Westamerica Bancorp (WABC)

Updated October 15th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$55	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$1.5 billion
Fair Value Price:	$50	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/2/2020
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	11/13/2020[1]
Dividend Yield:	3.0%	**5 Year Price Target**	$56	**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. It has annual revenues of about $200 million.

Westamerica Bancorporation announced earnings results for the third quarter on 10/15/2020. The company's adjusted earnings-per-share declined $0.01, or 1.3%, to $0.74, but was in-line with analysts' estimates. Revenue declined 62% to $20.1 million, $29.5 million lower than expected due to deferred loan payments.

As of the end of the quarter, consumer loans granted deferrals was $5 million, commercial real estate loans with deferred payments totaled $19.1 million and deferred payments for commercial loans was $209K. Westamerica Bancorporation's net interest margin was 2.78% for the third quarter compared to 2.99% for Q2 2020 and 3.11% for Q3 2019. The company recognized no provisions for credit losses during the quarter. This was an improvement from the prior quarter where provisions for credit losses was $25 million. Analysts have raised EPS estimates for 2020 to $2.83 from $2.67 previously. Westamerica Bancorporation announced a buyback authorization of 1.75 million shares at the end of July.

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	***$2.83***	***$3.12***
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***	***24***

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.

[1] Estimated dividend payment date

[2] In millions of shares

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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	***19.4***	***17.8***
Avg. Yld.	2.6%	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	2.4%	***3.0%***	***3.3%***

Westamerica Bancorporation's stock has decreased $3, or 5.2%, since our 7/16/2020 update. Given expected earnings-per-share of $2.83 for the year, the price-to-earnings ratio (P/E) is 19.4. 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 1.7% through 2025.

Westamerica Bancorporation trades with a forward yield of 3.0%, which is higher than the yield of the S&P 500 and near the stock's own historical average.

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%	***58%***	***58%***

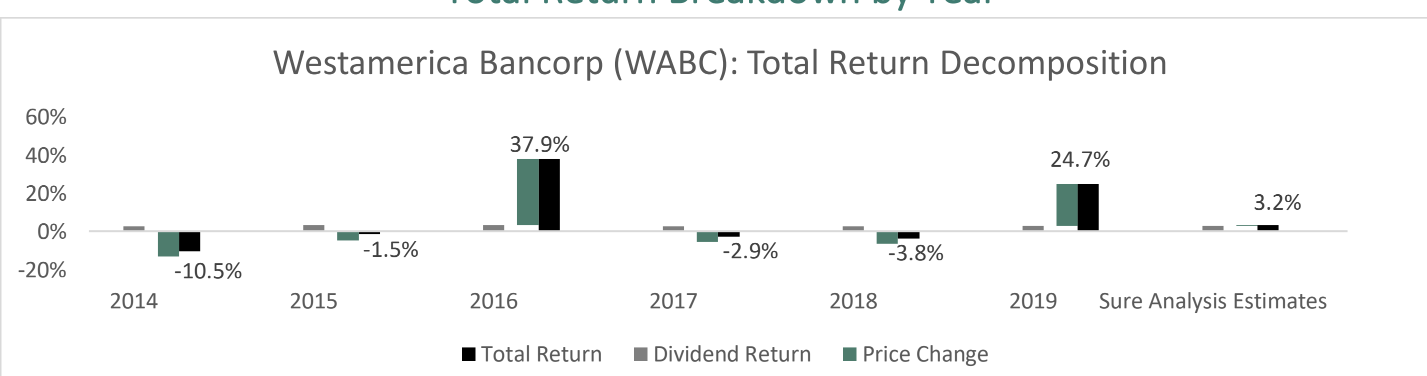
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company's dividend payout ratio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

After reviewing third quarter results, Westamerica Bancorporation is projected to return 3.2% annually through 2025, up from our previous estimate of 1.1%. Projected earnings growth of 2% annually over the next five years plus the stock's 3% dividend yield will likely be partially offset by a slight multiple reversion. Revenue was severely impaired by deferred loans, but we find the bank's lack of provisions for credit losses a positive development. We raise our 2020 price target $4 to $56 due to higher EPS estimates for 2020, but Westamerica Bancorporation continues to receive a sell rating from Sure Dividend due to projected 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.