Westamerica Bancorp (WABC)

Updated July 21st, 2018 by Nate Parsh

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	-1.9%	**Volatility Percentile:**	67.8%
Fair Value Price:	$42	**5 Year Growth Estimate:**	2.0%	**Momentum Percentile:**	60.7%
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.6%	**Valuation Percentile:**	8.5%
Dividend Yield:	2.7%	**5 Year Price Target**	$46	**Total Return Percentile:**	2.5%

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 has a market capitalization of $1.6 billion.

Westamerica reported 2nd quarter earnings on July 19th. The bank earned $0.67 per share, in-line with analysts' estimates and 11.7% higher than the prior year's period. Revenue grew 1% to $48.35 million, $0.22 million above estimates.

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***	***$2.59***
DPS	$1.39	$1.41	$1.44	$1.45	$1.48	$1.49	$1.52	$1.53	$1.56	$1.57	***$1.60***	***$1.70***

Westamerica 's earnings-per-share more than doubled from 2008 to 2009. Since then, EPS have declined in what is essentially a straight line. 2017 was the first year since 2009 that earnings increased year over year.

Westamerica benefited from rising interest rates during the quarter, causing net interest and fee income, or FTE, to rise 2.3% from the second quarter of 2017. This follows a 3.2% increase in FTE in the first quarter. Net interest margin, a measure of bank profitability, was 3.08%, up from last quarter but down slightly from Q2 2017. Commercial loans, commercial real estate loans and consumer loans fell a combined 9.3% year over year. On the plus side, total deposits rose 3.8%. Due to recent tax reform, Westamerica was the beneficiary of lower taxes as the company saw a tax rate of 26.1%, down from 37.8% from the previous year. Due to the lower tax rate and the benefit of rising interest rates, we feel that Westamerica can grow earnings per share at a rate of at least 2% annually going forward, slightly above the estimates provided in our April 27th report.

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 ratio, investors should expect that dividend growth will mirror earnings growth. Note that 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	***25***	***17.8***
Avg. Yld.	2.7%	2.9%	2.6%	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	***2.7%***	***3.7%***

Westamerica's stock has seen a $2 increase since our last update, causing the price to earnings multiple to rise to 25 from 24.3 previously. 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. If shares were to revert to the normal P/E, the stock's multiple could contract 6.6% per year through 2023. If 2008 and 2017's average P/E's are included, shares would still see a multiple contraction of 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 2.7%, which is higher than the yield of the S&P 500 and below that of 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%***	***65.6%***
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%***

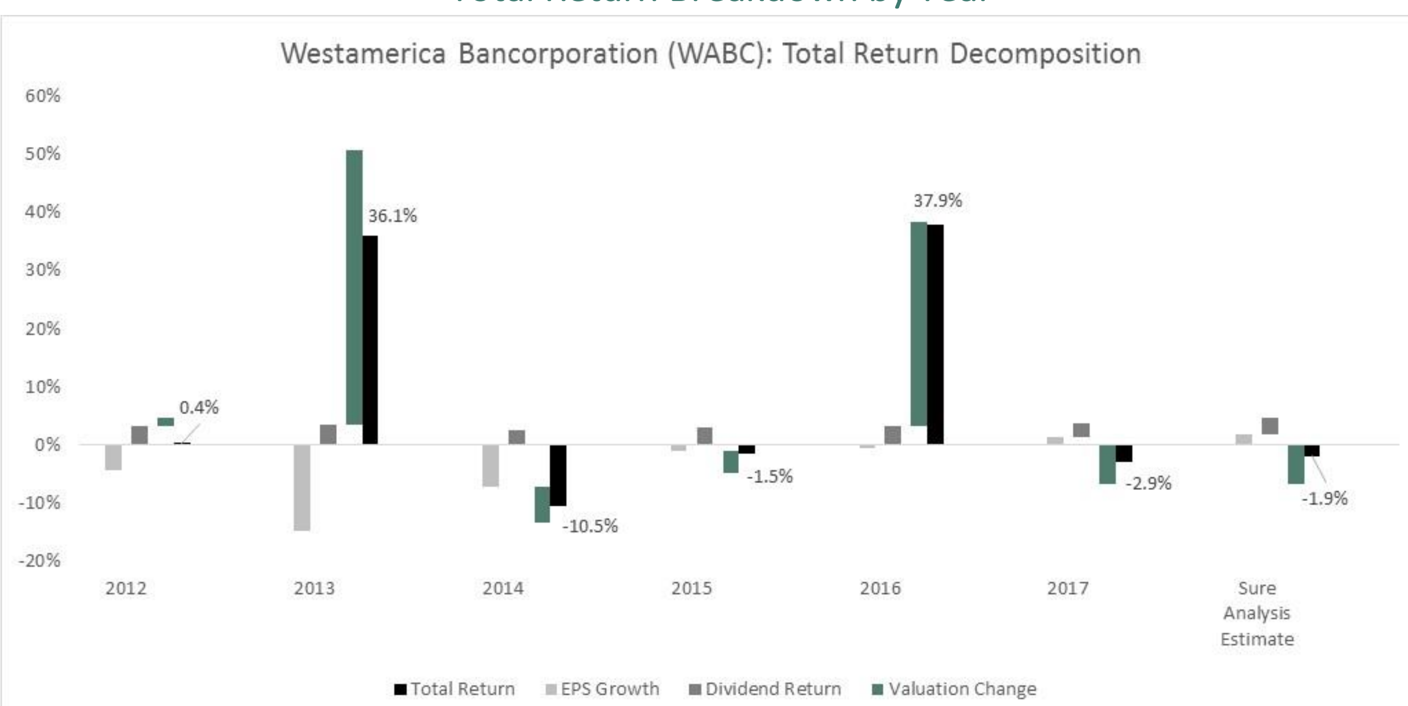
While earnings-per-share went up significantly during the last recession, this does not make Westamerica recession proof or even an attractive investment. The company's earnings declined every year since 2009, before growing again in 2017. The company has proven that it cannot be a reliable source of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

After 2nd quarter results, we anticipate Westamerica Bancorporation returning -1.9% annually through 2023, the same as in our initial report. This is a result of an increased earnings growth estimate (2%), dividends (2.7%) and multiple contraction (6.6%). Higher income related to rising interest rates and a lower tax rate don't make up for the stretched valuation that shares of Westamerica currently have. Loans are also decreasing at a high rate, which should give investors pause. We suggest those looking to invest in the regional bank sector consider other names, such as United Bankshares (UBSI), before purchasing Westamerica. We have, however, increased our 2023 price target $1 to $46 due to our slightly higher earnings growth rate.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.