

Banks & Thrifts

Price:	\$13.25
Fair Value Estimate:	\$20.00
52-Week Range:	\$12.31 - \$24.60
Market Cap (MM):	\$110
Shr.O/S-Diluted (mm):	8.3
Average Daily Volume:	17,443
Dividend:	\$0.00
Yield:	0.0%
Tang Book Value:	\$16.98
Tang Comn Equity Ratio:	0.1%
Price/Tangible Book:	0.78x

FYE: Dec	2019A	2020E	2021E
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Quarterly EPS - GAAP:

Q1	\$0.39A	\$0.42A	\$0.43E
Q2	\$0.42A	\$(0.08)A	\$0.45E
Q3	\$0.45A	\$0.43E	\$0.47E
Q4	\$0.43A	\$0.44E	\$0.49E
Year:	\$1.69A	\$1.72E	\$1.85E



July 30, 2020

MainStreet Bancshares, Inc. (MNSB) - BUY

Modest Loss On Higher Provision: Capital Strong, Improved Deposits, TBV Growth Resumes 3Q20.

PORTFOLIO MANAGER BRIEF

- 2Q20 EPS: Reported -\$0.08 / Core -\$0.08 / Janney Estimate \$0.42. Our forward EPS model is \$0.43 to \$0.44 the next two quarters with \$1.65 in 2021 (-\$0.20) due to lower NIM.
- Pre-Tax Pre-Provision Earnings rose 2.5% to \$4.7M, but slightly missed our core estimate by 1.5%(excluding PPP fee recognition which should be later than we projected). Management still expects \$5.8M in PPP fees to offset the cumulative credit costs.
- Tangible Book Value (TBV) per share fell two pennies to \$16.96 L-Q quarter and the CET-1 regulatory capital ratio stays strong at 12.2%.
- Reserve build was 39% linked quarter in dollar terms to 1.25% of Loans ex-PPP at 6/30 versus 0.93% at 3/31. See additional color regarding MNSB's Loan Deferrals in this report.
- Spread Income rose 4% to \$10.7M with 21bps drop in NIM-Net Interest Margin. Average Loans grew 14.6%, including \$172M in PPP Loans, while Average Deposits expanded 18.8%. DDA ratio improved to 29% (from 23%).
- MNSB trades at 78% of Tangible Book Value. Reiterate BUY rating with \$20.00 Fair Value.

ANALYST NOTES

Overall MNSB missed our estimates on lower PPP revenue recognition during the quarter and a higher Provision, but Management expects even more PPP Revenues of \$5.8M in future quarters to offset the \$5.6M Provision in 2Q. We remain upbeat on the MNSB story after speaking with Management since provision build should be far less as Deferrals decline (i.e., \$94M 2nd round deferrals down from \$288M peak level) and a large net charge-off of a C&I credit already occurred. We highly doubt our \$19M stressed losses are realized and MNSB's \$10M Reserve build in 2020 and 2021 is sufficient.

Therefore, tangible book (TBV) should improve and rise each quarter from 3Q-2020 through year-end 2021. This supports a recovery in the stock price back above 100% P-to-TBV ratio. See supporting analysis in this report.

MNSB-Main Street Bancshares (VA)

Janney Research (FIG Group) - EPS Model

	PPP Loans											
	Actual	Actual	Actual	Actual	JMS Est.	JMS Est.	JMS Est.	JMS Est.	JMS Est.	JMS Est.	JMS Est.	JMS Est.
	4Q-2019	FY 2019	1Q-2020	2Q-2020	3Q-2020	4Q-2020	FY 2020	1Q-2021	2Q-2021	3Q-2021	4Q-2021	FY 2021
Earning Assets - PE	1,248,113	1,248,113	1,293,083	1,488,490	1,488,490	1,476,490	1,476,490	1,411,490	1,433,740	1,453,740	1,470,740	1,470,740
Avg. Earning Assets	1,169,520	1,139,470	1,268,891	1,412,600	1,485,990	1,482,190	1,412,418	1,434,990	1,415,390	1,441,740	1,457,140	1,437,315
NIM-Net Interest Margin	3.49%	3.49%	3.25%	3.04%	3.05%	3.40%	3.19%	3.40%	3.18%	3.17%	3.18%	3.23%
NII-Net Interest Income	10,207.0	39,436.0	10,300.0	10,726.0	11,423.8	12,702.2	45,152.0	12,030.3	11,221.5	11,519.7	11,679.5	46,451.0
Loan Loss Provision	358.0	1,618.0	350.0	5,575.0	750.0	1,360.0	8,035.0	500.0	445.0	400.0	340.0	1,685.0
Fee Income	1,158.0	4,861.0	1,414.0	1,318.0	1,400.0	1,435.0	5,567.0	1,465.0	1,575.0	1,650.0	1,700.0	6,390.0
Gains & One-Time Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Interest Expense	6,703.0	25,377.0	7,143.0	7,360.0	7,425.0	7,800.0	29,728.0	7,900.0	8,100.0	8,225.0	8,350.0	32,575.0
One-Time Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRE-TAX INCOME	4,304.0	17,302.0	4,221.0	(891.0)	4,648.8	4,977.2	12,956.0	5,095.3	4,251.5	4,544.7	4,689.5	18,581.0
Taxes	742.0	3,353.0	751.0	(257.0)	1,208.7	1,294.1	2,996.8	1,324.8	1,105.4	1,181.6	1,219.3	4,831.1
Net Income	3,562.0	13,949.0	3,470.0	(634.0)	3,440.1	3,683.1	9,959.2	3,770.5	3,146.1	3,363.1	3,470.2	13,750.0
Shares O/S (avg.)	8,260.3	8,260.3	8,287.3	8,263.4	8,278.4	8,293.4	8,293.4	8,308.4	8,323.4	8,338.4	8,353.4	8,353.4
EPS	\$0.43	\$1.69	\$0.42	(\$0.08)	\$0.42	\$0.44	\$1.20	\$0.45	\$0.38	\$0.40	\$0.42	\$1.65
Tangible Book Per Share	\$16.59	\$16.59	\$16.98	\$16.96	\$17.31	\$17.73	\$17.73	\$18.17	\$18.52	\$18.90	\$19.30	\$19.30
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
ROA	1.15%	1.19%	1.05%	-0.17%	0.89%	0.96%	0.68%	1.03%	0.89%	0.92%	0.94%	0.95%
TCE	10.7%	10.7%	10.6%	9.2%	9.4%	9.7%	9.7%	10.7%	10.8%	10.8%	10.9%	10.9%
Total Assets - PE	1,277,989	1,277,989	1,329,742	1,528,867	1,528,867	1,516,867	1,516,867	1,411,490	1,433,740	1,453,740	1,470,740	1,470,740
Avg. Assets	1,224,771	1,172,707	1,328,253	1,482,341	1,528,867	1,522,867	1,465,582	1,464,179	1,422,615	1,443,740	1,462,240	1,448,193
Total Deposits	1,059,293	1,059,293	1,143,211	1,342,332	1,342,332	1,330,332	1,330,332	1,411,490	1,433,740	1,453,740	1,470,740	1,470,740
Tangible Common EQ	137,034	137,034	140,295	140,170	143,610	147,293	147,293	151,064	154,210	157,573	161,043	161,043
Intangibles	0	0	0	0	0	0	0	0	0	0	0	0
Shares O/S (PE)	8,260	8,260	8,260	8,263	8,273	8,283	8,283	8,293	8,303	8,313	8,323	8,323
Fees-to-Revenues	10.2%	11.0%	12.1%	10.9%	10.9%	10.2%	11.0%	10.9%	12.3%	12.5%	12.7%	12.1%
Expenses-to-Revenues	59.0%	57.3%	61.0%	61.1%	57.9%	55.2%	58.6%	58.5%	63.3%	62.5%	62.4%	61.6%
Expenses-to-Avg. Assets	2.20%	2.16%	2.16%	1.99%	1.95%	2.05%	2.03%	2.16%	2.28%	2.29%	2.29%	2.25%
TCE Ratio	10.72%	10.72%	10.55%	9.17%	9.39%	9.71%	9.71%	10.70%	10.76%	10.84%	10.95%	10.95%
L-Q Growth: Earning Assets	41,248	165,649	44,970	240,377	0	(12,000)	273,347	(65,000)	22,250	20,000	17,000	(5,750)
		15.3%	JMS input	JMS input	JMS input	JMS input	18.3%	JMS input	JMS input	JMS input	JMS input	-0.4%
% Change In TBV/Per Share		11.9%					6.9%					8.8%

Expect Modest Tangible Book (TBV) Premium - Our Fair Value Outlook Is \$20.00, Superb Upside For Patient Investors

Janney Rating: "BUY"

Fair Value: \$20.00

	2020	Multiple	Price
GAAP EPS	\$1.20	16.6x	\$20.00
Dividends	\$0.00	1.0x	\$0.00
Excess TCE	<u>\$0.00</u>	<u>na</u>	<u>\$0.00</u>
		Combined	\$20.00
Tangible Book 12/20	\$17.73	1.14x	\$20.00

Implied Gain/Loss versus Current Price: **51.0%**

<u>Calendar 2021</u>			
2021 EPS	\$1.65	12.1x	\$20.00
Cash Dividends	\$0.00	1.0x	\$0.00
Excess TCE	\$0.00	0.0x	<u>\$0.00</u>
			\$20.00
Tangible Book 12/21	\$19.30	1.04x	\$20.00

Source: Janney Research (FIG Group) & Forward Estimates

Our Peer Group Analysis Underscores The Inexpensive Status For MNSB Shares

Company Name		Rating	Market Cap. (\$M)	Yield (%)	Total Assets (\$000)	DDA %	Cost of Deposits	TCE Ratio	Price-to-T.Book
					MRQ	MRQ	MRQ	MRQ	7/30/20
Peer Analysis:									
MNSB	MainStreet Bcshs	Buy	\$107	na	\$1,528,867	29	1.25	9.2	78
AUB	Atlantic Union Bks	Not Rated	\$1,858	4.24	\$19,752,317	28	0.53	7.7	127
BAYK	Bay Bks of VA	Buy	\$79	0.00	\$1,183,553	14	1.23	9.9	68
CBNK	Capital Bncp Inc	Not Rated	\$152	na	\$1,822,365	35	0.84	7.8	107
DBCP	Delmar Bncp	Not Rated	\$108	1.66	\$1,262,443	26	1.02	9.6	89
ESXB	Cmty Bnk Trst Corp	Neutral	\$116	3.85	\$1,453,540	15	1.14	10.7	75
FBSS	Fauquier Bkshs Inc	Not Rated	\$54	3.53	\$727,494	20	0.48	9.5	78
FDVA	FreedomBnk of Va	Not Rated	\$52	na	\$536,290	21	1.41	12.2	79
FUNC	First United Corp	Not Rated	\$79	4.58	\$1,461,513	26	0.66	7.4	74
FVCB	FVCBankcorp Inc	Buy	\$136	na	\$1,781,149	29	NA	9.7	79
FXNC	First Natl Corp	Not Rated	\$66	3.24	\$942,090	30	0.35	8.6	82
HBMD	Howard Bncp Inc	Not Rated	\$181	na	\$2,463,450	37	0.51	10.1	74
JMSB	John Marshall Bncp	Not Rated	\$136	na	\$1,802,573	26	1.01	9.8	84
OPOF	Old Point Finl	Not Rated	\$83	3.02	\$1,221,245	34	0.48	9.3	73
SASR	Sandy Spring Bncp	Not Rated	\$1,111	5.08	\$13,290,447	34	0.51	7.6	115
SHBI	Shore Bcshs Inc	Not Rated	\$123	4.91	\$1,719,524	29	0.44	10.6	68
SONA	Southern National	Buy	\$207	4.69	\$3,072,171	21	0.94	9.2	76
TOWN	TowneBank	Not Rated	\$1,308	3.95	\$15,580,258	38	0.58	8.0	109
UBSI	United Bkshs Inc	Not Rated	\$3,638	4.99	\$26,234,973	64	NA	10.9	153
WSBC	WesBanco Inc	Not Rated	\$1,389	6.20	\$16,755,395	33	0.20	9.0	98
Source: Janney Research (FIG Group), S&P Global MI						Median	29	0.58	9.5

MNSB's Loan Deferral Disclosures

Phase 1 of Loan Deferment Program		
Loan Type	Total Deferred (000's)	Percentage of Total Loans
Commercial Real Estate	\$165,920	13.0%
Owner-Occupied Commercial Real Estate	55,232	4.3%
C&I	20,152	1.6%
Other Const & Land	15,465	1.2%
Closed-end 1st Lien	14,215	1.1%
1-4 Fam Construction	10,880	0.9%
Multifamily	2,610	0.2%
Closed-end Jr Lien	1,075	0.1%
Revolving Secured by 1-4 Fam	1,050	0.1%
Total	\$286,599	22.5%

Phase 2 Estimated Loan Deferments								
Loan Type	Deferred Amount by Month (000's)						Total Deferred	Number of Borrowers
	1	2	3	4	5	6		
Other Const & Land			\$6,732		\$164	\$9,665	\$16,562	4
Closed-end 1st Lien		943	2,165				3,109	2
Multifamily			1,564				1,564	2
Owner-Occupied Com'l CRE	1,982	1,221	3,665		2,844		9,713	12
Commercial Real Estate		8,092	3,496	7,029		41,875	60,491	12
- Hotels		8,092		7,029		38,350		9
- Office			155					1
- Retail-Commercial						3,525		1
- Shopping Center			3,341					1
Commercial & Industrial	202	128	1,367	591	245		2,533	9
Other Consumer		64					64	1
Total	\$2,184	\$10,448	\$18,990	\$7,619	\$3,253	\$51,540	\$94,035	42

Source: MNSB's SEC 8-K filing with [7-29-20 press release](#)

Stressed Loss Scenario For COVID-19 Credit Risk And General Economic Recession On MNSB's Loan Portfolio

	Balance	Loss Estimate	% Loss	Total Default %	Combined Loss %
C&I: Commercial & Industrial	120,900	7,556	6.3%	14%	45%
C&I: Unused Commitments	25,154	629	2.5%	8%	30%
ADC: Construction	272,620	4,021	1.5%	8%	20%
CRE: Owner-Occupied	134,116	2,307	1.7%	9%	20%
CRE: Other, Non Own.Occ.	287,754	7,220	2.5%	12%	21%
Multifamily	6,512	98	1.5%	8%	20%
HELOC	21,637	662	3.1%	13%	24%
Residential MTG 1st Lien	118,578	1,939	1.6%	10%	17%
Residential MTG 2nd Lien	3,320	89	2.7%	14%	20%
Credit Cards	0	0	na	19%	na
Other Revolving	887	106	11.9%	19%	62%
Other Consumer	281	31	11.2%	19%	58%
Auto	74,740	4,727	6.3%	18%	36%
TOTALS	1,066,499	29,385	2.8%	11%	26%

We created a "stressed loss scenario" for possible provision expense and pro forma capital ratios due to the COVID-19 medical crisis. This impacts all Banks like MNSB. These 3 scenarios were factored:

- *Highly Probable To Repay*
- *Probable Repayment*
- *Likely Defaults*

We estimate Default and Loss rates for each Loan type which leads to 2.8% write-offs and \$19.5M in possible provisions.

If MNSB records all Reserve build with PPNR (pre-tax, pre-provision net revenue), its CET-1 capital ratio (most important to Bank regulators) rises to 13.2% from 12.7%. Stressed losses leads to tangible book value near \$17.50 or \$0.50 ahead of 3-31-20.

Loan Loss Reserves	9,898	3/31 Reserve
CECL @ 3/31	0	
Possible Provisions	19,487	

MNSB Capital Ratio Post Stressed Losses

PPNR Next 4 Qtrs	26,951
Risk-Weighted Assets (RWA)	1,169,697
Common EQ-Tier 1 (CET-1)	148,308
Dividends Next 4 Qtrs	0
Possible Provisions	19,487
New Assets In 2020 (RWA)	25,154
PF CET-1 Dec. 2020	155,772
PF Risk-Wtd. Assets (RWA)	1,175,364

Janney estimates 2Q20 to 1Q21

Stressed Loss Scenario

12.68% 12/31/2019 CET-1 Ratio

PF TCE	PF TBV
\$145,967	\$17.49

Adds C&I Unused Commitments @ 50% draw

13.25% PF Spring 2021 CET-1 Ratio

Notes: CECL is not required in the current year; RWA reduced by Possible Provisions

Source: Janney Research estimates, S&P MI, Bloomberg LP, FDIC Call/Fed Y-9 filings at 12-31-19

Fundamental Trends We Observed In 2Q-2020 EPS

MNSB (Fairfax, VA--\$110 Mil. Mkt. Cap, \$1.3 Bil. Assets, \$13.58, 0% Yld)

	1Q-2020	Δ	2Q-2020
EPS	\$0.42	-	-\$0.08
Operating/Core EPS*	\$0.42	-	-\$0.08
Janney Estimate	\$0.44	-	\$0.42

Net Interest Income	10.3	4.1%	10.7
Loan Loss Provision	0.4	1,492.9%	5.6
Core Non-Interest Income (ex. sec.)	1.4	(6.8%)	1.3
Core Non-Interest Expense	7.1	3.0%	7.4
Net Charge-Offs	0.0	nm	1.7
NCOs % of Avg Loans (bps)	1	56bps	57

Tangible Book Per Share	\$16.98	(0.1%)	\$16.96
Net Interest Margin	3.25%	(21)bps	3.04%
Gross Loans (\$Mil.)	1,072.1	19.4%	1,280.5
TCE Ratio (TCE/TA)	10.55%	(138)bps	9.17%
NPAs-to-Loans (incl. TDRs)	0.12%	8bps	0.19%

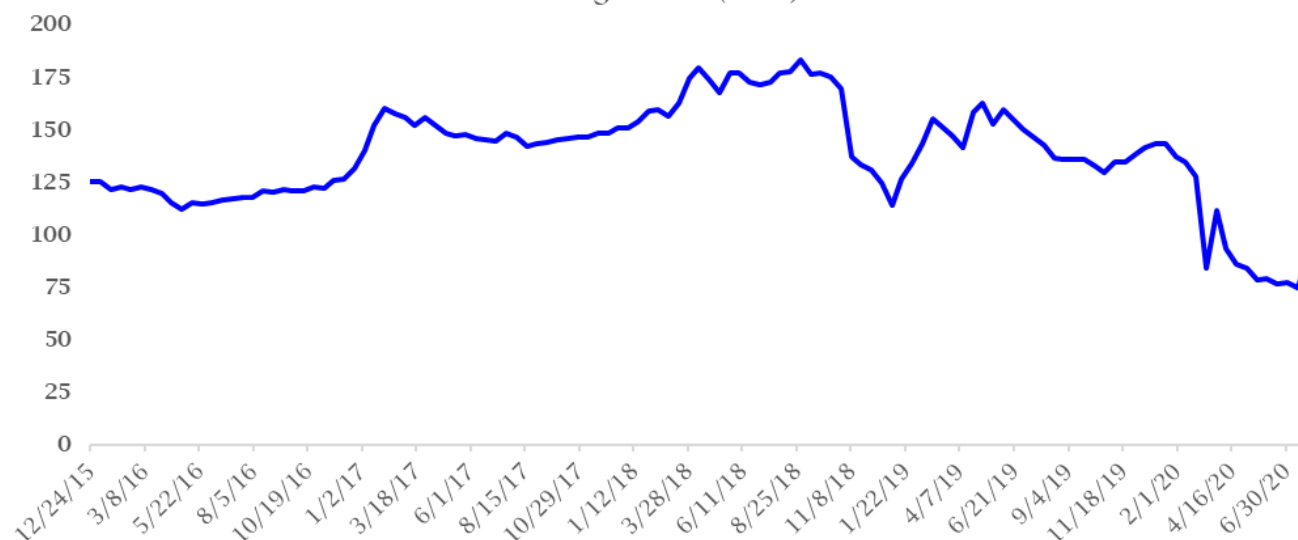
*Core EPS are fully-taxed and exclude various one-time items including securities gains.

Source: Janney Research, Company Disclosure

	1Q-2020	2Q-2020	
Total Deposits	1143.2	1342.3	17.4%
DDAs-to-Total	23.2%	29.1%	
Int. Bearing Dep Costs (PR)	203	167	(36)
Total Deposit Costs (calc)	155.8	118.3	(38)
DEPOSIT BETA		32%	
LOAN BETA		53%	
EARNING ASSET BETA		47%	

Valuation History Since Year-End 2015

MNSB's Price-to-Tang. Book (TBV) Ratio: 2015 to 2020



Source: Janney Research (FIG Group), S&P MI, pricing at 14-day intervals

Background & Risks

MNSB is an \$1.53 Billion Asset Community Bank with 7 branch locations in Fairfax and Arlington counties in Northern Virginia plus D.C in 2020.

Founded in 2004, the company enjoyed methodical expansion during the Financial Crisis and has accelerated its growth pace while boosting profits on both an absolute earnings per share and ROA/ROTCE basis. Economic activity in the Washington, DC MSA remains robust, especially across the Potomac River in Virginia within the Dulles Airport corridor where small businesses and wealthy consumers are plentiful, many of which desire the services provided by community Banks.

Capital has been leveraged in the past 17 quarters as the Loan portfolio has more than doubled while tangible book value per share is 40% higher. The core ROA-Return on Assets is near 1.0% with a rising Pre-Pre ROA. MNSB enjoys a diverse Loan mix of Commercial Loans, Real Estate, and Consumer which is more balanced than many other Community Bank peers. The company has also leveraged its expense base to a lower level than other institutions.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Christopher Marinac and Freddie Strickland, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

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

The research analyst is compensated based on, in part, Janney Montgomery Scott's and/or its affiliate, FIG's profitability, which includes its investment banking revenues.

MainStreet Bancshares, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC and/or its affiliate, FIG client. Janney Montgomery Scott LLC, and/or its affiliate, FIG provided investment banking related services.

Janney Montgomery Scott LLC and/or its affiliate, FIG intends to seek or expects to receive compensation for investment banking services from MainStreet Bancshares, Inc. in the next three months.

Janney Montgomery Scott LLC and/or its affiliate, FIG, currently acts as a market-maker in the securities of MainStreet Bancshares, Inc.

Janney Montgomery Scott LLC and/or its affiliate, FIG received compensation for investment banking services from MainStreet Bancshares, Inc. in the past 12 months.

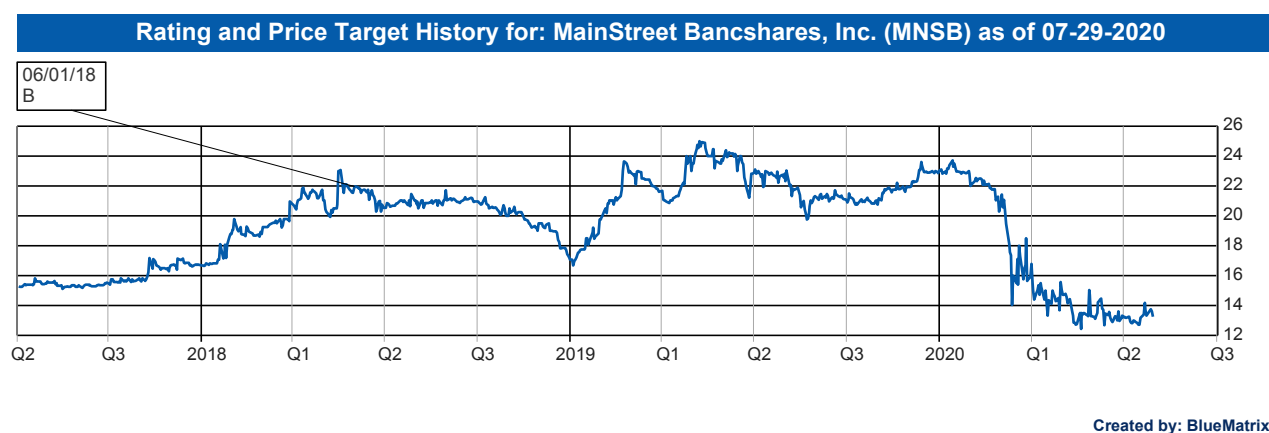
Definition of Ratings

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 06/30/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	116	46.40	26	22.41
NEUTRAL [N]	133	53.20	21	15.79

SELL [S]

1

0.40

0

0.00

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

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