Westameria Bancorp (WABC)

Updated January 21st, 2019 by Nathan Parsh

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	0.3%	**Volatility Percentile:**	62.3%
Fair Value Price:	$52	**5 Year Growth Estimate:**	2.0%	**Momentum Percentile:**	71.0%
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Growth Percentile:**	5.1%
Dividend Yield:	2.5%	**5 Year Price Target**	$57	**Valuation Percentile:**	18.5%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	4.8%

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 $1.7 billion.

Westamerica Bancorporation released financial results for the fourth quarter and full year on January 18th. The bank earned $0.71 per share, a 22.4% improvement from the prior year. Revenue declined 10.4% to $52.2 million. For 2018, earnings-per-share (EPS) were $2.67 per share, topping our expectations of $2.35 and growing 15.1% from the previous year. Revenue grew 4% to $195 million.

Westamerica Bancorporation continues to benefit from rising interest rates. Net interest income improved 6.3% year-over-year and 2% from the third quarter. The Federal Reserve raised interest rates four times in 2018 and at least twice in 2019. Westamerica Bancorporation recognized no provisions for loan losses as nonperforming loans were stable during the quarter. Analysts expect the company to earn $2.90 per share in 2019, which would be an increase of 8.6% from 2018's total.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$4.14	$3.21	$3.06	$2.93	$2.50	$2.32	$2.30	$2.29	$2.32	$2.67	***$2.90***	***$3.20***
DPS	$1.41	$1.44	$1.45	$1.48	$1.49	$1.52	$1.53	$1.56	$1.57	$1.60	***$1.62***	***$1.72***
Shares	29.2	29.1	28.2	27.2	26.5	25.8	25.5	25.9	26.4	26.0	***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-ove- year.

Westamerica Bancorporation has increased its dividend for the past 27 years. The company most recently increased its dividend by 2.6% on 10/26/2017. This company has grown its dividend at an average of 1.4% annually over the last decade. Investors should expect that dividend growth will mirror earnings growth ahead. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2023
Avg. P/E	11.9	17	15.3	15.6	19.1	21.5	19.9	21.7	25.7	24.3	***22.1***	***17.8***
Avg. Yld.	2.9%	2.6%	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	***2.5%***	***3.0%***

Westamerica Bancorporation's stock has seen a $7, or a 12.3%, increase since our October 25th update. Given expected EPS for 2019 of $2.90, the price-to-earnings ratio (P/E) is 22.1. 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, annual returns would be reduced by 4.2% through 2024.

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 2.5%, which is higher than the yield of the S&P 500, but below its own historical yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	34.1%	44.9%	47.7%	50.5%	59.6%	65.5%	66.5%	68.1%	67.7%	59.9%	***55.9%***	***53.8%***

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.

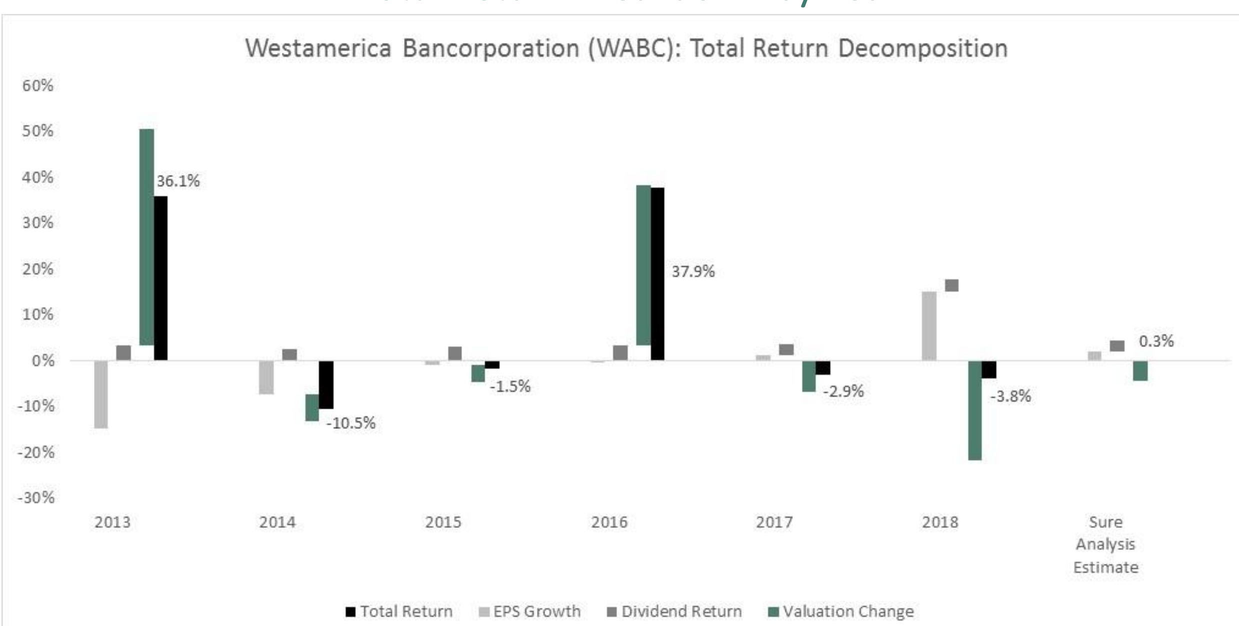
Westamerica Bancorporation has a decent yield, but that is unlikely to grow at a high rate. Given that the company only increases its dividend every other year and at a very low rate, the yield is not likely to rise unless the share price declines. This is why the expected dividend yield in 2023 is much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

Final Thoughts & Recommendation

After fourth quarter and full year financial results, we continue to advise shareholders of Westamerica Bancorporation to sell shares and for new investors to avoid the stock.

We expect that the stock will offer a total annual return of just 0.3% through 2024. We arrive at this forecast based on earnings growth (2%), dividends (2.5%) and multiple reversion (-4.2%). While the company posted solid growth rates for EPS during 2018 and is expected to show continued strength into 2019, we feel that the recent share price gains in Westamerica Bancorporation have reduced forward total returns. We have raised our 2024 price target $11 to $57 to account for the increase in expected EPS for the current year.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	286	269	257	233	206	189	182	179	189	198
SG&A Exp.	75	65	62	61	60	57	55	53	53	55
D&A Exp.	10	15	14	14	18	16	16	20	26	N/A
Net Profit	125	95	88	81	67	61	59	59	50	72
Net Margin	43.9%	35.2%	34.2%	34.8%	32.7%	32.1%	32.3%	33.0%	26.5%	36.2%
Free Cash Flow	135	114	117	115	84	79	66	76	78	N/A
Income Tax	58	37	33	25	19	18	18	21	37	19

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	4976	4932	5042	4952	4847	5036	5169	5366	5513	5569
Cash & Equivalents	361	339	530	491	472	381	433	462	575	420
Accounts Receivable	256	226	23	20	19	19	20	21	24	N/A
Goodwill & Int. Ass.	157	156	150	145	140	136	132	129	126	124
Total Liabilities	4470	4386	4484	4392	4304	4509	4637	4805	4923	4953
Long-Term Debt	313	169	41	41	21	20	0	0	0	0
Shareholder's Equity	505	545	559	560	543	527	532	561	590	616
D/E Ratio	0.62	0.31	0.07	0.07	0.04	0.04	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.8%	1.9%	1.8%	1.6%	1.4%	1.2%	1.2%	1.1%	0.9%	1.3%
Return on Equity	27.4%	18.0%	15.9%	14.5%	12.2%	11.3%	11.1%	10.8%	8.7%	11.9%
ROIC	14.9%	12.3%	13.4%	13.5%	11.5%	10.9%	10.9%	10.8%	8.7%	11.9%
Shares Out.	29.2	29.1	28.2	27.2	26.5	25.8	25.5	25.9	26.4	26.0
Revenue/Share	9.73	9.12	8.95	8.43	7.14	7.23	7.11	6.95	7.14	7.40
FCF/Share	4.59	3.85	4.07	4.14	2.90	3.00	2.58	2.95	2.95	N/A

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