Westamerica Bancorp (WABC)

Updated July 16th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	1.1%	**Market Cap:**	$1.6 billion
Fair Value Price:	$48	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	8/4/2020
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	8/18/2020[1]
Dividend Yield:	2.8%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	28
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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 annual revenues of about $200 million.

Westamerica Bancorporation reported earnings results for the second quarter on 7/16/2020. The company's adjusted earnings-per-share decreased $0.01, or 1.4%, to $0.72, though this was $0.07 above estimates. Revenue decreased 1.9% to $51.6 million, but was $5 million ahead of expectations.

Westamerica Bancorporation's net interest margin was 2.99% for the second quarter compared to 3.1% for Q1 2020 and 3.13% for Q2 2019. The bank recognized $25 million in provisions for credit losses in the quarter due to the anticipated impact of COVID-19 on the economy. This was well above provisions for credit losses of $4.3 million for the first quarter of the year. Operating expenses were $24.8 million for the quarter. Analysts have lowered estimates for EPS to $2.67 from $2.91 previously.

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	***$2.67***	***$2.95***
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 2025. 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	***21.7***	***17.8***
Avg. Yld.	2.6%	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	2.4%	***2.8%***	***3.5%***

[1] Estimated dividend payment date

[2] In millions of shares

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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Westamerica Bancorporation's stock has increased $1, or 1.8%, since our 4/16/2020 update. Given expected earnings-per-share for 2020 of $2.67, the price-to-earnings ratio (P/E) is 21.7. The stock has seen its average P/E 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, then annual returns would be reduced by 3.9% 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 2.8%, 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%	***61%***	***61%***

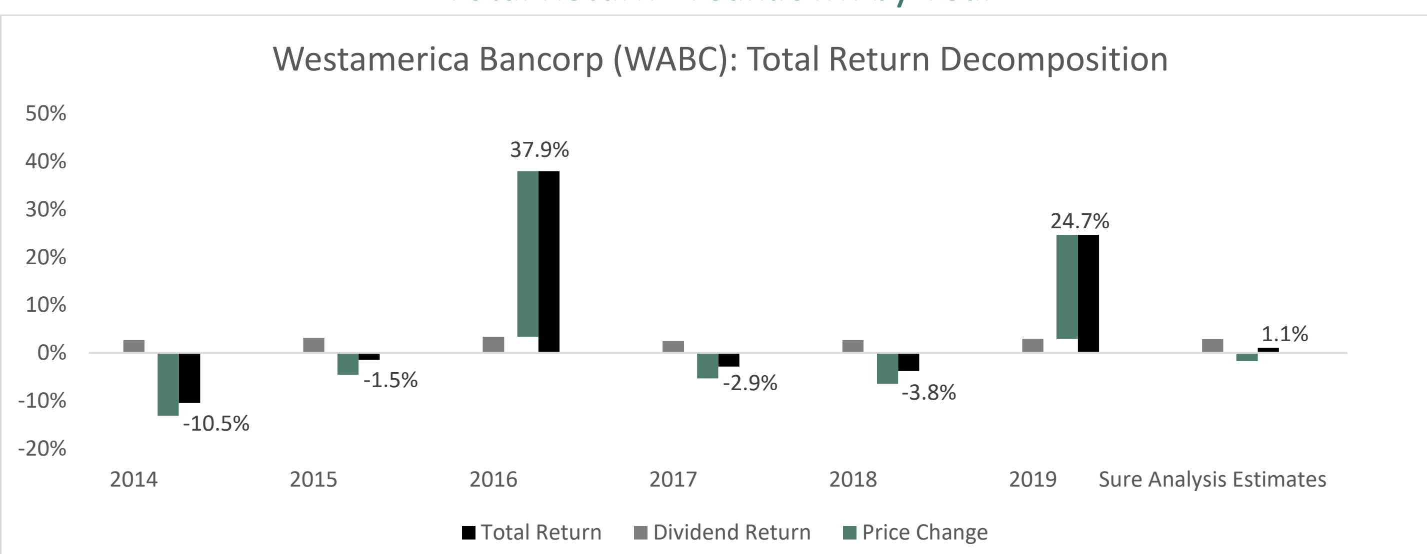
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company's dividend payout ratio 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. With rates near zero in order to help stimulate the economy during the COVID-19 pandemic, we feel Westamerica Bancorporation will face difficulty in growing its net interest margin. If the economy were 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 second quarter results, Westamerica Bancorporation is projected to return 1.1% annually through 2025, down from our previous estimate of 2.9%. Net interest margin was down from the previous year, which isn't surprising given the low interest rate environment. The company's provisions for loan losses increased significantly from the first quarter of the year, but, again, this isn't surprising as the economy continues to deal with the COIVD-19 pandemic. We have lowered our 2025 price target on Westamerica Bancorporation to $5 to $52 due to revised EPS estimates, but maintain our sell rating on the stock due to lack of projected total returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	269	257	233	206	189	182	180	192	198	204
SG&A Exp.	74	71	69	68	66	63	62	62	64	62
D&A Exp.	15	14	14	18	16	16	20	26	24	21
Net Profit	95	88	81	67	61	59	59	50	72	80
Net Margin	35.2%	34.2%	34.8%	32.7%	32.1%	32.3%	32.6%	26.0%	36.2%	39.4%
Free Cash Flow	114	117	115	84	79	66	76	78	94	77
Income Tax	37	33	25	19	18	18	21	37	19	25

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4,932	5,042	4,952	4,847	5,036	5,169	5,366	5,513	5,569	5,620
Cash & Equivalents	339	530	491	472	381	433	462	575	420	373
Accounts Receivable	226	23	20	19	19	20	21	24	26	29
Goodwill & Int. Ass.	156	150	145	140	136	132	129	126	124	123
Total Liabilities	4,386	4,484	4,392	4,304	4,509	4,637	4,805	4,923	4,953	4,888
Long-Term Debt	169	41	41	21	20	-	-	-	-	-
Shareholder's Equity	545	559	560	543	527	532	561	590	616	731
D/E Ratio	0.31	0.07	0.07	0.04	0.04	-	-	-	-	-

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.9%	1.8%	1.6%	1.4%	1.2%	1.2%	1.1%	0.9%	1.3%	1.4%
Return on Equity	18.0%	15.9%	14.5%	12.2%	11.3%	11.1%	10.8%	8.7%	11.9%	11.9%
ROIC	12.3%	13.4%	13.5%	11.5%	10.9%	10.9%	10.8%	8.7%	11.9%	11.9%
Shares Out.	29	28	27	27	26	26	26	26	26	26
Revenue/Share	9.12	8.95	8.43	7.14	7.23	7.11	7.02	7.28	7.40	7.56
FCF/Share	3.85	4.07	4.14	2.90	3.00	2.58	2.95	2.95	3.49	2.84

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