02/05/2025

# Q424

## QUARTERLY ROUNDUP

(NASDAQ:IMKTA)

(NASDAQ:HIFS)

A MAIDEN FINANCIAL UPDATE

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# HINGHAM INSTITUTION FOR SAVINGS

## A Year of Deposit Growth and Improved Profitability

Hingham's business successfully stabilized and ended 2024 in firm recovery status, with core returns on equity (ROE ex gains on the sale of equity securities) improving by 142.9%, net spread by 211.8%, and net interest margin (NIM) by 39.3%. NIM improved by an additional 10 basis points in the final month of December, as Hingham continues to benefit from lower deposit costs and steadily improving lending conditions.

| HIFS 2024 Quarterly Tracker | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Quarter | Q4/2023 | Q1/2024 | QoQ Change | Q2/2024 | QoQ Change | Q3/2024 | QoQ Change | Q4/2024 | QoQ Change | YoY Change |
| CROAA | 0.17 | 0.2 | 17.65% | 0.2 | 0.00% | 0.29 | 45.00% | 0.43 | 48.28% | 152.94% |
| CROAE | 1.82 | 2.14 | 17.58% | 2.08 | -2.80% | 2.99 | 43.75% | 4.42 | 47.83% | 142.86% |
| Spread | 0.17 | 0.13 | -23.53% | 0.25 | 92.31% | 0.34 | 36.00% | 0.53 | 55.88% | 211.76% |
| NIM | 0.89 | 0.85 | -4.49% | 0.96 | 12.94% | 1.07 | 11.46% | 1.24 | 15.89% | 39.33% |
| Opex/Assets | 0.65 | 0.67 | 3.08% | 0.67 | 0.00% | 0.68 | 1.49% | 0.66 | -2.94% | 1.54% |
| Efficiency Ratio | 71.58 | 77.24 | 7.91% | 68.57 | -11.22% | 62.19 | -9.30% | 52.3 | -15.90% | -26.93% |
| Equity/Assets | 9.49 | 9.54 | 0.53% | 9.59 | 0.52% | 9.64 | 0.52% | 9.7 | 0.62% | 2.21% |
| IE-Assets | 4.4 | 4.43 | 0.68% | 4.56 | 2.93% | 4.62 | 1.32% | 4.6 | -0.43% | 4.55% |
| IB-Liabilities | 4.23 | 4.3 | 1.65% | 4.31 | 0.23% | 4.28 | -0.70% | 4.07 | -4.91% | -3.78% |
| Cash | 362.48 | 373.25 | 3.10% | 369.14 | -1.10% | 368.1 | -0.28% | 351.83 | -4.42% | -2.94% |
| FHLBB/FRB Available | 598.9 | 677.8 | 13.17% | 725.9 | 7.10% | 815.5 | 12.34% | 866.6 | 6.27% | 44.70% |
| Total Immediate Funds | 961.38 | 1,051.00 | 9.38% | 1,095.00 | 4.19% | 1,183.60 | 8.09% | 1,218.43 | 2.94% | 26.74% |
| Net Loans | 3,914.24 | 3,938.00 | 0.61% | 3,933.00 | -0.13% | 3,863.00 | -1.78% | 3,873.67 | 0.28% | -1.04% |
| Imm. Funds % of Loans | 24.56% | 26.69% | 8.71% | 27.84% | 4.32% | 30.64% | 10.05% | 31.45% | 2.66% | 28.05% |
| Retail/Business Deposits | 1,861.00 | 1,893.00 | 1.72% | 1,921.00 | 1.48% | 1,977.00 | 2.92% | 1,997.00 | 1.01% | 7.31% |
| N-IB Deposits | 339.10 | 347.40 | 2.45% | 343.30 | 4.28% | 358.00 | 4.28% | 397.50 | 11.03% | 17.22% |
| NPLs/Total Assets | 0.03 | 0.03 | 0.00% | 0.04 | 33.33% | 0.04 | 0.00% | 0.03 | -25.00% | 0.00% |
| Tang. Book Value/Share | 188.5 | 190 | 5.75% | 191 | 0.67% | 193 | 1.09% | 198.03 | 2.38% | 5.06% |
| Total Deposits | 2,350 | 2,393 | 1.83% | 2,418 | 1.06% | 2,461 | 1.77% | 2,492.00 | 1.26% | 6.04% |
| Core Diluted EPS | 2.89 | 1.01 | 17.44% | 1 | -0.99% | 1.44 | 44.00% | 2.16 | 50.00% | -25.26% |

Although net loans fell by –1.04% compared to the fourth quarter of 2023, Hingham's resilience improved significantly, with immediately accessible funds from the Federal Home Loan Bank of Boston (FHLBB) and the Federal Reserve Bank (FRB) increasing by 44.7%.

Including cash on hand, total immediately accessible funds improved by 26.7%, which was equal in value to 31.5% of the company's net loan book at year-end. Given Hingham's heightened liability-sensitivity, central bank advances are a critical tool for NIM stabilization during periods when the yield curve inverts.

Indeed, FHLBB advances averaged 35% of funds between 2003 and 2007, when Hingham's returns on equity similarly fell below 10% and sales growth ground to a halt. As with the Great Financial Crisis, management has learned valuable lessons over the past two years, and is responding accordingly to increase the bank's ability to better weather rapid inversions of the yield curve.

A key change relates to management's investments in building out its deposit base, which has thus far proved successful. Total deposits grew 7.3% in 2024, and non-interest-bearing deposits grew 17.2%. This corresponded with a modest 1.54% increase in Hingham's opex/total assets compared to Q4 2023, which finished the year at a respectable 0.66%.

Increased salary, deposit, and data processing costs are likely culprits for Hingham's slight decrease in YoY efficiency. Nevertheless, Hingham still managed to improve opex/total assets by 1 basis point over fiscal 2023, which is remarkable considering Hingham's deposit growth. It appears that wherever Hingham's management orients their focus, they orient it with intent.

Another change relates to adjustment hurdles. Reportedly, management has reduced the adjustment legs of its fixed-adjustable mortgages (representing approximately 3/4ths of its loan book) from once every 5 years to once annually. Feedback from customers is so far positive, with the company's April 30th annual general meeting a likely source of further information. I expect to speak with COO Patrick Gaughen after Berkshire season this May, and will publish notes on our meeting.

Regarding Hingham's creditworthiness, the bank reported no commercial loan in a state non-performance at year-end, while its 0.03% non-performing loan balance was predictably related to its residential mortgage segment. I suspect that Hingham's exposure to residential mortgages will continue to moderate as its commercial mortgage portfolio scales, in light of their lower utility and recessionary performance.

On regional mortgage exposure, Hingham remains tilted towards D.C. and Massachusetts markets. However, management hired their first San Franciscan-based lender in the fourth quarter, as they continue to view the Bay Area as a choice gateway market for prospective multifamily lending.

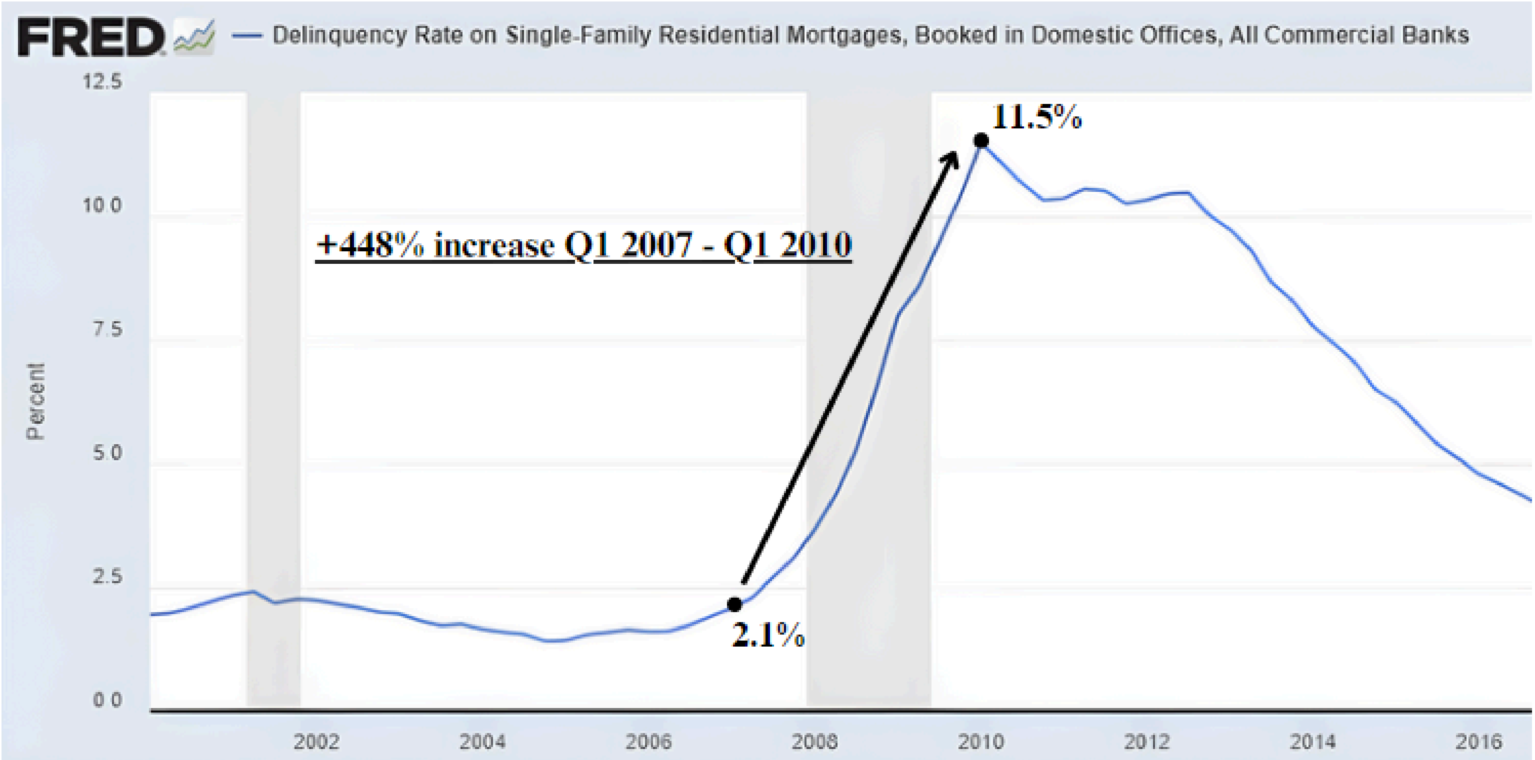
It bears repeating that over the past two years, despite having the second highest allocation to commercial loans relative to the S&P Regional Banking Index (KRE), that none of Hingham's commercial loans have entered a state of non-performance. At the same time, whilst enduring one of the longest and most protracted yield curve inversions in history, Hingham successfully leveraged their collateral value to stave off what would have been the bank's first-ever net loss.

Hingham's performance affirms management's claim that there is a false belief that the only way to run a conservative bank is to be deposit-seeking. Rather, holding a book of high-quality, creditworthy multifamily mortgages permits a bank to combine deposits, choice advances, and cash conservatism to run a lean, risk-averse bank that sports supernormal cross-cycle profitability and efficiency.

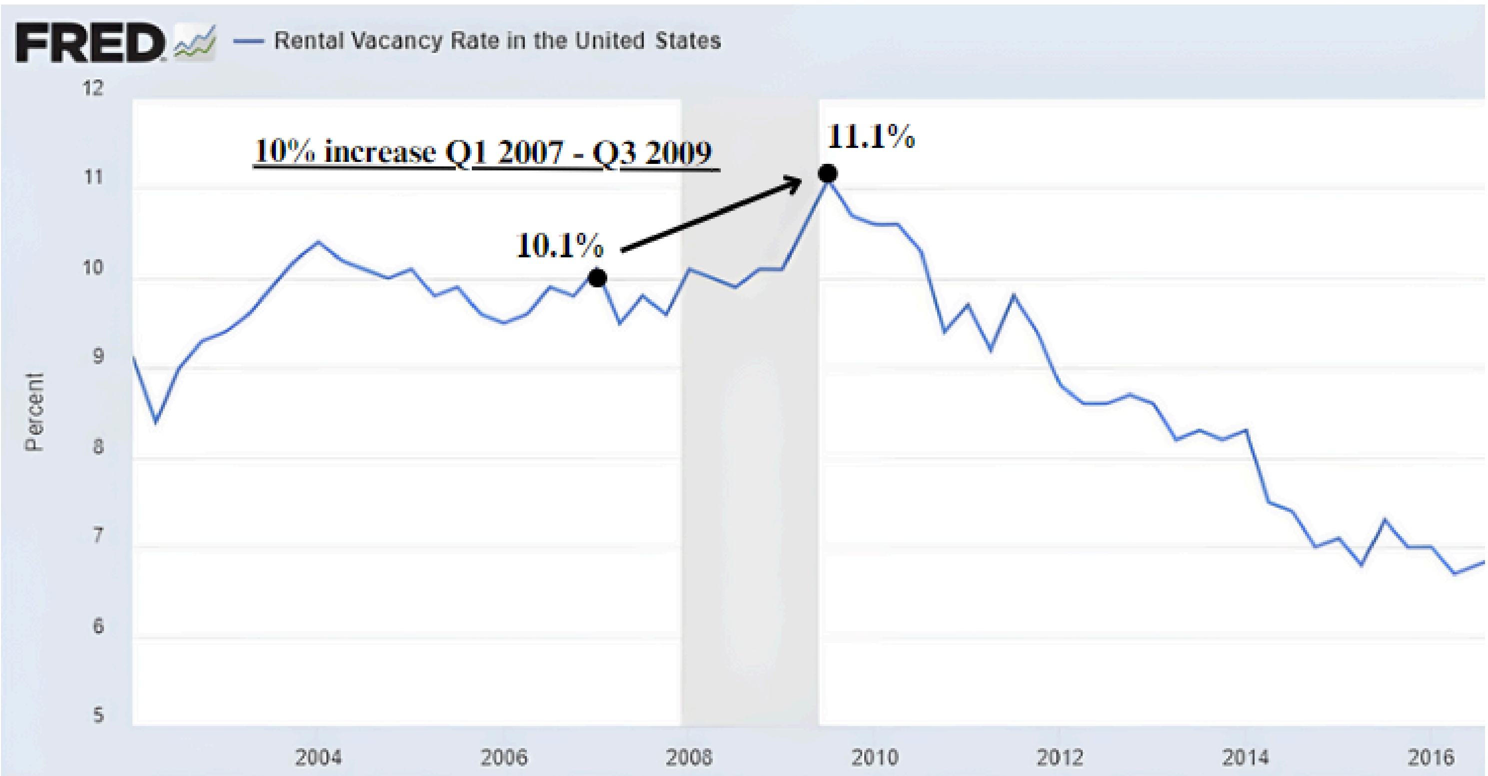
The cost of this specialization is subdued growth and profitability in late-cycle conditions; the gain is cross-cycle excellence.

Residential mortgages are perceived as a no-brainer offering to achieve growth, but they consistently underperform multifamily mortgages in recessionary periods.

**Single-Family Delinquency Rate Q1 2007 - Q1 2020**




**US National Rental Vacancy Rate Q1 2007 - Q3 2009**



Favoring multifamily mortgages is a choice to choose quality over quantity: to make larger dollar loans and to build deeper client relationships. For instance, at 2023 year-end, Hingham held over $50MM in office-to-apartment conversion mortgages with existing customers. Such is the impact of favoring a client demographic that have the means to provide repeat business.

It follows that a banker well-incentivized to manage a book of multifamily loans will also require less employees, and will naturally be more efficient. In fact, Hingham has less employees today than it did in 2009, despite the company's tangible book value being 602% higher. The proof is in the pudding.

Hingham's recovery will continue to be a primary focus for Maiden in 2025, with profitability, balance sheet strength, and efficiency key considerations. A hawkish Fed may hinder near-term recovery, but Hingham is better positioned for rate hikes than it was in 2022, and that position is likely to further embolden in 2025.

## Valuation Update

Based on Hingham's current price/tangible book of 1.28x, assuming 16% late-cycle ROE coupled with a 2x P/TB exit multiple implies a potential CAGR of 19.5% from current levels, without any consideration of dividends. An exit multiple of 2.2x P/TB could yield a prospective return of 21.5%.

This valuation exercise expects that a bank investor's return will, over time, equal the return generated on the equity they invest in. Hence, taking Hingham's lifetime ROE of 16% and dividing it by its present P/TB equates a 12.5% return, assuming no change in Hingham's P/TB multiple or cross-cycle profitability.

Yet, the market has historically valued Hingham above 2x P/TB during conditions where it generates supernormal business returns and profitability, both internally and relative to the KRE. Therefore, an exit multiple based on 90% historical profitability and P/TB may result in outperformance over popular benchmarks or a buy-and-hold strategy.

# INGLES MARKETS

**Asset Value Growth and Increased Leasing Margin Contribution**

Even with the impact of Hurricane Helene on the company's operating results, Ingles performed above expectations in 2024.

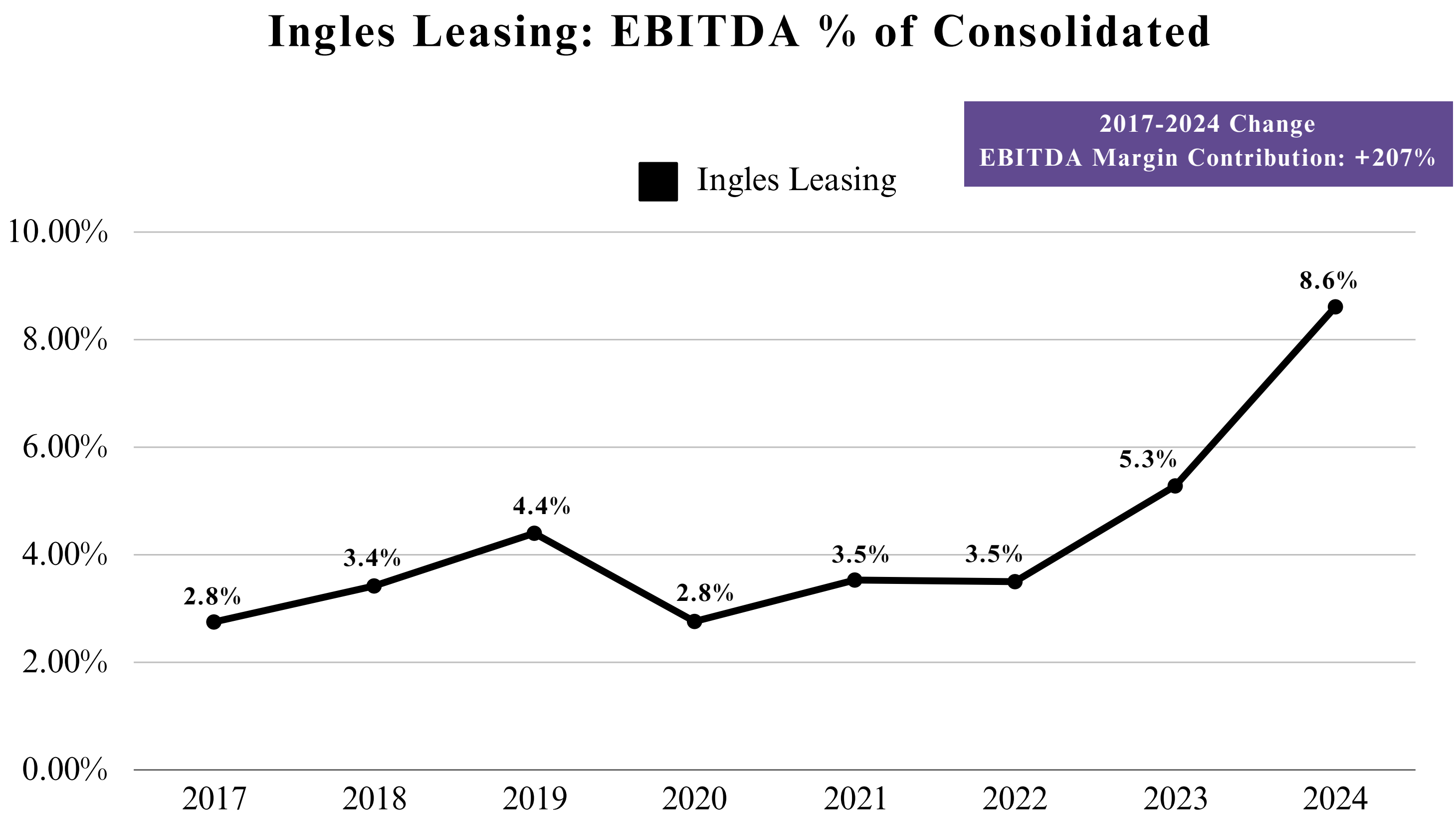
As stated in my report, my primary consideration is the continued expansion of Ingles' value through the reallocation of capital into real estate acquisitions and Ingles Leasing. Throughout the year, management acquired 16 new properties, which marked 1 additional property acquired over the total acquired in 2023. Of the 16 properties, 8 are parcels, and 8 are shopping centers that include an Ingles supermarket.

The acquisitions coincided with a $25.15MM improvement in Ingles' cash position, and a -$17.53MM reduction in debt. Adding $124MM in reported gross change in land and buildings for the year, and it may be said that Ingles improved its "quality asset value" by $168.7MM in 2024. The asset growth is equal to 13.3% of Ingles' current $1.27bn market capitalization, and 11.3% of its enterprise value.

Only one pharmacy was added in 2024, while fuel stations were flat, marking the total operated at 115 and 108, respectively. Management's preference for shopping center acquisitions, paired with low increased supermarket utility, corroborates report findings that management's focus has shifted in favor of growing its shopping center leasing business, while simultaneously reducing rental costs for its legacy supermarket business.

Indeed, while 2024 consolidated sales fell –4.3% to $5.64bn, and EBITDA by –32.4% to $277.87MM, decline contribution varied by segment. Especially hard-hit was Ingles' supermarket segment, which reported EBITDA of $170.8MM for the year, equal to a –35.7% decline. This was the lowest reported EBITDA for the segment since 2017, while segment EBITDA margin of 3.15% was –31.5% lower than its 4.6% pre-Covid average.

In contrast, Ingles Leasing reported respective sales and EBITDA growth of 7.2% and 8.1%. As a result, Ingles Leasing EBITDA margin contribution continued to rise against consolidated EBITDA, with asymmetric supermarket Covid-19 profitability moderating to return leasing margin contribution back on-trend.




However, segment contribution distortion has now turned in favor of Ingles Leasing, as consolidated capex—ex real estate acquisitions—increased by $43.35MM in 2024 for Ingles Markets, or $35.8MM above its 5-year average. It is reasonable to conclude that the extraordinary increase, coupled with lower supermarket margins, is related to losses incurred by Hurricane Helene.

Per 2024 reported figures, the number of company tractors declined from 183 to 182, while the number of trailers declined from 864 to 842. Moreover, 3 stores remain closed following damages incurred by the storm. From my sources, one of Ingles' locations suffered a wall collapse, and may not be re-opened until Q3 of this year. These small changes have an outsized impact on Ingles Supermarkets, as grocery margins tend to be low, but stable. Consequently, barring widespread deflation, it may be sensible to expect supermarket EBITDA margins to revert to the pre-Covid average by 2026.

Ignoring the fact that undocumented migrant deportation may have an unintended inverse effect on US food prices, if Trump is successful in lowering food prices, 4.6% supermarket EBITDA margin against $5bn in normalized sales would produce EBITDA of $230MM by 2030. The prior assumes that sales decline by a cumulative –7.8% in response to food price deflation, but show annual growth of 2.13% through 2030, which is relatively consistent with the segment's 2.16% sales growth reported between 2013-2019.

In addition, the abolition of $9.7MM in rental expense through continued grocery-anchored shopping center acquisitions may improve average supermarket EBITDA margin by upwards of 200 basis points. This would increase supermarket EBITDA contribution to $239.7MM, and would mark 25.7% cumulative growth over 2019 reported EBITDA. Such growth would demarcate notably from the 5.3% cumulative increase in supermarket EBITDA reported between 2015-2019.

That said, normalization of supermarket EBITDA will likely not stop leasing EBITDA contribution from expanding. Should Ingles Leasing report just 5% EBITDA growth between now and 2030 (an unlikely scenario), I estimate that leasing EBITDA contribution will rise to 11% of consolidated, while 10% growth would result in segment EBITDA margin contribution of 13.5%.

## ROIC Acquisition Creates a Valuation Benchmark

Interestingly, Blackstone recently acquired Retail Opportunities Investment Corp (ROIC) in an all-cash transaction valued at $4 billion. Self-declared as the largest publicly traded owner of grocery-anchored shopping centers in the US, ROIC owns 93 centers spanning 10.5MM square feet across L.A., Seattle, and Portland. Overlooked as an owner of highly valued real estate, Ingles' 9.3MM square feet may be a close second to ROIC, with a current enterprise value that is –75.2% below ROIC's $5.93 billion acquisition EV.

Glancing at ROIC's shopping centers, they appear generally larger and fancier than Ingles', but share a similar "one-stop-shop" factor. Not to mention, "fancy" does not necessarily mean more profit.

**ROIC Shopping Centers**


VILLAGE MARKET
THRIFTWAY


GROCERY OUTLET
bargain market
Organics
Wine
DOLLAR TREE
Produce
Dairy Meat
SHOP
US FIRST

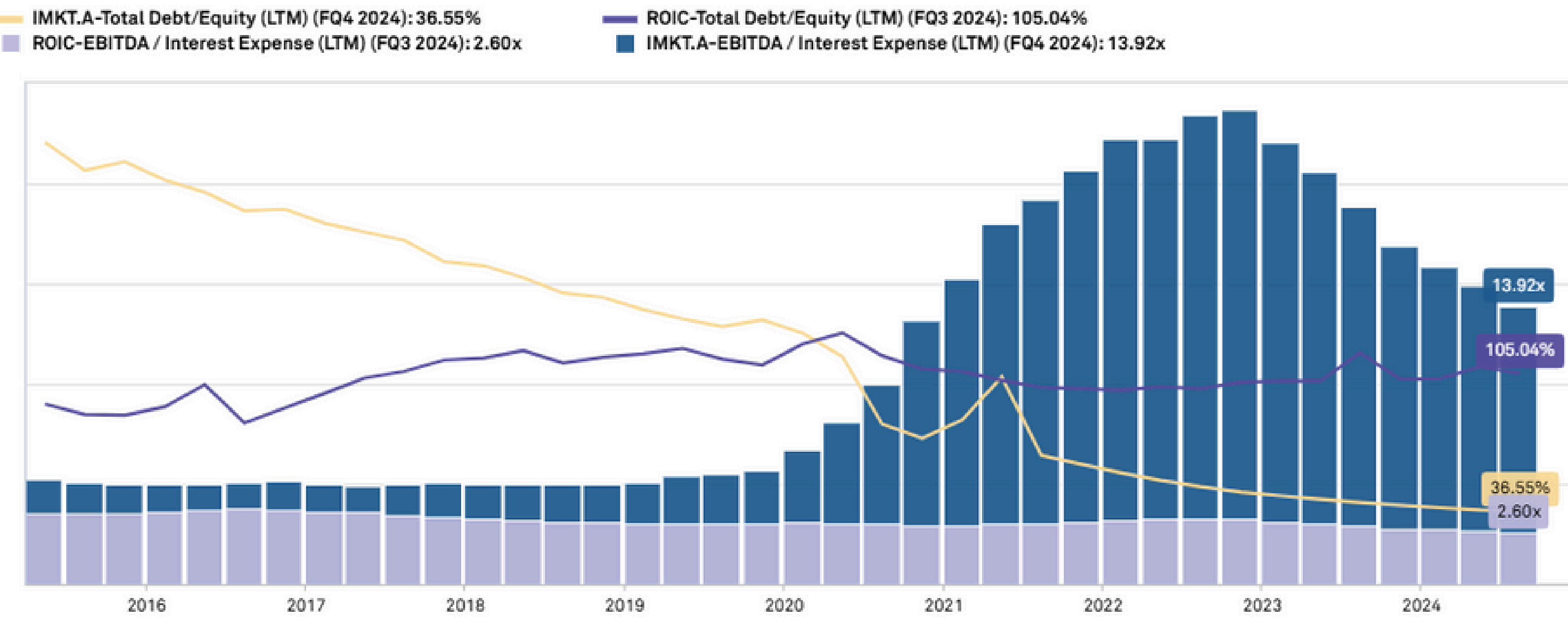
**Ingles Shopping Centers**



## Revaluing Ingles via ROIC

Although comparative analysis of ROIC's competitiveness is needed for clarity, a key difference between ROIC and Ingles Leasing relates to funding. ROIC uses a combination of funds from operations, debt, and equity to acquire properties, while Ingles Leasing grows through segment EBITDA and cash flow from Ingles Supermarkets. In other words, real estate acquisitions made by, and for, Ingles Leasing tend to be all-cash, making the subsidiary less encumbered.

As a consolidated entity, Ingles has the industry's best balance sheet among publicly traded supermarket operators. In fact, at year-end, Ingles' debt-to-equity ratio improved by a further 60 basis points, and has successfully declined by -67% over the past five years. And while Covid-19 inflation has buoyed Ingles' EBITDA/interest coverage in recent years, Ingles' 13.9x LTM EBITDA/interest coverage eclipses ROIC's 2.6x.




For comparative purposes, ROIC's business presently produces 4.5x more revenue than Ingles Leasing, and 3.2x more EBITDA (inclusive of an addback of $73.8MM in estimated saved annual supermarket rent).

Blackstone's purchase of ROIC also includes $1.83bn in net debt, for an implied acquisition EV of $5.93bn, or 21.7x EV/EBITDA. On a simple price/EBITDA basis, ROIC's acquisition multiple is 14.6x, which would presently value Ingles Leasing at $1.24bn, or equal to the current market capitalization of Ingles Markets. That said, Ingles Leasing is growing notably faster than ROIC, at a CAGR of 14% per year over the past five years, versus 2.58% for ROIC.

Ingles Leasing is also meaningfully more profitable. Its EBITDA margin is 85.7%, which is 41% higher than ROIC's 61.8%. Adding back $73.8MM in saved rent from Ingles Supermarkets, and Ingles Leasing could earn as much as $96.68MM in base rent. Applying Leasing's 85.7% EBITDA margin results in adjusted leasing EBITDA of $84.6MM. Assuming a CAGR of 12%, and leasing EBITDA may improve to $149.1MM by 2030, for a valuation of $2,177MM at 14.6x EBITDA.

Moreover, were Ingles Leasing to assume its parent company's $285.1MM in net debt, the enterprise value of Ingles Leasing, paying no mind to Ingles Supermarkets or Milkco, would amount to $2,462.1MM, or 16.5x 2030 EV/EBITDA, despite being more profitable and leaner than ROIC, with access to stable, interest-free capital.

As for Ingles Supermarkets, it is worth reexploring its valuation by accounting for saved rent through Ingles Leasing. As mentioned, Ingles Supermarkets generated EBITDA of $170.8MM in 2024. Subtracting $73.8MM in annual saved supermarket rent, and the segment produced EBITDA of $97MM for the year.

To further repeat, Hurricane Helene materially increased Ingles' ex-real estate acquisition PP&E (Ex-RS PP&E) by $49.4MM for the year, to a total of $65.2MM. The latter produced $35.8MM in Ex-RS capex that was above Ingles' 5-year average capex of $29.4MM, which appears to validate management's claim that Helene damages are within a range of $35-$55MM. Adding back the extraordinary increase improves rent-adjusted LTM supermarket EBITDA to $132.8MM.

If a simple 8x EBITDA multiple is then applied, an LTM valuation of $1,062.4MM is arrived at for Ingles Supermarkets; but this exercise fails to account for prospective EBITDA normalization.

If Ingles Supermarkets produces EBITDA of $239.7MM by 2030, inclusive of $9.7MM in additional annual rent saved, 2030 rent-adjusted Supermarket EBITDA would be $156.2MM. While a majority of Supermarket capital is being reinvested into shopping center acquisitions, Ingles Leasing would still covet significant value as an independent, higher-levered entity.

Adding the fact that Ingles Supermarkets is a generally low-capex business, an 8x EBITDA multiple may prove conservative for a regionally dominant grocer. But for argument's sake, 8x 2030 rent-adjusted supermarket EBITDA results in a valuation of $1,249.6MM for the segment.

Therefore, without any consideration of continued debt paydown, if we combine the latter valuation to $2,949.9MM for Ingles leasing at 21.7x 5-year EV/EBITDA, along with $75MM for Milkco (Ingles' dairy business), and $205.1MM in fair market vacant property, the result is a 5-year valuation of $4.48bn on a sum-of-the-parts (SOTP) basis.

Considering the 10-year valuation in my report pegged Ingles' intrinsic value between $4.7-$5.1bn, valuing Ingles' segments using ROIC as a benchmark relatively affirms original valuation assumptions. The experiment also suggests a potential, heightened 5-year valuation contingent on the performance of Ingles Leasing.

However, further research is required to measure estimated total base rents and EBITDA of Ingles Leasing over time. A route to successful analysis may require assessment of historical supermarket rent saved in tandem with annual changes in Ingles Leasing segment data. It is possible that a 12% growth assumption, inclusive of rents saved by Ingles Supermarkets, may overestimate forward growth by as much as 100%.

If true, Ingles Leasing would produce comparably lower EBITDA of $108MM by 2030 if 5%, rent-adjusted growth is achieved. If inflation and higher rates prove persistent, multiples may also fade. To err on the side of caution, a conservative 15x 2030 EV/EBITDA would value Ingles Leasing at a denigrated $1,619MM.

To attack my valuation further, let us posit that Ingles Supermarkets is worth no more than 8x current rent and capex-adjusted EBITDA. That $1,062.4MM present valuation, paired with $1,619MM for Ingles Leasing, and $280.1MM for vacant property and Milkco, results in a 5-year SOTP of $2,961.5MM for Ingles Markets. Based on Ingles' current market capitalization of $1.27bn, Ingles may be trading at a -57.1% to -71.7% discount to 2030 figures.

My only pushback against a conservative valuation approach is that in 2024, ROIC generated EBITDA of $273.8MM: $4MM less than Ingles Markets. Even though ROIC maintains overt REIT status, both ROIC and Ingles *are* real estate companies with similar stable offerings. Is it then reasonable to *presently* value Ingles at -75.2% *below* ROIC's acquisition EV?

You tell me.

## Closing Remark

That's it for this roundup. If you have any questions, please ask them in Maiden's WhatsApp group chat, or email me at gwen@maidenfinancial.io.

Sincerely,
Gwen Hofmeyr