Westamerica Bancorp (WABC)

Updated January 16th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	-0.6%	**Market Cap:**	$1.8 billion
Fair Value Price:	$52	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	2/3/2020
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	2/15/2020[1]
Dividend Yield:	2.4%	**5 Year Price Target**	$57	**Years Of Dividend Growth:**	28
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	2.5%

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 $1.8 billion, with annual revenues of more than $200 million.

Westamerica Bancorporation reported earnings results for the fourth quarter on 1/16/2019. Earnings-per-share of $0.77 topped estimates by $0.02 and improved 8.5% from the previous year. Revenue declined 1.9% to $51.2 million, which was slightly below what analysts had expected. For the year, earnings-per-share improved 8.8% to $2.98 while revenue increased 5.2% to $207.8 million.

Westamerica Bancorporation's net interest margin was 3.08% for the fourth quarter. This compares to net interest margin of 3.11% for Q3 2019 and 3.06% for Q4 2018. Lower net interest margins were the primary cause of a decline in revenues in the fourth quarter. The bank recognized no provision for loan losses due to low levels of nonperforming loans.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$3.21	$3.06	$2.93	$2.50	$2.32	$2.30	$2.29	$2.32	$2.67	$2.98	***$2.91***	***$3.21***
DPS	$1.44	$1.45	$1.48	$1.49	$1.52	$1.53	$1.56	$1.57	$1.60	$1.64	***$1.64***	***$1.81***
Shares[2]	29	28	27	27	26	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 2025 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.0	15.3	15.6	19.1	21.5	19.9	21.7	25.7	24.3	22.7	***23.4***	***17.8***
Avg. Yld.	2.6%	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	2.4%	***2.4%***	***3.2%***

[1] Estimated dividend payment date

[2] In millions of shares

Westamerica Bancorp (WABC)

Updated January 16th, 2020 by Nathan Parsh

Westamerica Bancorporation's stock has increased $4, or 5.9%, since our 10/18/2019 update. Given expected earnings-per-share for 2020 of $2.91, the price-to-earnings ratio (P/E) is 23.4. 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 5.3% through 2025.

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 2.4%, which is higher than the yield of the S&P 500, but below its own historical yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	45%	48%	51%	60%	66%	67%	68%	68%	60%	55%	***56%***	***56%***

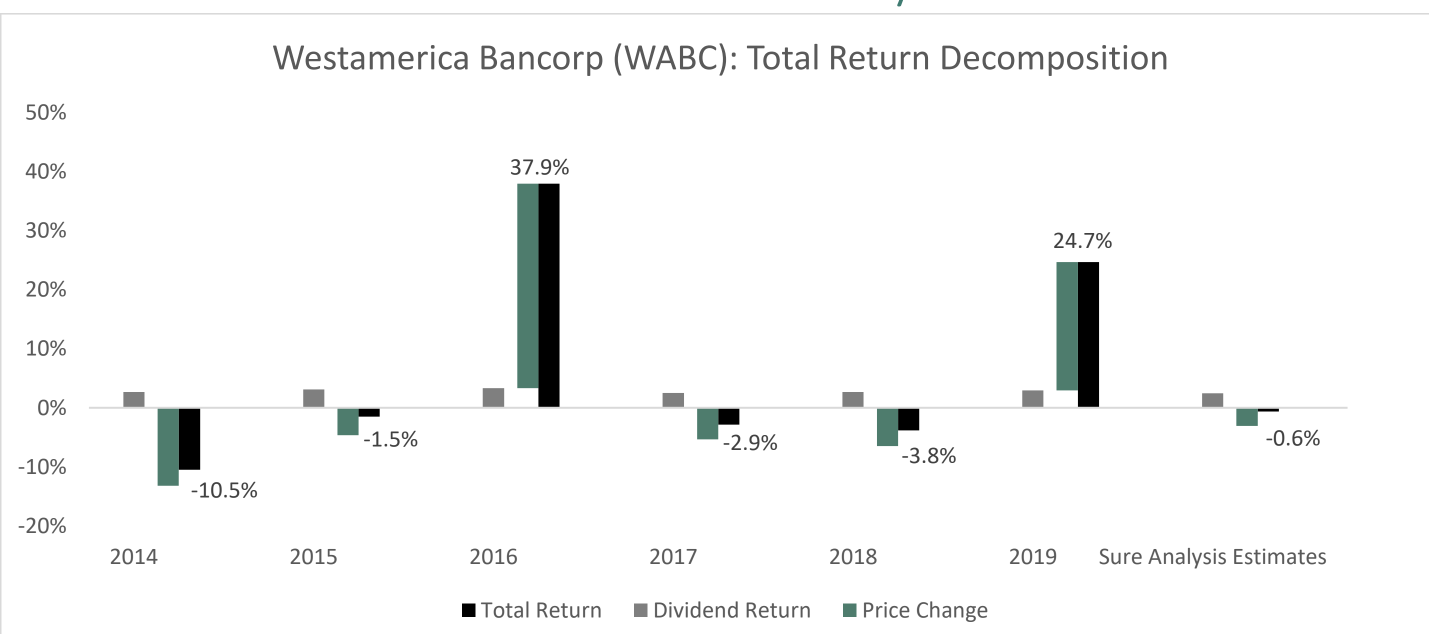
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company's dividend payout ratio 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 2020, 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

Following fourth quarter and year end results, Westamerica Bancorporation is expected to lose 0.6% annually through 2025, down from our previous estimate of a positive return of 0.5%. While the company is well run, as evidenced by its lack of underperforming loans, Westamerica Bancorporation has seen declines in its net interest margins. Shares of the stock had a total return of nearly 25% in 2019, which has led to an elevated valuation. As such, Westamerica Bancorporation continues to receive a sell recommendation from Sure Dividend.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Westamerica Bancorp (WABC)

Updated January 16th, 2020 by Nathan Parsh

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.