

Old Line Bancshares, Inc. (OLBK - NASDAQ - Recent Price: \$27.68)

Rating: Outperform / **Buy Price:** \$30.00 / **Target (Sell) Price:** \$34.00

OLBK: Reducing Growth and EPS Estimates, but Still Expecting Superior Performance; Lowering Target Price; Reiterating Outperform Rating.

4Q18 Results:

Old Line reported 3Q18 net income of \$10.2 million, up 23.0% from the \$8.3 million recorded in 3Q18. On a per share basis, 4Q18 came in at \$0.59 versus the \$0.48 posted in 3Q18 and the \$0.46 recorded in the year-ago quarter. Included in 3Q18 results was \$2.3 million of merger-related expenses associated with the Bay Bancorp acquisition completed in April, which translates to \$0.09 per share on an after-tax basis. Excluding this charge and similar charges from prior periods, 4Q18 EPS of \$0.59 was up \$0.02 from the adjusted 3Q18 EPS of \$0.57. The 4Q18 results exceeded our \$0.58 estimate and the median Street estimate by a penny. The main driver of the differential was higher-than-anticipated noninterest income, partially offset by lower-than-expected net interest income.

Highlights of the quarter include:

- Gross loans held for investment grew \$25.1 million or 1.1% sequentially to \$2.42 billion, falling short of the 2.5% growth we had projected. Elevated loan payoffs continued to affect loan growth in 4Q18, as roughly \$28 million in construction loans paid off during the quarter. In addition, the acquired loan portfolio declined by roughly \$32 million, while the sale of \$3.7 million of troubled loans acquired in the Bay Bancorp transaction also constrained the growth of the portfolio. Management indicates that the loan pipeline remains solid, though it is not as robust as a year ago. We still believe double-digit loan growth is achievable, but we are not expecting growth to rise much above 10% for 2019.
- Total deposits climbed \$53.8 million or 2.4% sequentially to \$2.30 billion. Interest bearing deposits grew \$76.1 million or 4.6% sequentially, providing all of the growth, while noninterest bearing deposits declined \$22.3 million or 3.8%.
- Net interest income slid \$0.8 million or 3.3% linked-quarter, driven by 15 bps of NIM compression to 3.66% (on a tax-equivalent basis) coupled with a 0.7% rise in average earning assets. The cost of interest bearing liabilities rose 19 bps linked-quarter, while average loan yields remained flat. Accretion income on acquired loans provided 13 bps of boost to the NIM, 1 bps less than it contributed in the prior quarter. We had expected the contribution from

Fundamental Metrics (MRQ)	
Balance Sheet	
Total Assets (M)	\$2,950
Gross Loans HFI (M)	\$2,417
Total Deposits (M)	\$2,296
Loans / Deposits	105%
Securities / Assets	8%
Debt / Assets	9%
Profitability	
FTE NIM	3.66%
Nonint. Income / Revenue	13%
Efficiency Ratio	47.38%
Core ROAA	1.38%
Core ROACE	10.25%
Credit Quality	
NPAs / Assets	0.20%
NPLs / Loans	0.20%
NCO Ratio	0.02%
Reserves / Loans	0.03%
Provision / Avg Loans	0.10%
Capital Adequacy	
TCE / TA Ratio	9.22%
Total Capital Ratio	11.49%
Tier 1 Ratio	9.88%
Tier 1 CE Ratio	9.72%
Leverage Ratio	9.13%
Performance	
Failure Ratio	2.6%

Source: SNL Financial, Company data

Market Data		Earnings Per Share Data					
		Our Forecast			Consensus		
		2017A	2018A	2019E	2018	2019	
Market Value (M)	\$471	1Q (Mar.)	\$ 0.36	\$ 0.48	\$ 0.52	\$0.48	\$0.53
ADTV (Shs)	56,133	2Q (Jun.)	\$ 0.36	\$ 0.17	\$ 0.56	\$0.51	\$0.57
ADTV (000')	\$1,553.8	3Q (Sep.)	\$ 0.18	\$ 0.48	\$ 0.61	\$0.58	\$0.61
52 Week Range	\$24.51-\$35.72	4Q (Dec.)	\$ 0.46	\$ 0.59	\$ 0.63	\$0.58	\$0.63
Dividend Yield	1.45%	Year	\$ 1.35	\$ 1.71	\$ 2.32	\$2.18	\$2.34
		P / E	20.5	16.2	12.0	12.7	11.8

Source: SNL Financial, Alden Securities estimates

accretion to moderate, leading to roughly 2 bps of NIM contraction in 4Q18, but loan yields expanded less than we expected. Management is still optimistic that the NIM can be maintained near current levels, despite the fairly flat yield curve.

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- Noninterest income jumped \$1.4 million or 49.4% compared to 3Q18. Most of the increase stemmed from a \$556k gain on the previously mentioned sale of loans acquired in the Bay Bancorp transaction and \$518k in reversals of previously charged-off loans. The new point of sale (POS) sponsorship program, a national program that was part of the Bay acquisition, provided roughly \$641k in revenue in 3Q18, down \$71k from the \$712k posted in 3Q18.
- Noninterest expenses declined \$2.7 million or 16.2% linked-quarter. The main driver of the change was the absence of the \$2.3 million reduction in merger & integration expenses incurred in the prior quarter. Salaries and benefits also declined, falling \$0.7 million or 10.0% LQ. Management indicates that temporary factors were partly responsible for the decline and that compensation expenses may not remain this low going forward. Still, we had expected some cost saves from the BYBK merger to become apparent in 4Q18 and this expectation was realized. OLBK's efficiency ratio improved slightly to 49.4% in 4Q18 from 51.9% (excluding merger expenses) in 3Q18.
- Asset quality trends were favorable in 4Q18. Minor growth in nonaccrual loans was offset by larger decreases in OREO and loans past due 90 days. As a result, nonaccrual loans remained unchanged from the prior quarter at 0.19% of loans held-for-investment. NPAs plus PD90 fell to 0.20% of total assets from 0.29% at September 30, 2018. On the other hand, early-stage delinquencies jumped 17.7% during the quarter, reaching 1.01% of loans held-for-investment. The company experienced minimal net charge-offs of just \$123k during the quarter, pushing the net charge-off ratio to 0.02% from 0.01% of average loans in the prior quarter. The loan loss provision for the quarter was \$614k, down from \$308k in 3Q18. The allowance for loan and lease losses now represents 0.31% of total loans held-for-investment, and 0.45% of legacy loans held-for-investment compared to 0.29% and 0.42%, respectively, at September 30, 2018.
- Tangible book value per share (including non-controlling interest) stood at \$15.39 at December 31, 2018, up from \$14.70 at September 30, 2018. The TCE ratio advanced to 9.22% from 8.85% at the prior quarter end.

Earnings Estimates: OLBK's 4Q18 results were encouraging in most respects, though loan growth was once again lower than we expected. Consequently, we have adjusted our expectations for loan and asset growth down a bit more, though we still project growth above 10% in 2019. In addition, we are also revising our NIM expectations slightly lower to reflect the flat yield curve and the reduced prospects for further Fed rate hikes in 2019. On the favorable side, continued good behavior on the credit front leads to some reductions in our provisioning forecast. After making these changes, we are reducing our 2019 and 2020 estimates from \$2.52 and \$2.78, respectively, to \$2.32 and \$2.62.

Stock Price Implications: OLBK currently trades at 16.2x trailing twelve month earnings and 179.9% of tangible book value, while peer institutions are trading at median valuations of 13.1x TTM EPS and 139.2% of TBV. We believe that Old Line's superior earnings growth warrants a premium valuation. Given reduced stock valuations industry-wide and lowered expectations for economic growth and additional Fed rate hikes, we are reducing the earnings multiple we use to value OLBK from a 15.5x forward P/E multiple to 14.5x, which still represent a premium of roughly 10% to the peer median. Applied to our \$2.32 EPS estimate for the next four quarters (1Q19-4Q19), this multiple generates a \$34.00 price target, down from our prior \$37.00 target. Our new target suggests a potential gain of roughly 22.8% over the next twelve months. **Consequently, we are reiterating our Outperform rating for shares of OLBK.**

Exhibit 1

Old Line Bancshares, Inc.: 4Q18 Highlights

	Actual Results			Change	
	4Q17	3Q18	4Q18	LQ ¹	YOY
Loans Held for Investment (\$000) ²	1,702,282	2,391,560	2,416,698	4.2%	42.0%
Total Deposits (\$000) ²	1,652,903	2,242,241	2,296,049	9.6%	38.9%
Average Earning Assets (\$000)	1,896,087	2,628,566	2,647,784	2.9%	39.6%
Total Revenue (\$000)	19,026	27,691	28,261	8.2%	48.5%
Net Interest Income (\$000)	17,228	24,886	24,069	-13.1%	39.7%
NIM (FTE)	3.72%	3.81%	3.66%	-0.15%	-0.06%
Average Securities Yield	3.04%	3.09%	3.18%	0.09%	0.14%
Average Loan HFI Yield	4.56%	4.84%	4.84%	0.00%	0.28%
Average Cost of Int.-bearing Deposits	0.70%	0.98%	1.16%	0.18%	0.46%
Efficiency Ratio	54.8%	57.8%	47.0%	-10.73%	-7.7%
NCO Ratio	0.00%	0.01%	0.02%	0.01%	0.02%

1. Linked quarter changes for the balances are annualized.

2. Loans Held for Investment and Total Deposits balances are end of period balances.

Source: company filings

Exhibit 2

Old Line Bancshares, Inc.

(Figures in thousands except for per share data)

	2015A	2016A	2017A	2018A	2019E	2020E	Fiscal years ending December 31							
	46,588	52,939	62,114	89,946	101,103	112,119	Net interest income	3,488	3,488	3,488	3,488	3,488	3,488	3,488
	1,311	1,585	955	1,849	2,351	3,488	Provision for loan and lease losses	98,753	98,753	98,753	98,753	98,753	98,753	98,753
	45,278	51,355	61,159	88,097	98,753	108,631	Net interest income after provision	17,288	22,776	24,578	25,455	25,455	25,455	25,455
	1,730	1,729	1,983	2,774	3,171	3,484	Non-interest income:	577	723	729	746	761	782	821
	65	1,228	35	-	-	-	Service charges on deposit accounts	-	-	-	-	-	-	-
	-	-	-	2,026	2,644	2,762	Gains on sales or calls of investment securities	-	674	712	641	660	664	657
	-	-	-	-	-	-	Payment sponsorship fees	-	-	-	-	-	-	-
	-	-	-	-	-	-	Income on marketable loans	-	-	-	-	-	-	-
	-	-	95	(152)	-	-	Gain on sale of stock	-	(61)	(91)	-	-	-	-
	1,010	1,132	1,167	1,806	2,153	2,197	Earnings on BOLI	293	461	521	532	534	537	540
	(27)	74	13	-	-	-	Gain (loss) on disposal of assets	14	-	(1)	-	-	-	-
	2,019	2,318	2,320	2,378	1,940	1,997	Gain on the sale of loans	418	512	412	1,036	471	480	490
	1,166	1,133	1,420	2,137	1,361	1,437	Other fees and commissions	294	681	320	842	330	337	343
	-	-	-	-	-	-	Gain on OREO	-	-	-	-	-	-	-
	622	744	707	999	1,121	1,167	Rental income	198	199	205	396	277	280	283
	6,626	8,256	7,801	11,981	12,390	13,042	Total non-interest income	1,795	3,188	2,805	4,193	3,034	3,080	3,153
	23,013	26,820	27,625	35,833	38,566	41,025	Total Non-interest expense	7,466	9,444	9,841	9,082	9,689	9,612	9,656
	1,432	1,550	1,672	2,672	2,884	3,091	Salaries wages & employee benefits	610	702	660	700	700	714	728
	1,041	1,002	1,073	1,201	1,201	1,321	FDIC insurance and state of Maryland assessments	188	320	278	286	292	295	302
	1,421	661	3,986	9,405	-	-	Merger and integration	-	7,122	2,283	-	-	-	-
	792	831	969	2,179	2,487	2,392	Core deposit premium amortization	312	541	664	663	630	630	598
	(78)	(14)	(14)	53	111	111	(Gains) loss on sale of OREO	13	42	26	(28)	28	28	28
	431	318	301	190	334	370	OREO expense	185	28	(100)	77	79	83	86
	652	666	659	714	737	776	Director's fees	171	197	173	174	183	183	185
	700	550	520	429	514	554	Network services	79	96	127	127	128	128	128
	660	763	821	998	1,114	1,189	Telephone	204	252	269	272	274	277	280
	6,159	6,522	7,302	9,145	10,031	10,622	Other operating	1,764	2,334	2,441	2,606	2,502	2,502	2,527
	36,276	39,643	44,843	62,691	57,981	61,452	Total non-interest expense	10,992	21,077	16,662	13,960	14,505	14,452	14,477
	10,245	13,155	15,964	27,218	39,871	45,165	Net Income	6,065	2,726	8,265	10,162	8,911	9,627	10,428
	0.95	1.20	1.35	1.71	2.32	2.62	Per Share Data:	0.48	0.17	0.48	0.59	0.52	0.56	0.61
	0.21	0.24	0.32	0.38	0.40	0.40	Diluted Earnings Per Share	0.16	0.10	0.10	0.10	0.10	0.10	0.10
	22.10%	20.06%	23.65%	22.19%	17.28%	15.28%	Dividend	16.81%	60.40%	20.80%	16.91%	19.31%	17.88%	16.52%
	13.19	13.81	16.61	21.77	24.06	26.66	Dividend Payout Ratio	16.74	20.93	21.20	21.77	22.28	22.84	23.44
	11.88	12.59	14.10	15.39	17.83	20.55	Book Value Per Share	14.27	14.39	14.70	15.39	15.94	16.53	17.17
	10,784	10,997	11,799	15,894	17,221	17,256	Tangible Book Value Per Share	12,743	16,465	17,188	17,182	17,209	17,217	17,234
	66.68%	63.42%	62.75%	59.37%	48.90%	47.19%	Average Diluted Shares Outstanding (MM)*	54.83%	77.51%	57.77%	47.05%	51.65%	49.60%	47.71%
	0.77%	0.83%	0.84%	1.08%	1.29%	1.34%	Profitability Measures:	1.16%	0.39%	1.12%	1.37%	1.22%	1.27%	1.36%
	7.38%	8.83%	8.53%	9.41%	10.20%	10.43%	Efficiency Ratio	11.36%	3.13%	8.89%	10.70%	9.63%	10.04%	10.49%
	3.93%	3.66%	3.57%	3.70%	3.64%	3.67%	Return on average assets	0.08%	0.11%	0.10%	0.14%	0.10%	0.10%	0.10%
	0.50%	0.52%	0.41%	0.47%	0.40%	0.39%	Return on average equity	0.01%	0.02%	0.01%	0.02%	0.04%	0.05%	0.06%
	1,147,035	1,361,175	1,696,361	2,409,228	2,653,634	2,914,087	Net Interest Margin	1,756,577	2,347,821	2,384,580	2,409,228	2,452,467	2,525,978	2,601,694
	328,549	331,331	451,803	559,060	611,028	669,823	Fee Income % Average Assets	572,120	603,258	581,339	559,060	571,359	588,500	604,978
	907,331	1,201,100	1,736,989	1,917,204	2,109,910	2,109,910	Average Balances:	1,213,584	1,604,420	1,660,902	1,736,989	1,771,729	1,819,566	1,879,611
	1,184,528	1,444,924	1,740,803	2,430,581	2,778,119	3,055,972	Interest Bearing Deposits	1,946,208	2,499,766	2,628,566	2,647,784	2,674,827	2,737,389	2,884,321
	901,716	1,102,128	1,305,260	1,792,665	2,088,531	2,274,619	Non-interest Bearing Deposits	1,436,857	1,810,916	1,941,230	1,981,658	2,023,987	2,059,440	2,160,696
	0.07%	0.02%	0.08%	0.01%	0.05%	0.08%	Average Interest Bearing Liabilities	0.01%	0.02%	0.01%	0.02%	0.04%	0.05%	0.06%
	0.78%	0.73%	0.38%	0.33%	0.27%	0.28%	Asset Quality Ratios:	0.35%	0.31%	0.35%	0.33%	0.31%	0.31%	0.29%
	0.42%	0.45%	0.35%	0.31%	0.32%	0.34%	Net Charge-offs / Loans	0.09%	0.09%	0.05%	0.10%	0.08%	0.09%	0.10%
	0.11%	0.12%	0.06%	0.08%	0.09%	0.12%	Nonperforming Assets / Loans	9.52%	12.12%	12.29%	12.57%	12.68%	12.68%	12.77%
	9.44%	8.82%	9.87%	12.57%	12.77%	13.01%	Reserves / Loans	8.23%	8.66%	8.85%	9.22%	9.41%	9.51%	9.62%
	8.58%	8.10%	8.50%	9.22%	9.79%	10.34%	Provision / Loans							
							Capital & Leverage Ratios:							
							Equity / Assets							
							Tangible Equity / Tangible Assets							

Additional information available upon request. This report has been prepared from original sources and data that we believe to be reliable but we make no representation as to its accuracy or completeness. This report is published solely for information.

Disclosure Appendix

Analyst Certification:

I, Joseph Gladue, the primary analyst covering this issuer, certify that: 1) all of the views expressed in this report accurately reflect my personal views about the subject security or issuer, and 2) no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Risk Factors:

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our target price, if one is established:

- a weakening of the United States economy and the regional and local economies in which the company conducts operations
- unanticipated loan losses or securities-related losses
- a weakening of local real estate markets or the soundness and liquidity of the securities market for real-estate backed assets
- failure to maintain sufficient excess capital or liquidity to conduct operations
- the effects of trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System
- the effects of increased inflation, a flatter yield curve, or increased volatility in financial markets
- inability to attract core deposits or continue to obtain third party financing on favorable terms
- adverse legal action against the company or litigation initiated by the company
- inability to successfully integrate acquired operations or to maintain sufficient excess capital post the close of a transaction

Investment Rating Definitions:

Investment ratings reflect the analyst's assessment of the subject stock's return potential relative to the NASDAQ Bank Index. There are three investment rating tiers:

- **Outperform/Buy:** The subject stock's total return is expected to exceed the return of the NASDAQ Bank Index by 10% or more over the next 12-month period.
- **Neutral/Hold:** The subject stock's total return is expected to be comparable with the return of the NASDAQ Bank Index over the next 12-month period.
- **Underperform/Sell:** The subject stock's total return is expected to be less than the return of the NASDAQ Bank Index by 10% or more over the next 12-month period.

Investment Rating Distributions (as of December 31, 2018)

<u>Rating Categories</u>	<u>All Covered Companies</u>		<u>Investment Banking Services Provided in the Last 12 Months</u>	
	<u>Count</u>	<u>% of Total</u>	<u>Count</u>	<u>% of Category</u>
Outperform/Buy	13	72%	0	0%
Neutral/Hold	5	28%	0	0%
Underperform/Sell	NA	0%	0	0%
Total	18	100%		

Other Important Disclosures:

J. Alden Associates, Inc. (DBA Alden Securities) is a FINRA-registered broker-dealer.

Alden Securities expects to receive compensation for investment banking services from the subject company in the next three months and/or seeks to receive such compensation.

Analyst compensation is based, in part, on Alden Securities' profitability, which includes revenues from investment banking.

Target prices, if applicable, are derived from our 12 Month Valuation Assessment. Our 12 Month Valuation Assessment is based on a blend of several relative value methodologies.

Alden Securities shares in the commissions for trades that are executed through Tourmaline Partners, LLC.

