

Atlantic Capital Bank (ACBI - \$26.22 - NASDAQ) Compelling Q1 Performance -- Raise to Buy

Year	EPS	P/E	PMV	Dividend: None	Current Return: Nil
2023P	\$2.20	12.0x	\$39	Shares O/S: 20.4 million	
2022P	2.05	12.9	34	52-Week Range: \$27.22 - \$9.18	
2021E	1.75	15.1	30		
2020A	1.05	25.2	---		

COMPANY OVERVIEW

Atlantic Capital Bank is a \$4B-asset bank headquartered in Atlanta, Georgia. The subsidiary bank operates branches across the state, primarily lending to commercial real estate (CRE) and commercial & industrial (C&I) borrowers.

Reason for Comment

Atlantic Capital reported a strong first quarter: growing loans +2.3% (not annualized) and deposits +9.8%: with noninterest deposits leading at +16%. Credit metrics also look promising: positioning Atlantic Capital well for continued growth in a challenging environment. We have changed our recommendation to Buy on the substantial outperformance.

- Unlike much of the sector, Atlantic posted respectable loan growth in Q1: adding \$51M loans in total, including \$27M PPP. CRE led the build, with multifamily, owner occupied, and investment all increasing sequentially while non-PPP C&I fell \$25M. Deposit-side growth was even more impressive, total deposits increased +\$283M and non-interest deposits +\$160M on an average basis. Management commented that the company's treasury management and processing relationships drove much of the sequential increase.
- Although NIM ex-PPP fell 11bps sequentially to 2.70%, the company continues to impress by reducing cost of funds: -4bps to 12bps in Q1. Also ex-PPP, loan yields declined a marginal 3bps to 3.83%. At this point, we do think the bank faces diminishing marginal returns from deposit costs, although deployment of the bank's substantial excess liquidity could provide an overall margin lift going forward. Management disclosed a NIM measure that controls for excess cash (but not PPP): 3.17% in Q1, down 1bp sequentially. From a revenue perspective, we expect NII to continue to grow from here as the company continues to add assets: although we do recognize that yields may continue to decline absent a change in the rate environment.
- On credit, the company released -\$4.5M provision amidst single-digit basis-point charge-off and nonperforming asset rates. Additionally, criticized loans fell from 7.9% to 7.0% of total, and deferrals continued to decline below 1%. At a portfolio level, the \$123M hotel book looks like the primary COVID exposure, although none of the balance was on nonaccrual. Although uncertainty remains, we cannot help but be impressed by the metrics here.

Investment Case

Since we went to Hold on March 9, ACBI has had a nice run with the rest of depository sector. Our caution at the time reflected our view that sector multiples had started to price out COVID risk and price in higher rates, when neither conclusion seemed foregone. Although our view of the sector has not changed substantially, we think Atlantic Capital, through individual outperformance, has more-than-justified the current valuation. We have raised our PMV multiple to 1.8x TBV, and we now recommend Buy based on a '21 PMV of \$30 per share.

**Table 1 Atlantic Capital Bank Earnings Model
2019-2025P**

<i>Fiscal year end 12/31</i> <i>(\$ millions, except per share)</i>	2019	2020	2021E	2022P	2023P	2024P	2025P	CAGR '20-'25P
Revenue	\$ 91	\$ 97	\$ 109	\$ 118	\$ 124	\$ 130	\$ 137	7.1 %
Pretax income	35	27	44	52	55	58	61	17.4
EPS, cont ops	1.06	1.05	1.75	2.05	2.20	2.30	2.40	18.0
TBV / Share	\$14.10	\$15.60	\$16.85	\$18.85	\$21.00	\$23.20	\$25.50	
P/E Multiple	24.9x	25.2x	15.1x	12.9x	12.0x	11.5x	11.0x	
P/TBV Multiple	1.9	1.7	1.6	1.4	1.3	1.1	1.0	

Source: Company data and g.research estimates

Table 2

**Atlantic Capital Bank
Private Market Value Analysis
2021E-2025P**

	<u>2021E</u>	<u>2022P</u>	<u>2023P</u>	<u>2024P</u>	<u>2025P</u>
TBV/Share	\$16.85	\$18.85	\$21.00	\$23.20	\$25.50
Valuation Multiple	1.8x	1.8x	1.8x	1.8x	1.8x
Equity PMV	\$30	\$34	\$38	\$42	\$46
Market Price % discount / (premium)	14.8%	28.5%	43.1%	58.1%	73.8%

Source: Company data and g.research estimates

Atlantic Capital Bank Price Performance



Source: Public data. As of January 25, 2018 ACBI had a BUY recommendation

I, **Steve Comery** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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