Westamerica Bancorp (WABC)

Updated October 19th, 2018 by Nate Parsh

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	-1.2%	**Volatility Percentile:**	65.1%
Fair Value Price:	$42	**5 Year Growth Estimate:**	2.0%	**Momentum Percentile:**	45.3%
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Growth Percentile:**	5.1%
Dividend Yield:	2.8%	**5 Year Price Target**	$46	**Valuation Percentile:**	9.5%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	2.6%

Overview & Current Events

Westamerica Bancorporation is the holding company for Westamerica Bank. Westamerica Bancorporation is a regional community bank with 85 branches in Northern and Central California. The company can trace its origins back to 1884. Westamerica Bancorporation 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 Bancorporation is the seventh largest bank headquartered in California. The company has a market cap of $1.5 billion.

Westamerica Bancorporation reported 3rd quarter earnings on October 19th. The bank earned $0.63 per share, $0.06 below estimates, but improved 10.5% from the prior year's period. Revenue grew 6.7% to $48.25 million, but missed estimates by $0.66 million.

Like most banks, Westamerica Bancorporation has benefited from rising interest rates. The company saw net interest margins improve 3.08% during the quarter. This follows a 3.2% improvement in the 2nd quarter. The Federal Reserve plans at least 1 and perhaps 2 more rate hikes in 2018 and as many as three hikes next year. Westamerica Bancorporation recognized no provisions for loan losses as nonperforming loans were stable during the quarter. EPS results included a benefit of $585,000 due to tax-exempt life insurance policy gain and another $3.5 million in settlement awards. Without these benefits, earnings-per-share would have been reduced $0.07.

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***
Shares	28.9	29.2	29.1	28.2	27.2	26.5	25.8	25.5	25.9	26.4	***26***	***26***

Earnings-per-share for Westamerica Bancorporation 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 Bancorporation 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 Bancorporation 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	***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%***	***3.7%***

Westamerica Bancorporation's stock has seen a $2 decline since our last update, causing the price to earnings multiple to drop to 24.3 from 25. The stock has 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 Bancorporation have averaged a multiple of 17.8. If shares were to revert to the normal P/E, the stock's multiple could contract 6% per year through 2023.

The stock had a dividend yield of around 3.0% for most of the past 10 years. Westamerica Bancorporation trades with a forward yield of 2.8%, which is higher than the yield of the S&P 500, but 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%***

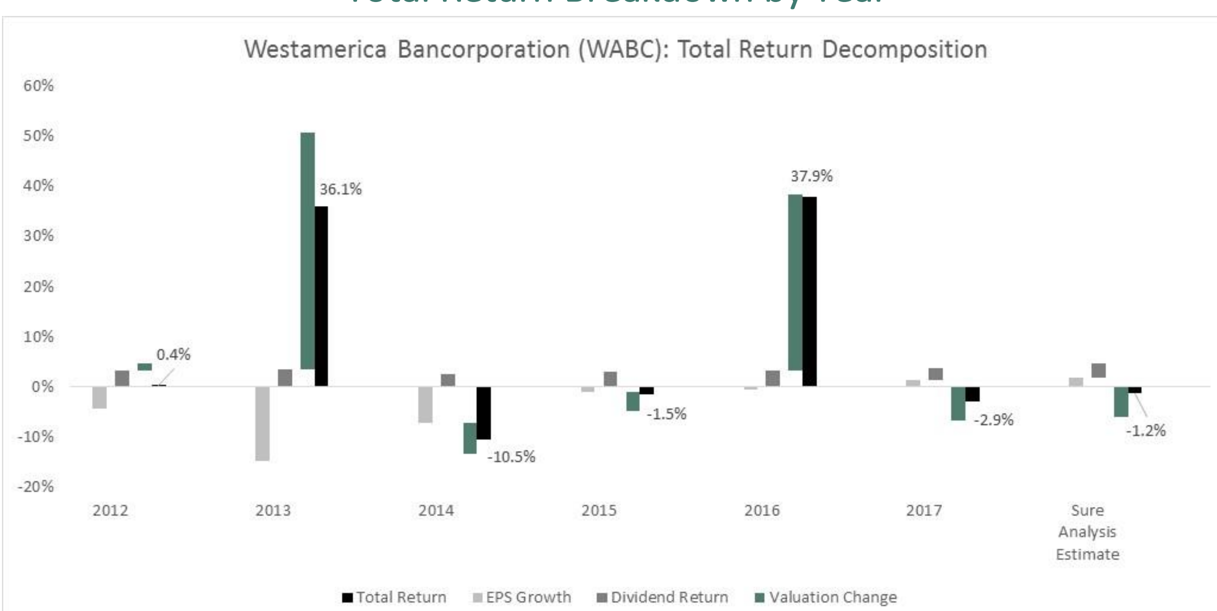
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof or even an attractive investment. The company's earnings declined every year since 2009, before growing again in 2017. The company has proven that it cannot be a reliable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

Westamerica Bancorporation has 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. Westamerica Bancorporation earns C ratings for both Dividend Safety and Retirement Suitability.

Final Thoughts & Recommendation

After 3rd quarter earnings, we reiterate our sell rating on Westamerica Bancorporation. We anticipate that the stock will have a return of -1.2% annually through 2023, an improvement from our previous estimate of -1.9% return. We arrive at this forecast based on earnings growth (2%), dividends (2.8%) and multiple reversion (6%). Westamerica Bancorporation benefited from one-time gains that are not likely to occur in the future. We maintain our $46-dollar price target, but urge investors to consider other opportunities in the regional bank sector.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	188.6	178.5	182.0	189.2	205.7	233.4	257.2	268.7	285.7	173.2
SG&A Exp.	53.3	53.5	54.5	57.4	59.5	60.5	61.8	65.2	75.5	55.3
D&A Exp.	26.1	19.9	16.4	15.5	18.0	14.1	14.3	15.3	10.4	9.4
Net Profit	50.0	58.9	58.8	60.6	67.2	81.1	87.9	94.6	125.4	59.8
Net Margin	26.5%	33.0%	32.3%	32.1%	32.7%	34.8%	34.2%	35.2%	43.9%	34.6%
Free Cash Flow	78.0	75.8	65.9	78.5	83.6	114.6	117.1	113.5	134.9	91.2
Income Tax	37.1	21.1	17.9	18.3	18.9	25.4	32.9	36.8	57.9	9.9

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	5513	5366	5169	5036	4847	4952	5042	4932	4976	4033
Cash & Equivalents	575.0	462.27	433.04	380.84	472.03	491.38	530.05	338.79	361.14	138.88
Accounts Receivable	23.56	21.49	20.17	19.39	18.93	20.27	23.26	225.71	256.03	150.21
Goodwill & Int. Ass.	125.5	128.60	132.10	135.96	140.23	144.93	150.30	156.28	157.37	136.91
Total Liabilities	4923	4805	4637	4509	4304	4392	4484	4386	4470	3623
Long-Term Debt	0.00	0.00	0.00	20.02	20.58	40.80	41.02	169.08	312.65	457.28
Shareholder's Equity	590.2	561.37	532.21	526.60	542.93	560.10	558.64	545.29	505.45	409.85
D/E Ratio	N/A	N/A	N/A	0.04	0.04	0.07	0.07	0.31	0.62	1.12

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	0.9%	1.1%	1.2%	1.2%	1.4%	1.6%	1.8%	1.9%	2.8%	1.4%
Return on Equity	8.7%	10.8%	11.1%	11.3%	12.2%	14.5%	15.9%	18.0%	27.4%	14.9%
ROIC	8.7%	10.8%	10.9%	10.9%	11.5%	13.5%	13.4%	12.3%	14.9%	5.8%
Shares Out.	28.9	29.2	29.1	28.2	27.2	26.5	25.8	25.5	25.9	26.4
Revenue/Share	7.14	6.95	7.11	7.23	7.14	8.43	8.95	9.12	9.73	5.92
FCF/Share	2.95	2.95	2.58	3.00	2.90	4.14	4.07	3.85	4.59	3.12

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.