



Westamerica Bancorp (WABC)

Updated July 19th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	1.4%	Volatility Percentile:	65.0%
Fair Value Price:	\$52	5 Year Growth Estimate:	2.0%	Momentum Percentile:	50.5%
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.3%	Growth Percentile:	7.7%
Dividend Yield:	2.7%	5 Year Price Target	\$57	Valuation Percentile:	30.2%
Dividend Risk Score:	D	Retirement Suitability Score:	D	Total Return Percentile:	9.2%

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 capitalization of \$1.7 billion, with annual revenues of \$210 million.

Westamerica Bancorporation released financial results for the second quarter on 7/18/2019. The company earned \$0.73 per share, which was in-line with consensus estimates, but was a 9% improvement from the previous year. Revenue grew 8.9% to \$52.6 million, which was slightly above estimates.

Westamerica Bancorporation's net interest margins were 3.13% for the second quarter. This compares to net interest margins of 3.12% for Q1 2019 and 2.97% for Q2 2018. It is likely that Westamerica Bancorporation will not see a major boost to net interest income for the remainder of the year as interest rates are expected to decrease in 2019. Operating expenses remained stable in the quarter and Westamerica Bancorporation once again recognized no provisions for loan losses for the second quarter as the bank had very low levels of nonperforming loans. We maintain our estimates for earnings-per-share for 2019.

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	\$1.64	\$1.81
Shares	29	29	28	27	27	26	26	26	26	26	26	26

Earnings-per-share for Westamerica Bancorporation more than doubled from 2008 to 2009, an accomplishment that few banks can claim. Earnings-per-share have declined in what is essentially a straight line since then. 2018 was just the second year since 2009 that earnings increased year-over-year. We anticipate an annual earnings-per-share growth rate of 2% through 2024 due to quality of loans and increases in revenue.

Westamerica Bancorporation has increased its dividend for the past 28 years. The company most recently increased its dividend by 2.5% on 4/15/2019, and has compounded its dividend at an average of 1.2% annually over the last decade. We expect that the historical growth rate will continue through 2024. 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	17.0	15.3	15.6	19.1	21.5	19.9	21.7	25.7	24.3	21.0	17.8
Avg. Yld.	2.9%	2.6%	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	2.7%	3.2%

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Westamerica Bancorporation’s stock has declined \$2, or a 3.2%, since our 4/22/2019 update. Given expected earnings-per-share for 2019 of \$2.90, the price-to-earnings ratio (P/E) is 21. 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 3.3% 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 2.7%, 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%	45%	48%	51%	60%	66%	67%	68%	68%	60%	57%	57%

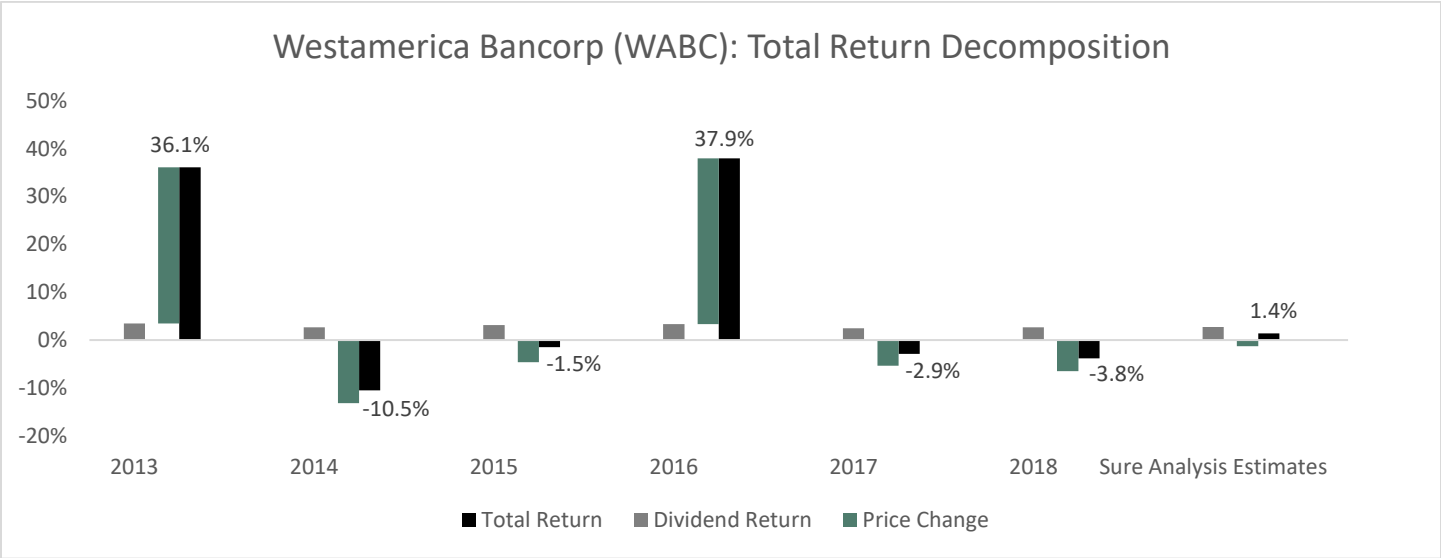
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company’s dividend payout ratio has been relatively stable.

Westamerica Bancorporation’s key competitive advantage is its ability to see an improvement in net interest income as interest rates rise. While the Federal Reserve is seen as unlikely to raise interest rates in 2019, current rates are still very low by historical standards. If the economy continues to improve, interest rates may once again increase. This would be a material benefit to Westamerica Bancorporation were this to occur.

Final Thoughts & Recommendation

After second quarter results, Westamerica Bancorporation is expected to offer a total annual return of 1.4%, up slightly from our previous estimate of 0.6%. This estimate is based on earnings growth (2%), dividends (2.7%) and multiple reversion (3.3%). Westamerica Bancorporation showed another strong quarter for revenue growth. The company’s loan book is very healthy and shareholders received a dividend increase in April. Unfortunately, the Federal Reserve is expected to cut interest rates at some point in 2019. This would have an impact on Westamerica Bancorporation’s net interest margins. It should be noted that the stock also trades above our 2024 price target at the moment. For these reasons, Westamerica Bancorporation continues to receive a sell recommendation from Sure Dividend.

Total Return Breakdown by Year



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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.

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