and \$833,000, or 0.23% of total assets, at the year-ago date. The majority of the NPAs (98%) were nonaccrual loans. The allowance for loan losses totaled \$2,337,000, or 1.04% of gross loans (1.07% excluding PPP loans) at June 30, 2022, versus \$2,439,000, or 1.09% of gross loans, at the year-ago date.

Projections Increased

We are raising our 2022 earnings estimate to \$3.4 million, or \$1.70 per diluted share, from \$1.36 projected previously. We would note that these projections could vary significantly based on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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