Westamerica Bancorp (WABC)

Updated April 27th, 2018 by Nate Parsh

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	-1.9%	**Quality Percentile:**	N/A
Fair Value Price:	$42	**5 Year Growth Estimate:**	1.3%	**Momentum Percentile:**	N/A
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Total Return Percentile:**	N/A
Dividend Yield:	2.8%	**5 Year Price Target**	$45	**Valuation Percentile:**	N/A

Overview & Current Events

Westamerica Bancorporation is the holding company for Westamerica Bank. Westamerica is a regional community bank with 85 branches in Northern and Central California. The company can trace its origins back to 1884. Westamerica offers clients access to savings, checking and money market accounts. The company's loan portfolio consists of both commercial and residential real estate loans as well as construction loans. Westamerica is the seventh largest bank headquartered in California.

Westamerica reported 1st quarter 2018 earnings on 4/19/2018. Adjusting for a tax reform related charge, Westamerica had earnings of $0.66, which were in-line with expectations and 16% higher from Q1 2017's results. Revenue improved 3.4% year over year to $46 million, but missed analysists' estimates by $1.06 million. Net interest income contributed $34.5 million to the company's revenues during the quarter. Expenses declined $0.4 million to $24.2 million, showing that Westamerica is operating at an efficient level. Another plus, Westamerica recognized no provision for loan losses in the quarter. The company should see a slight benefit from recent tax reform as Westamerica's tax rate is often in the mid 20% range.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.04	$4.14	$3.21	$3.06	$2.93	$2.50	$2.32	$2.30	$2.29	$2.32	***$2.35***	***$2.51***
DPS	$1.39	$1.41	$1.44	$1.45	$1.48	$1.49	$1.52	$1.53	$1.56	$1.57	***$1.60***	***$1.71***

Westamerica 's earnings-per-share more than doubled from 2008 to 2009. Since then, EPS have declined in almost a straight line. 2017 was the first year since 2009 that earnings increased year over year. This has resulted in an average earnings-per-share growth rate of just 1.3% for the past decade. Westamerica hasn't offered guidance for 2018, but if the average earnings growth rate remains intact, then shares could earn $2.35 this year and $2.51 by 2023.

Westamerica has increased its dividend for the past 26 years. The company most recently increased its dividend by 2.6% on 10/26/2017. This rate is well above the 10-year average increase of 1.4%. Given that Westamerica has a high payout a ratio, investors should expect that dividend growth will mirror earnings growth. Applying the earnings growth rate (1.3%) to expected 2018 dividends of $1.60, shareholders could receive $1.71 by 2023. Note: The company also tends to raise its dividend every other year, but does so in the 4th quarter to keep its dividend growth streak alive.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	25.4	11.9	17	15.3	15.6	19.1	21.5	19.9	21.7	25.7	***24.3***	***17.8***
Avg. Yld.	2.7%	2.9%	2.6%	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	***2.8%***	***3.8%***

Shares of Westamerica have seen its average price to earnings multiple vary dramatically over the past decade. Eliminating the years where the average P/E was above 25 (2008, 2017), shares of Westamerica have averaged a multiple of 17.8. That is significantly lower than where the multiple stands today based off of current share price and estimated 2018 earnings. If shares were to revert to the normal P/E, the stock's multiple could contract 6% per year through 2023. If 2008 and 2017's average P/E's are included, shares would still see a multiple contraction of 4.5% per year through 2023.

Shares of Westamerica had a dividend yield of around 3.0% for most of the past 10 years. Recently, the dividend yield has declined as share price has increased. Westamerica trades with a forward yield of 2.8%, which is higher than the yield of the S&P 500 and very close to the 10-year Treasury Bond.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	89.8%	89.8%	88.9%	88.9%	88.7%	88.8%	89.5%	89.7%	89.5%	89.3%	***89.3%***	***89.3%***
Payout	68.1%	34.1%	44.9%	47.7%	50.5%	59.6%	65.5%	66.5%	68.1%	67.7%	***68.1%***	***68.1%***
Std. Dev.	61.3%	48.9%	22.9%	38.7%	18.8%	16.7%	19.3%	23.2%	24.5%	23.1%	***24.4%***	***29.7%***

While earnings-per-share went up significantly during the last recession, this does not make Westamerica an attractive investment. The company's earnings have declined every year since 2009, before growing again in 2017. The company has proven that it cannot be a reliable source of earnings growth.

Shares of Westamerica have a decent yield, but that is unlikely to grow at a high rate. Given that the company only increases its dividend every other year and at a very low rate, the yield is not likely to rise unless the share price declines. This is why the expected dividend yield in 2023 is much higher than normal. On the positive side, the company's stable earnings make a dividend cut unlikely. Additionally, the company's debt-to-assets ratio has been very stable over the last decade.

Final Thoughts & Recommendation

Shares of Westamerica Bancorporation are expected to return -1.9% per year through 2023. This is a combination of earnings growth (1.3%), dividends (2.8%) and multiple contraction (-6%).

In investing, boring often equates to solid results. That is not the case with Westamerica. The company's stability comes at the cost of growth. Additionally, the high valuation makes shares very unattractive. Investors looking to invest in community or regional banks are highly encouraged to seek out other options than Westamerica.

Total Return Breakdown by Year