

Banks & Thrifts

Price:	\$25.00
Fair Value Estimate:	\$31.25
52-Week Range:	\$20.77 - \$26.85
Market Cap (MM):	\$180
Shr.O/S-Diluted (mm):	7.2
Average Daily Volume:	16,210
Dividend:	\$0.05
Yield:	0.2%
Tang Book Value:	\$20.94
Tang Comn Equity Ratio:	8.4%
Price/Tangible Book:	1.19x

FYE: Dec	2021A	2022E	2023E
EPS - non-GAAP	\$2.65A	\$3.19E	\$3.25E
Adjusted: Prior EPS - non-GAAP		\$2.80	\$2.95
Adjusted:			

Quarterly EPS - non-GAAP Adjusted:

Q1	\$0.65A	\$0.64A	\$0.81E
Q2	\$0.87A	\$0.71A	\$0.81E
Q3	\$0.56A	\$0.97A	\$0.82E
Q4	\$0.56A	\$0.88E	\$0.80E
Year:	\$2.65A	\$3.19E	\$3.25E

October 19, 2022

MainStreet Bancshares, Inc.

(MNSB) - BUY

MNSB in VA: Raising Forward Estimates, Stronger Profits Support A Higher Stock Price. A Solid ROA With TBV Growth.

PORTFOLIO MANAGER BRIEF

- Raising our 2023 EPS outlook by \$0.30 to \$3.25 with a stronger 4Q22 estimate of \$0.88 (+\$0.14).
- Company has excellent momentum on growing EPS and TBV (tangible book) per share with solid ROA-Return on Assets. Pre-Pre ROA exceeded 2.10% in 3Q22 and should beat 1.90% in future periods.
- MNSB is able to drive new Deposits to fund Loan growth and its use of Debt and wholesale is limited. Deposit Betas may rise.
- Tangible book (TBV) is growing with less AOCI risk than peers. TBV rose in 3Q22 while other Banks' TBV retreated. Also, AOCI exposure is limited to 10% of Earning Assets. Excluding AOCI, TBV has expanded more than 6% in the past year. Learn more details in our Page 2 analysis.
- Metro Washington DC is "recession resistant", which is critical for investors to track and why MNSB's valuation can rise further. Loan growth can continue at a moderate pace and the company has flexibility to raise incremental funding with low Debt and should continue to grow Core Deposits.
- The [Avenu business unit offering Banking-as-a-Service \(BaaS\) products](#) continues to evolve. The real point of Avenu is generating Core Deposits and drive greater franchise value to MNSB in future periods. Yes, expense growth may remain elevated to support its expansion and success.
- MNSB still has solid ROA outlook of 1.40%+, which compares quite well with similar community bank peers nationwide in the \$2B to \$5B Asset range.
- See additional background data in this report.



MNSB's Positive Experience In TCE, TBV, AOCI: Unrealized Securities Losses Did Not Slow TBV In 3Q-2022

Linked-Quarter		YR/YR			
3Q22 g-%: TBV/Share	3Q22 g-%: TBV/Share ex-AOCI	3Q22 g-%: TBV/Share	3Q22 g-%: TBV/Share ex-AOCI	3Q22 CHG%: Shares O/S	3Q22 CHG%: Shares O/S
3Q22 Q/Q	3Q22 Q/Q	3Q22 Y/Y	3Q22 Y/Y	3Q22 Q/Q	3Q22 Y/Y
MNSB	0.9%	2.9%	2.2%	8.8%	(1.3%) (2.2%)

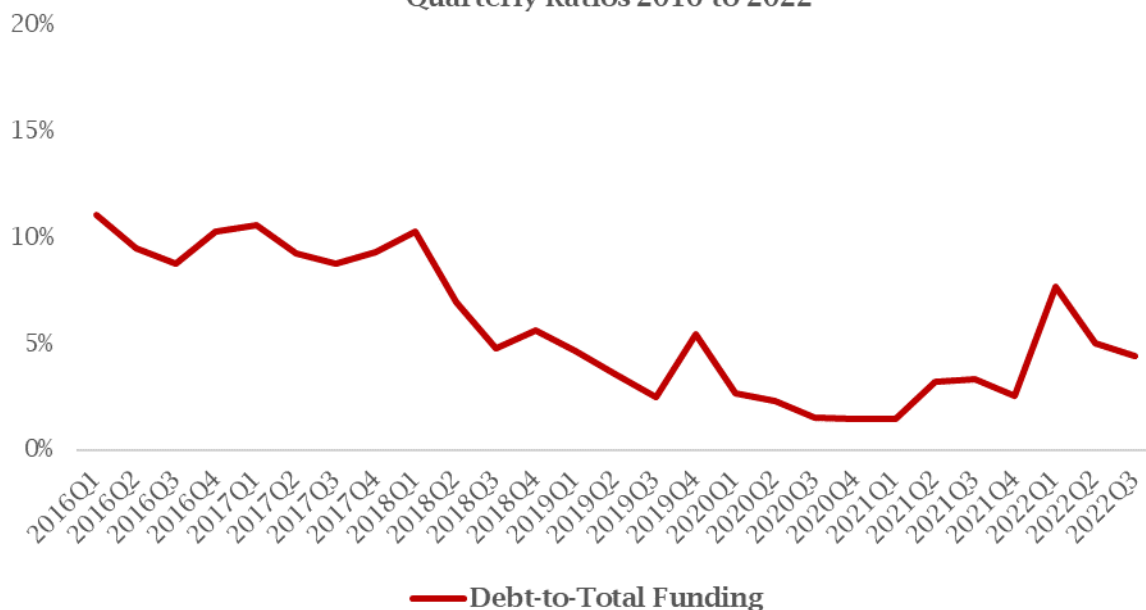
#1: MNSB has 10% Securities in Earning Assets with zero in "HTM" status. TBV performed well in 3Q22 while other Banks' TBV struggled.

Focus On YTD Change 9/30 vs 12/31				YTD 9/30 vs 12/31		YR/YR 9/30 vs 9/30		
3Q22 CHG: TCE (\$)	3Q22 CHG: TCE ex-AOCI (\$)	3Q22 CHH: TBV/Share	3Q22 CHG: TBV/Share ex-AOCI	3Q22 g-%: TBV/Share	3Q22 g-%: TBV/Share ex-AOCI	3Q22 g-%: TBV/Share	3Q22 g-%: TBV/Share ex-AOCI	
3Q22 YTD	3Q22 YTD	3Q22 YTD	3Q22 YTD	3Q22 YTD	3Q22 YTD	3Q22 Y/Y	3Q22 Y/Y	
MNSB	(3,553)	6,400	\$0.00	\$1.34	0.0%	6.4%	2.2%	10.7%

#2: MNSB's TBV per share is unchanged YTD 2022 largely due to share buybacks (-2.2% share count YR/YR). Excluding AOCI marks, TBV growth is +6.4%.

Source: Janney Research (FIG Group), S&P Capital IQ — Read [Janney's Industry Analysis On AOCI marks anticipated in 3Q-2022](#)

MNSB's Debt-to-Total Funding (Deposits + Debt) Quarterly Ratios 2016 to 2022



It is important to track the real change to MNSB's tangible common equity (TCE) and tangible book value (TBV) per share.

AOCI Securities impacted growth on 9/30 TBV. The mark-to-market for higher interest rates do not reflect credit risk (which is extremely low). These AOCI marks should reverse over time from maturities at par.

Separately, investors should recognize that MNSB's balance sheet uses very little debt as Deposits fund 97% of the company's Asset activity to generate revenue and EPS.

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

Our Fair Value Is \$31.25 Via P/E Below 10x Our 2023 Estimate

Janney Research Rating: "BUY"

Fair Value: \$31.25

	2023	Multiple	Price
GAAP EPS	\$3.25	9.6x	\$31.05
Dividends	\$0.20	1.0x	\$0.20
Excess TCE	<u>\$3.79</u>	<u>0.00x</u>	<u>\$0.00</u>
		Combined	\$31.25

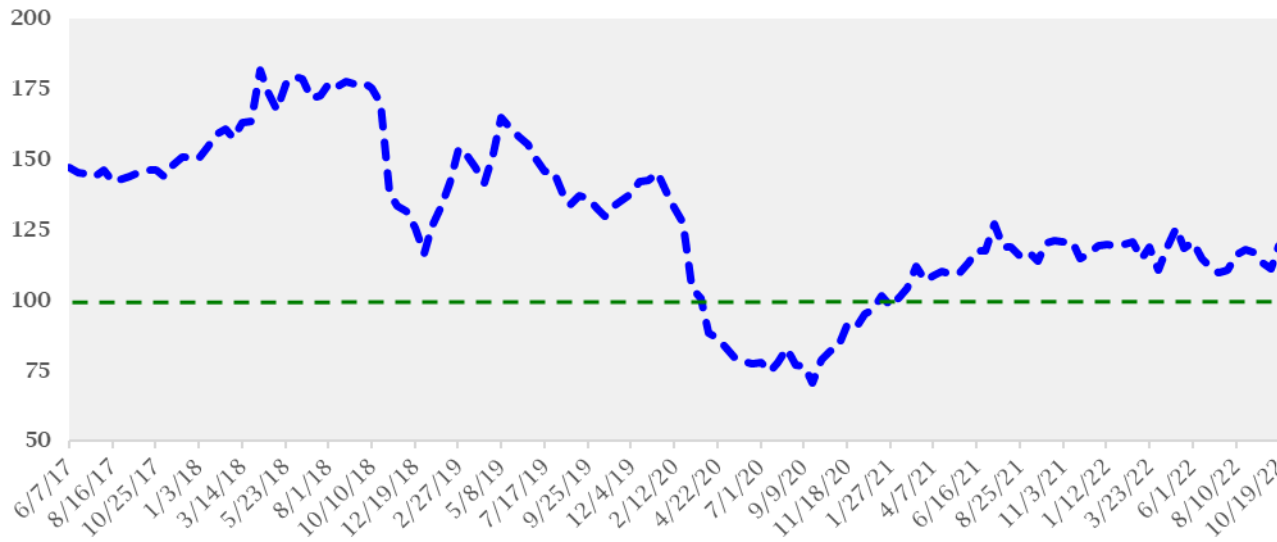
Tangible Book 12/23	\$24.28	1.29x	\$31.25
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Implied Gain/Loss versus Current Price: **24%**

<u>Alternative</u>			
2023 PPNR	\$4.82	7.0x	\$33.70
Cash Dividends	\$0.20	1.0x	\$0.20
Excess TCE	\$3.79	0.0x	<u>\$0.00</u>
			\$33.90
Discount Rate 10% Pro Rata July-23			0.92
Tangible Book 12/23	\$24.28	1.40x	\$31.25

Source: Janney Research (FIG Group) & Forward Estimates

MNSB: Price-to-Tang. Book (TBV) Ratio History: 2017 to 2022



Source: Janney Research, S&P Capital IQ pricing at 14-day intervals

Key Points To Remember:

- MNSB is able to drive new Deposits to fund Loan growth and its use of Debt and wholesale is limited. Deposit Betas may rise.
- Tangible book (TBV) is growing with less AOCI risk than peers.
- Metro Washington DC is "recession resistant" which is critical for investors to track and why MNSB's valuation can rise further.

	2Q22	3Q22	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E
Avg FF Change	58	141	147	67	0	0	0
EA Yield	460	501	550	575	575	575	575
Loan Yield	502	556	614	641	641	641	641
Deposit Costs	50	77	124	151	153	154	155
EA Beta	na	29%	34%	37%	30%	35%	35%
Loan Beta	na	38%	40%	40%	40%	40%	40%
Deposit Beta	na	19%	32%	40%	40%	40%	40%
NIM Gain		<u>14</u>	<u>2</u>	<u>(2)</u>	<u>(2)</u>	<u>(1)</u>	<u>(1)</u>

Deposit Pricing Outlook

	Today	Dec-22	Dec-23
Market Cap.	\$186.7	\$232.3	\$253.4
TCE in \$\$	\$155.5	\$161.7	\$184.5
Total Deposits	\$1,553.9	\$1,569.5	\$1,665.7
Core Deposits	\$968.1	\$977.8	\$1,037.8
Premium - Total	2.0%	4.5%	4.1%
Premium - CORE	3.2%	7.2%	6.6%

Factors our earnings and balance sheet projections through
December 2023

This table outlines how NIM-Net Interest Margin develops quarter-to-quarter within our conservative outlook for Deposit costs and Asset yields. Both may differ and lead to a stronger NIM.

Earnings Model

				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>1Q22</u>	<u>2Q22</u>	<u>3Q22</u>	<u>4Q22E</u>	<u>1Q23E</u>	<u>2Q23E</u>	<u>3Q23E</u>	<u>4Q23E</u>
Income Data: (\$ Mil.)															
Net Interest Income	\$53.54	\$67.72	\$74.67	\$13.48	\$12.99	\$13.20	\$13.87	\$15.20	\$16.12	\$18.10	\$18.31	\$18.09	\$18.50	\$18.96	\$19.11
Loan Loss Provision	(\$1.18)	\$1.72	\$2.19	\$0.32	(\$2.08)	\$0.29	\$0.30	\$0.80	\$0.48	\$0.00	\$0.44	\$0.44	\$0.59	\$0.59	\$0.56
Non-Interest Income	\$5.62	\$5.50	\$6.48	\$1.10	\$1.43	\$1.89	\$1.21	\$1.12	\$1.26	\$1.56	\$1.57	\$1.58	\$1.61	\$1.64	\$1.65
Gain/Loss on Loan Sales	\$0.49	(\$0.17)	\$0.00	\$0.34	\$0.13	(\$0.40)	\$0.41	\$0.04	\$0.00	(\$0.21)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
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	\$38.69	\$44.98	\$7.81	\$7.87	\$8.46	\$8.72	\$8.96	\$9.49	\$9.89	\$10.34	\$10.75	\$11.05	\$11.41	\$11.77
Pre-Tax Income	\$27.96	\$32.65	\$33.98	\$6.79	\$8.75	\$5.94	\$6.47	\$6.60	\$7.41	\$9.55	\$9.10	\$8.47	\$8.47	\$8.60	\$8.43
Taxes (w/ FTE adj.)	\$5.78	\$6.46	\$7.48	\$1.34	\$1.63	\$1.16	\$1.66	\$1.17	\$1.48	\$1.81	\$2.00	\$1.86	\$1.86	\$1.89	\$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	\$26.19	\$26.50	\$5.45	\$7.13	\$4.78	\$4.81	\$5.42	\$5.93	\$7.74	\$7.10	\$6.61	\$6.61	\$6.71	\$6.58
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	\$24.04	\$24.35	\$4.91	\$6.59	\$4.24	\$4.28	\$4.88	\$5.39	\$7.20	\$6.56	\$6.07	\$6.07	\$6.17	\$6.04
Avg. Shares O/S	7.6	7.5	7.5	7.5	7.5	7.6	7.6	7.6	7.6	7.5	7.5	7.5	7.5	7.5	7.5
Earnings Per Share (EPS)	\$2.65	\$3.19	\$3.25	\$0.65	\$0.87	\$0.56	\$0.56	\$0.64	\$0.71	\$0.97	\$0.88	\$0.81	\$0.81	\$0.82	\$0.80
Per Share Data:															
Reported Book Value	\$21.27	\$22.72	\$25.65	\$19.26	\$20.18	\$20.64	\$21.27	\$21.12	\$21.41	\$21.92	\$22.72	\$23.45	\$24.19	\$24.93	\$25.65
Tangible Book Value	\$20.94	\$21.34	\$24.28	\$19.26	\$20.18	\$20.49	\$20.94	\$20.61	\$20.75	\$20.94	\$21.34	\$22.08	\$22.81	\$23.56	\$24.28
Dividends	\$0.00	\$0.20	\$0.20	\$0.00	\$0.00	\$0.00	\$0.00	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Pre-Tax, Pre-Provision EPS	\$3.54	\$4.56	\$4.82	\$0.94	\$0.88	\$0.82	\$0.89	\$0.97	\$1.04	\$1.28	\$1.28	\$1.19	\$1.21	\$1.23	\$1.20
CORE GAAP EPS	\$2.65	\$3.19	\$3.25	\$0.65	\$0.87	\$0.56	\$0.56	\$0.64	\$0.71	\$0.97	\$0.88	\$0.81	\$0.81	\$0.82	\$0.80
KEY Ratios:															
Net Interest Margin	3.30%	4.02%	4.10%	3.41%	3.18%	3.29%	3.33%	3.91%	3.93%	4.12%	4.14%	4.12%	4.10%	4.09%	4.08%
CORE Return on Avg Assets	1.32%	1.50%	1.42%	1.32%	1.67%	1.13%	1.14%	1.32%	1.39%	1.70%	1.55%	1.46%	1.42%	1.41%	1.37%
Return on Avg Equity	13.20%	14.72%	13.50%	13.69%	17.76%	10.93%	10.72%	12.03%	13.34%	17.66%	15.82%	14.13%	13.67%	13.48%	12.78%
Pre-Tax Pre-Provision ROA	1.59%	1.97%	1.93%	1.70%	1.56%	1.48%	1.62%	1.78%	1.84%	2.12%	2.10%	1.94%	1.95%	1.95%	1.89%
Efficiency Ratio	55.1%	53.0%	55.4%	52.3%	54.1%	57.6%	56.3%	54.8%	54.6%	50.9%	52.0%	54.7%	55.0%	55.4%	56.7%
Overhead Ratio	1.95%	2.21%	2.41%	1.87%	1.84%	2.01%	2.08%	2.16%	2.22%	2.20%	2.28%	2.34%	2.38%	2.42%	2.48%
TCE Ratio	9.7%	8.7%	9.4%	8.3%	8.9%	9.4%	9.7%	9.0%	8.7%	8.4%	8.7%	8.9%	9.0%	9.2%	9.4%
Period-End Balances: (\$ Mil.)															
Earning Assets	\$1,610	\$1,765	\$1,867	\$1,706	\$1,665	\$1,620	\$1,610	\$1,711	\$1,697	\$1,749	\$1,765	\$1,789	\$1,821	\$1,850	\$1,867
Total Assets	\$1,647	\$1,874	\$1,960	\$1,743	\$1,708	\$1,657	\$1,647	\$1,762	\$1,793	\$1,860	\$1,874	\$1,894	\$1,921	\$1,946	\$1,960
Net Loans	\$1,342	\$1,463	\$1,557	\$1,299	\$1,256	\$1,246	\$1,342	\$1,413	\$1,417	\$1,448	\$1,463	\$1,484	\$1,514	\$1,541	\$1,557
Total Deposits	\$1,412	\$1,569	\$1,666	\$1,538	\$1,465	\$1,414	\$1,412	\$1,435	\$1,500	\$1,554	\$1,569	\$1,585	\$1,617	\$1,646	\$1,666
Intangibles	\$2	\$7	\$7	\$0	\$0	\$1	\$2	\$4	\$5	\$7	\$7	\$7	\$7	\$7	\$7
Total Common Equity	\$162	\$169	\$192	\$145	\$152	\$157	\$162	\$162	\$161	\$163	\$169	\$175	\$180	\$186	\$192

Source: Janney Research (FIG Group), S&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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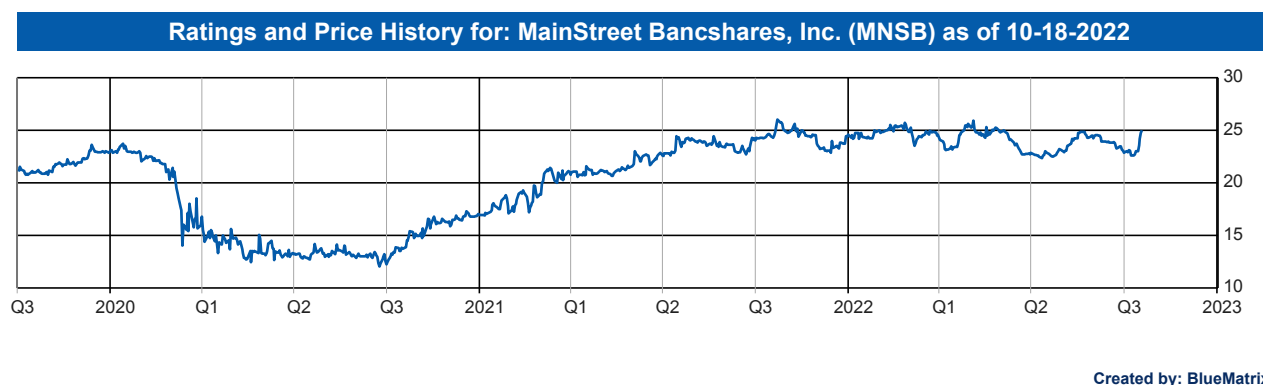
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BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

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 09/30/2022

IB Serv./Past 12 Mos.*

Rating	Count	Percent	Count	Percent
BUY [B]	121	55.50	24	19.83
NEUTRAL [N]	88	40.37	6	6.82
SELL [S]	0	0.00	0	0.00
EXTENDED REVIEW [EXTRE]	9	4.13	2	22.22

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

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