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M&F Bancorp, Inc. (MFBP – OTC)

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Price:	\$19.60	EPS *	2021A:	\$1.36	P/E	2021A:	14.4x
52 Wk. Range:	\$6.20 - \$22.80	(FY: DEC)	2022E:	\$1.84		2022E:	10.7x
Div/Div Yld:	\$0.11 / 0.6%		2023E:	\$2.00		2023E:	9.8x
Shrs/Mkt Cap:	2.0 mm / \$39 mm	Tang. Book Value:		\$9.31	Price/Tang. Book Value:		2.11x

* 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 \$450 million in assets as of September 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.”

Net Income Available to Shareholders Grew 14%, EPS Beat Projections by \$0.07 Per Share

M&F Bancorp reported excellent results in the third quarter of 2022, with double-digit earnings growth and EPS that exceeded estimates by \$0.07. In fact, given the strength in the numbers, we have raised our 2022 earnings projections. There were a number of accomplishments in the quarter, such as strong momentum in several relatively new areas of noninterest income, as well as commendable balance sheet growth and excellent asset quality. We would also note that MFBP stock continues to perform quite well, as it is up 40% since our second quarter of 2022 report.

In terms of specific results, net income available to common stockholders (after \$45,000 in preferred stock dividends) was \$1,001,000, or \$0.50 per diluted share, for 2022’s third quarter, an increase of 14% from \$878,000 (after \$30,000 in preferred stock dividends), or \$0.44 per diluted share, in the year-ago quarter. There was a bit of “noise” in the year-ago quarter, as there were differing provisions for loan losses (a reversal for loan losses of \$77,000 in 2021’s third quarter versus a provision for loan

	2021	2022
Quarterly Results (\$000s)	Q3	Q3
Net Income	908	1,046
Pretax Income	1,120	1,342
Eliminate:		
Provision	(77)	348
Bank Enterprise Award	-	-
PPP Fees	(680)	(119)
Adjusted Pretaxed Earnings	363	1,571

losses of \$348,000 in 2022’s third quarter) and there were PPP fees of \$680,000 in the year-ago quarter versus \$119,000 in the third quarter of 2022. Excluding these factors, adjusted pretax earnings increased to \$1,571,000 in 2022’s third quarter from \$363,000 in the year-ago quarter. The earnings growth benefited from strong increases in both net interest and noninterest income. Net interest income grew 20% to \$3,842,000 in 2022’s third quarter, from \$3,214,000 in the year-ago quarter, with average earning asset growth of 29%. (Excluding PPP fees, net interest income was up 47%.) Noninterest income had excellent growth of 23% over the past year, totaling \$1,337,000 in the third quarter of 2022, versus \$1,083,000 in the year-ago quarter. Every component of noninterest income, except for other service charges, commissions and fees, increased from the third quarter of 2021, with the largest component of noninterest income, money service business income (which accounted for 45% of the total) growing 15% over the past year. Another notable increase

SYMBOL: MFBP

ASSETS: \$450 MILLION

HQ: DURHAM, NC

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3RD QUARTER HIGHLIGHTS:

NET INCOME INCREASED 14%, WHILE PRETAX INCOME BEFORE THE PROVISION AND PPP FEES INCREASED SIGNIFICANTLY

EPS: \$0.50 vs. \$0.44

NET INTEREST INCOME WAS UP 20%

AVERAGE EARNING ASSET GROWTH WAS 29%

NONINTEREST INCOME INCREASED 23%, AND BENEFITED FROM SOLID DIVERSIFICATION

MONEY SERVICE BUSINESS INCOME ACCOUNTED FOR 45% OF TOTAL NONINTEREST INCOME AND INCREASED 15% OVER THE PAST YEAR

MFBP SHARES CONTINUE TO HAVE EXCELLENT PERFORMANCE

YTD 2022 HIGHLIGHTS:

EPS: \$1.37 vs. \$0.98

NET INCOME GREW 40%, WHILE PRETAX INCOME BEFORE NONRECURRING FACTORS INCREASED 136%

FROM 9/30/21 TO 9/30/22:

EXCLUDING PPP LOANS, LOANS GREW 10%, DEPOSITS INCREASED 3% AND TOTAL ASSETS WERE UP 21%

EQUITY/ASSETS: 25.8%

NPAS/ASSETS: 0.20%

RESERVES/LOANS: 1.16%

**EPS (LOSS):
2021A: \$ 1.36
2022E: \$ 1.84
2023E: \$ 2.00**

was in commissions from sales of financial products (17% of the total, up 172%). Noninterest expense was up 7% from the year-ago quarter, with the most significant increases occurring in professional fees, information technology and other expenses. Profitability ratios were impressive: ROAE was 18.5% in 2022's third quarter, while ROAA was 0.88%. Lastly, as mentioned earlier, the Company's shares have significantly appreciated, both on a short- and long-term basis, as can be seen from the adjacent table. Most of the strong performance we attribute to the Company's strong ongoing performance, as well as the broader exposure it has gotten from the BEA and, in particular, the participation in the U.S. Treasury Emergency Capital Investment Program.

TOTAL RETURN VS. NC PEER GROUP (%)		
	MFBP	NC Peer Group Median
YTD	177.2	4.6
One-Year	170.3	2.6
Three-Year	685.0	26.4
Five-Year	293.3	26.4

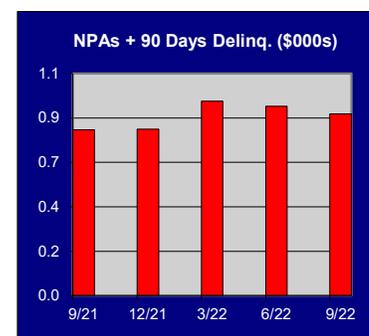
Year-to-date results likewise had nonrecurring factors, including differing provisions and PPP fees, as well as a Bank Enterprise Award of \$171,000 in the 2022 period. Net income available to common stockholders (after \$135,000 in preferred stock dividends) was \$2,705,000, or \$1.37 per diluted share, up 40% from \$1,936,000, or \$0.98 per diluted share (after \$60,000 in preferred dividends), in the year-ago period. Pretax income before the provision, the BEA and PPP fees was up roughly 136%. Net interest income grew 26%, noninterest income (excluding the BEA) increased 21% and noninterest expense was up 12%.

Organic Loans Increased 10% Over the Past Year

From September 30, 2021 to September 30, 2022, net loans were down 3%, deposits were up 3% and total assets increased 21%. Although gross loans were down over the past year, organic loan growth (i.e., excluding SBA PPP loans) was commendable at roughly 10% over that period. Asset growth primarily reflected higher cash and equivalents from the \$80 million capital infusion that occurred in the second quarter of 2022. This additional liquidity will obviously put the Bank in an excellent position to fund loan growth going forward. The additional capital also boosted capital ratios. Shareholders' equity, which was \$116 million, or 25.8% of total assets, at September 30, 2022, versus \$42 million, or 11.2% of total assets, at the year-ago date. Common equity was \$18.4 million, or 4.1% of assets, although excluding the accumulated other comprehensive loss, the ratio was 6.7%.

Asset Quality Remains Good

Nonperforming assets ("NPAs" which include nonaccruing loans, accruing loans more than 90 days past due and OREO but excludes performing TDRs), were \$914,000, or 0.20% of total assets, at September 30, 2022, versus \$938,000, or 0.21% of total assets, at June 30, 2022 and \$821,000, or 0.22% of total assets, at the year-ago date. The allowance for loan losses was \$2,660,000 (1.16% of gross loans), at September 30, 2022, versus \$2,356,000 (1.01% of gross loans), at the year-ago date.



Projections Increased

We are increasing our 2022 earnings estimate to \$3.6 million, or \$1.84 per diluted share, from \$3.4 million, or \$1.70 per diluted share, projected previously. For 2023, we are projecting net income of \$4.0 million, or \$2.00 per diluted share. We would note that these projections could vary significantly based on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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