

## Banks & Thrifts

Price:	\$24.20
Fair Value Estimate:	\$30.00
52-Week Range:	\$16.65 - \$26.85
Market Cap (MM):	\$178
Shr.O/S-Diluted (mm):	7.4
Average Daily Volume:	11,180
Dividend:	\$0.00
Yield:	0.0%
Tang Book Value:	\$20.94
Tang Comn Equity Ratio:	9.7%
Price/Tangible Book:	1.16x

FYE: Dec	2021A	2022E	2023E
EPS - non-GAAP	\$2.65A	\$2.40E	\$2.67E
Adjusted: Prior EPS - non-GAAP		\$2.42	\$2.62

### Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.65A	\$0.54E	\$0.60E
Q2	\$0.87A	\$0.59E	\$0.66E
Q3	\$0.56A	\$0.63E	\$0.70E
Q4	\$0.56A	\$0.64E	\$0.72E
Year:	\$2.65A	\$2.40E	\$2.67E



January 20, 2022

## MainStreet Bancshares, Inc. (MNSB) - BUY

### MNSB Meets Our \$0.56 EPS Estimate. Pre Pre ROA of 1.60%. Maintain Forward Growth Outlook As Loan Pipeline Is Strong.

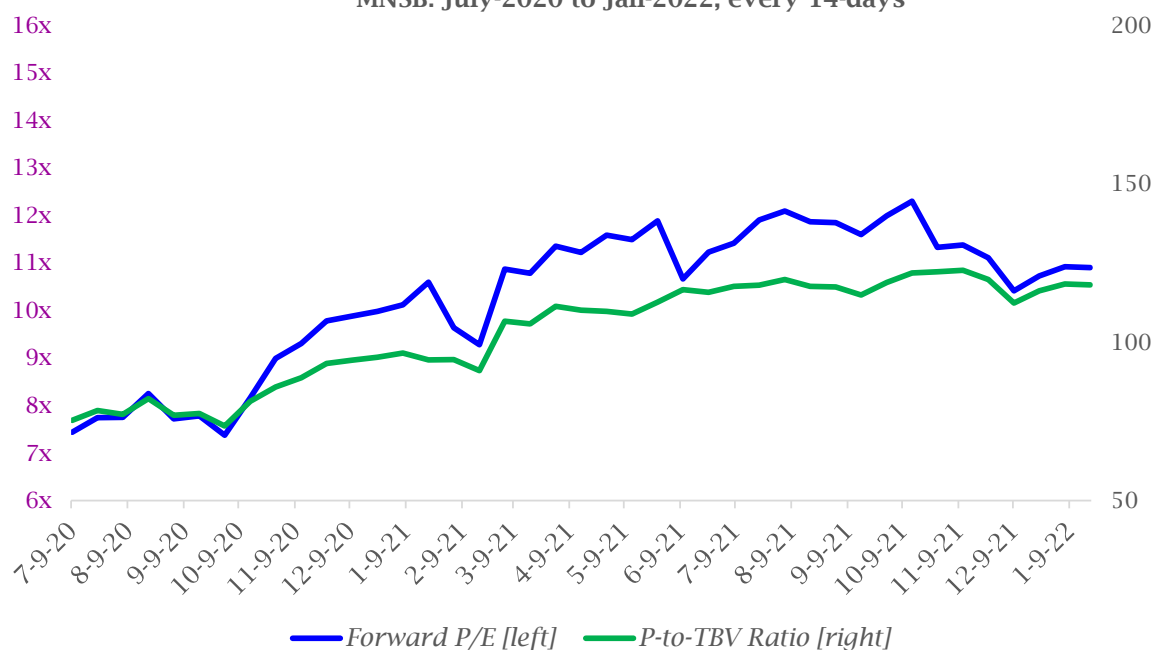
#### PORTFOLIO MANAGER BRIEF

- 4Q-21 EPS: Reported \$0.56 / Core \$0.56 / Street \$0.52 / Janney \$0.56. Excluded minor securities gains from core.
- MNSB met our expectations, but variance to our expectations included better Spread offset by lower Non-Interest Income.
- Core Pre-Tax Pre-Provision Earnings were \$6.8M, up 9.2% L-Q and down -0.2% YR/YR, beating our 4Q estimate of \$6.5M. PPNR ROA was 1.60%, up from 1.47% in 3Q21 - drivers are better Spread-to-Assets 3.29% (+18bps), Fees 0.38% (+3bps), Expenses 2.07% (+8bps).
- Tangible Book Value (TBV) per share advanced 2.2% L-Q while the TCE Ratio increased 30 bps to 9.7%. The CET-1 regulatory capital ratio was 15.23%.
- NII-Net Interest Income +5.1% to \$13.9M as the NIM-Net Interest Margin grew 4bps to 3.33%. Average Loans declined -4.3%, while Average Deposits expanded 0.4%. Period-end Loans grew 10.8% ex-PPP.
- Fee Income grew 9.0% to \$1.6M, below our \$1.9M. Progress on SBA and Swap income still occurred and can be repeated in future periods. Non-Interest Expense was lower than expected and rose 3.1% L-Q. New Avenu FinTech business line is included in overhead - this unit is profitable for calendar 2021.
- Reserves grew 2% in dollar terms at 12/31 vs 9/30 at 0.90% of Loans ex-PPP versus 0.98% in 3Q ex-PPP. NPAs to Assets declined -2 bps L-Q to a very low 0.05%.
- Cash-to-Assets fell to 5.7% from 8.1% last quarter as MNSB is deploying excess liquidity into a strong Loan pipeline. This should continue again in 1Q-2022. Securities-to-Assets are lower, while Loans are higher.
- Maintain our 2023 EPS projections and BUY rating. The stock trades at 116% of Tangible Book Value per share, and we feel this can rise to 135% in the future and reach our \$30.00 Fair Value. See our EPS model on Page 3 for details on our quarterly and annual earnings and balance sheet forecast.

## Maintaining Our \$30.00 Fair Value As Growth & Profits Continue At A Solid Pace

### Comparing Forward P/E & P-to-TBV Ratios

MNSB: July-2020 to Jan-2022, every 14-days



Source (both charts): Janney Research (FIG Group), S&P Capital IQ pricing

*We see profits expanding as Loan growth remains robust.*

*A rising ROA generates more TBV per share and the stock still has room to widen the Price-to-TBV ratio.*

*Our Fair Value at \$30.00 still uses a conservative valuation which could be stronger as MNSB executes on its business plans as a Bank and unique provider of FinTech-enable services (via "[Avenu](#)" unit).*

**Janney Research Rating: "BUY"**

**Fair Value: \$30.00**

	2022	Multiple	Price
GAAP EPS	\$2.40	12.5x	\$30.00
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$4.26</u>	<u>0.00x</u>	<u>\$0.00</u>
		<b>Combined</b>	<b>\$30.00</b>
Tangible Book 12/21	<b>\$23.23</b>	<b>1.29x</b>	<b>\$30.00</b>

**Implied Gain/Loss versus Current Price: 23%**

<b>Alternative</b>			
2022 PPNR	\$3.64	8.7x	\$31.67
Cash Dividends	\$0.00	1.0x	\$0.00
Excess TCE	\$4.26	0.0x	<u>\$0.00</u>
			\$31.67
Discount Rate 10% Pro Rata Aug 2022			0.95
Tangible Book 12/22	<b>\$23.23</b>	<b>1.36x</b>	<b>\$30.00</b>

Source: Janney Research (FIG Group) & Forward Estimates

### Deposit Pricing Outlook

	<u>Today</u>	<u>Dec-22</u>	<u>Dec-23</u>
Market Cap.	\$185.3	\$229.1	\$243.1
TCE in \$\$	\$159.0	\$177.4	\$197.8
Total Deposits	\$1,412.0	\$1,586.3	\$1,717.0
Core Deposits	\$952.8	\$1,070.5	\$1,158.7
Premium - Total	1.9%	3.3%	2.6%
<b>Premium - CORE</b>	<b>2.8%</b>	<b>4.8%</b>	<b>3.9%</b>

Factors our earnings and balance sheet projections through  
December 2023

## Earnings Model

higher IRS tax rates 4Q21

	2021 Quarterly				2022 Quarterly				2023 Quarterly						
	<u>2021</u>	<u>2022E</u>	<u>2023E</u>	<u>1Q21</u>	<u>2Q21</u>	<u>3Q21</u>	<u>4Q21</u>	<u>1Q22E</u>	<u>2Q22E</u>	<u>3Q22E</u>	<u>4Q22E</u>	<u>1Q23E</u>	<u>2Q23E</u>	<u>3Q23E</u>	<u>4Q23E</u>
Income Data: (\$ Mil.)															
Net Interest Income	\$53.54	\$58.08	\$63.57	\$13.48	\$12.99	\$13.20	\$13.87	\$13.63	\$14.40	\$14.93	\$15.11	\$14.98	\$15.77	\$16.27	\$16.55
Loan Loss Provision	(\$1.18)	\$1.34	\$1.67	\$0.32	(\$2.08)	\$0.29	\$0.30	\$0.22	\$0.36	\$0.39	\$0.38	\$0.30	\$0.41	\$0.47	\$0.49
Non-Interest Income	\$5.62	\$5.24	\$5.80	\$1.10	\$1.43	\$1.89	\$1.21	\$1.25	\$1.29	\$1.34	\$1.36	\$1.39	\$1.43	\$1.47	\$1.50
Gain/Loss on Loan Sales	\$0.49	\$1.00	\$0.60	\$0.34	\$0.13	(\$0.40)	\$0.41	\$0.25	\$0.25	\$0.25	\$0.25	\$0.15	\$0.15	\$0.15	\$0.15
Gain/Loss on Securities	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
One-Time Items	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Non-Interest Expense	\$32.86	\$36.58	\$38.71	\$7.81	\$7.87	\$8.46	\$8.72	\$8.94	\$9.10	\$9.23	\$9.32	\$9.53	\$9.64	\$9.72	\$9.81
Pre-Tax Income	\$27.96	\$26.39	\$29.59	\$6.79	\$8.75	\$5.94	\$6.47	\$5.98	\$6.49	\$6.91	\$7.02	\$6.69	\$7.31	\$7.70	\$7.90
Taxes (w/ FTE adj.)	\$5.78	\$5.91	\$6.95	\$1.34	\$1.63	\$1.16	\$1.66	\$1.30	\$1.46	\$1.55	\$1.60	\$1.57	\$1.72	\$1.81	\$1.86
Extraordinary Items	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Net Income	\$22.17	\$20.48	\$22.64	\$5.45	\$7.13	\$4.78	\$4.81	\$4.68	\$5.03	\$5.35	\$5.43	\$5.12	\$5.59	\$5.89	\$6.04
Preferred Dividend	\$2.16	\$2.16	\$2.16	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54	\$0.54
Net Income Avail. To Common	\$20.02	\$18.33	\$20.48	\$4.91	\$6.59	\$4.24	\$4.28	\$4.14	\$4.49	\$4.81	\$4.89	\$4.58	\$5.05	\$5.35	\$5.50
Avg. Shares O/S	7.6	7.6	7.7	7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.7	7.7	7.7
Earnings Per Share (EPS)	\$2.65	\$2.40	\$2.67	\$0.65	\$0.87	\$0.56	\$0.56	\$0.54	\$0.59	\$0.63	\$0.64	\$0.60	\$0.66	\$0.70	\$0.72
Per Share Data:															
Reported Book Value	\$21.27	\$23.55	\$26.10	\$19.26	\$20.18	\$20.64	\$21.27	\$21.78	\$22.34	\$22.94	\$23.55	\$24.12	\$24.75	\$25.42	\$26.10
Tangible Book Value	\$20.94	\$23.23	\$25.77	\$19.26	\$20.18	\$20.49	\$20.94	\$21.45	\$22.01	\$22.62	\$23.23	\$23.80	\$24.42	\$25.09	\$25.77
Dividends	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pre-Tax, Pre-Provision EPS	\$3.54	\$3.64	\$4.08	\$0.94	\$0.88	\$0.82	\$0.89	\$0.81	\$0.90	\$0.96	\$0.97	\$0.91	\$1.01	\$1.07	\$1.09
CORE GAAP EPS	\$2.65	\$2.40	\$2.67	\$0.65	\$0.87	\$0.56	\$0.56	\$0.54	\$0.59	\$0.63	\$0.64	\$0.60	\$0.66	\$0.70	\$0.72
KEY Ratios:															
Net Interest Margin	3.30%	3.36%	3.38%	3.41%	3.18%	3.29%	3.33%	3.35%	3.36%	3.37%	3.37%	3.36%	3.38%	3.38%	3.39%
CORE Return on Avg Assets	1.32%	1.14%	1.18%	1.32%	1.67%	1.13%	1.14%	1.09%	1.13%	1.16%	1.17%	1.11%	1.17%	1.20%	1.22%
Return on Avg Equity	13.20%	10.76%	10.80%	13.69%	17.76%	10.93%	10.72%	10.11%	10.70%	11.16%	11.02%	10.06%	10.80%	11.15%	11.14%
Pre-Tax Pre-Provision ROA	1.59%	1.54%	1.62%	1.70%	1.56%	1.48%	1.62%	1.43%	1.53%	1.60%	1.61%	1.50%	1.61%	1.68%	1.70%
Efficiency Ratio	55.1%	56.9%	55.3%	52.3%	54.1%	57.6%	56.3%	59.1%	57.1%	55.9%	55.7%	57.7%	55.5%	54.3%	53.9%
Overhead Ratio	1.95%	2.04%	2.01%	1.87%	1.84%	2.01%	2.08%	2.06%	2.03%	2.02%	2.02%	2.04%	2.01%	2.00%	1.99%
TCE Ratio	9.7%	9.8%	10.2%	8.3%	8.9%	9.4%	9.7%	9.6%	9.5%	9.6%	9.8%	9.9%	9.9%	10.0%	10.2%
CET-1 Regulatory Capital	15.7%	15.5%	15.8%	16.2%	15.6%	15.7%	15.7%	15.4%	15.3%	15.3%	15.5%	15.6%	15.5%	15.6%	15.8%
Period-End Balances: (\$ Mil.)															
Earning Assets	\$1,610	\$1,814	\$1,972	\$1,706	\$1,665	\$1,620	\$1,610	\$1,682	\$1,753	\$1,792	\$1,814	\$1,843	\$1,908	\$1,947	\$1,972
Total Assets	\$1,647	\$1,813	\$1,939	\$1,743	\$1,708	\$1,657	\$1,647	\$1,707	\$1,764	\$1,796	\$1,813	\$1,837	\$1,888	\$1,919	\$1,939
Net Loans	\$1,342	\$1,507	\$1,632	\$1,299	\$1,256	\$1,246	\$1,342	\$1,409	\$1,451	\$1,487	\$1,507	\$1,535	\$1,573	\$1,609	\$1,632
Total Deposits	\$1,412	\$1,586	\$1,717	\$1,538	\$1,465	\$1,414	\$1,412	\$1,483	\$1,527	\$1,565	\$1,586	\$1,615	\$1,655	\$1,693	\$1,717
Intangibles	\$2	\$2	\$2	\$0	\$0	\$1	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Total Common Equity	\$162	\$180	\$200	\$145	\$152	\$157	\$162	\$166	\$170	\$175	\$180	\$184	\$189	\$195	\$200

Source: Janney Research (FIG Group), S&amp;P Capital IQ

## IMPORTANT DISCLOSURES

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Data sources for the report are Bloomberg Financial L.P., SNL Financial LC, Stockcharts.com, Thomson Financial and regulatory filings.

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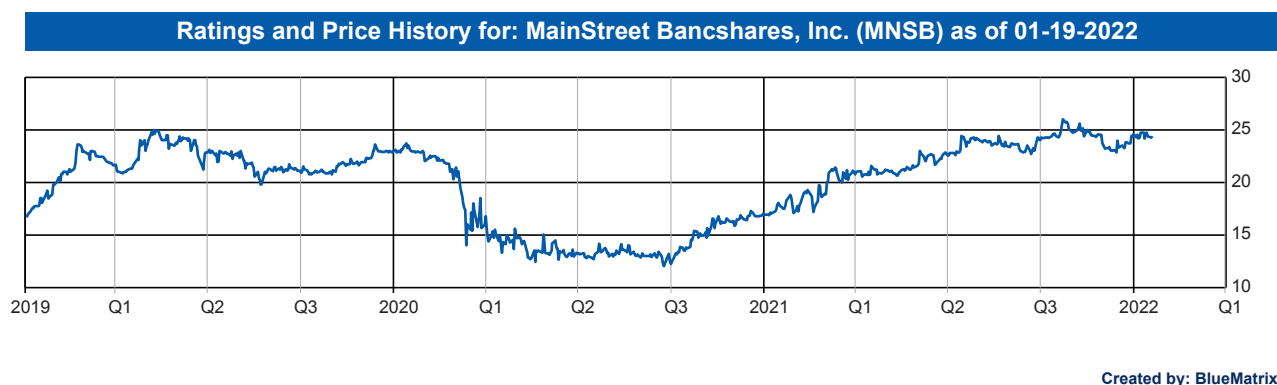
### Definition of Ratings

**BUY:** Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

**NEUTRAL:** Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

**SELL:** Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

### Price Charts



### Janney Montgomery Scott Ratings Distribution as of 12/31/2021

Rating	Count	Percent	IB Serv./Past 12 Mos. *	
			Count	Percent
BUY [B]	127	50.60	34	26.77
NEUTRAL [N]	95	37.85	8	8.42
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	29	11.55	5	17.24

\*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

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