Westamerica Bancorp (WABC)

Updated April 17th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	1.0%	**Market Cap:**	$1.7 billion
Fair Value Price:	$54	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	5/3/2021
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Dividend Payment Date:**	5/1/2021[1]
Dividend Yield:	2.5%	**5 Year Price Target**	$60	**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 79 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 released earnings results for the first quarter on 4/15/2021. Revenue grew 1.1% to $52.8 million, topping estimates by $1.4 million. Earnings-per-share of $0.75 was a 19% increase from the prior year and $0.01 ahead of expectations.

As of 3/31/2021, consumer loans granted deferrals were $1.8 million, down from $2.3 million in the fourth quarter. Commercial real estate loans with deferred payments declined to $2.3 million from $7.8 million in the previous quarter. The company had no provisions for credit losses during the quarter. Net interest income was $42.6 million for the quarter, which compares to $43.3 million for the fourth quarter of 2020 and $40.5 million for the first quarter of 2020. Average total deposits grew $92 million sequentially. Analysts expect that the company will earn $3.03 in 2021, up from $2.88 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.06	$2.93	$2.50	$2.32	$2.30	$2.29	$2.32	$2.67	$2.98	$2.98	***$3.03***	***$3.35***
DPS	$1.45	$1.48	$1.49	$1.52	$1.53	$1.56	$1.57	$1.60	$1.63	$1.64	***$1.64***	***$1.81***
Shares[2]	28	27	27	26	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 2026 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 2026. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.3	15.6	19.1	21.5	19.9	21.7	25.7	24.3	22.7	18.6	***21.5***	***17.8***
Avg. Yld.	3.1%	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	2.4%	3.0%	***2.5%***	***3.0%***

[1] Estimated dividend payment date

[2] In millions of shares

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Westamerica Bancorporation's stock has increased $6, or 10.2%, since our 1/22/2021 update. Given expected earnings-per-share for the year, the price-to-earnings ratio (P/E) is 21.5. The stock has seen its average P/E multiple vary dramatically over the past decade. Eliminating the year where the average P/E was above 24 (2017, 2018), shares of Westamerica Bancorporation have averaged a multiple of 19.3. We maintain our target price-to-earnings ratio of 17.8 given the lateness of the cycle. If shares were to revert to our target P/E, then annual returns would be reduced by 3.7% through 2026.

Westamerica Bancorporation trades with a forward yield of 2.5%, which is higher than the yield of the S&P 500, but below the stock's own historical average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	48%	51%	60%	66%	67%	68%	68%	60%	55%	55%	***54%***	***54%***

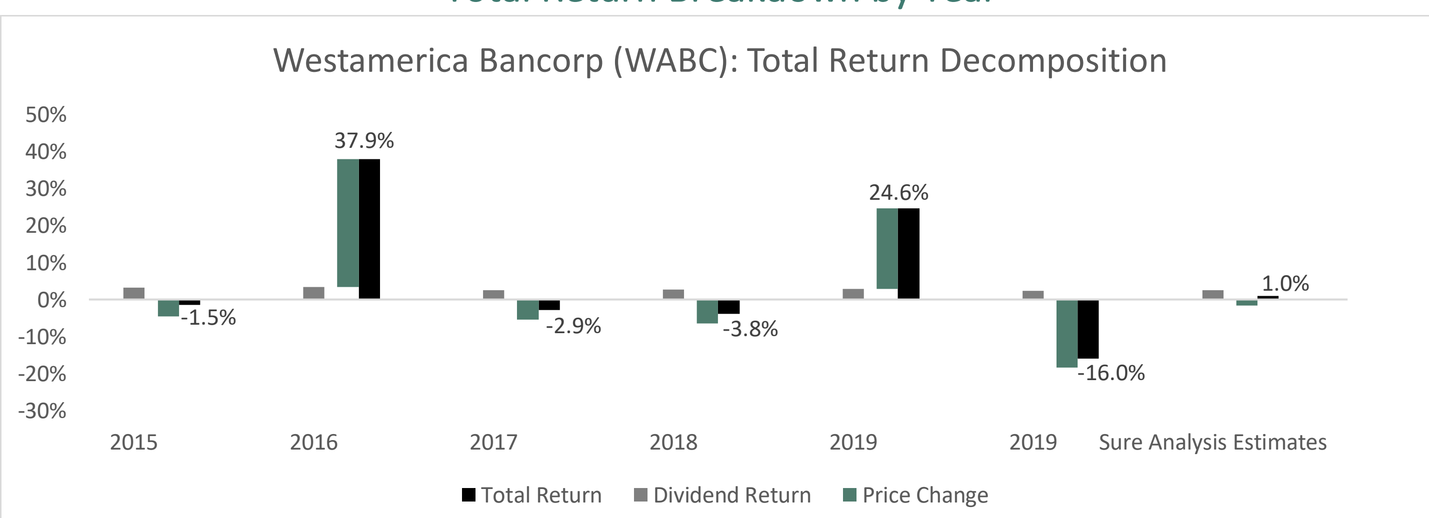
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company's dividend payout ratio 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 first quarter results, Westamerica Bancorporation is projected to return 1.0% annually through 2026, down from our previous estimate of 2.1%. Our projected returns stem from a 2% earnings growth rate and 2.5% dividend yield that are nearly offset by a low single-digit valuation reversion. Westamerica Bancorporation weathered the COVID-19 pandemic well last year and had no provisions for credit losses in the most recent quarter. We feel that the company is one of the better managed regional banks. We have increased our five-year price target $3 to $57, but note that the stock trades well above our fair value estimate. Shares are rated as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	260	235	207	189	182	180	192	198	204	206
SG&A Exp.	71	69	68	66	63	62	62	64	62	62
D&A Exp.	14	14	18	16	16	20	26	24	21	23
Net Profit	88	81	67	61	59	59	50	72	80	80
Net Margin	33.8%	34.6%	32.5%	32.2%	32.3%	32.6%	26.0%	36.2%	39.4%	39.0%
Free Cash Flow	117	115	84	79	66	76	78	94	77	106
Income Tax	33	25	19	18	18	21	37	19	25	26

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,042	4,952	4,847	5,036	5,169	5,366	5,513	5,569	5,620	6,748
Cash & Equivalents	530	491	472	381	433	462	575	420	373	621
Accounts Receivable	23	20	19	19	20	21	24	26	29	33
Goodwill & Int. Ass.	150	145	140	136	132	129	126	124	123	123
Total Liabilities	4,484	4,392	4,304	4,509	4,637	4,805	4,923	4,953	4,888	5,903
Long-Term Debt	157	41	83	110	53	59	58	51	-	-
Shareholder's Equity	559	560	543	527	532	561	590	616	731	845
D/E Ratio	0.28	0.07	0.15	0.21	0.10	0.11	0.10	0.08	-	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.8%	1.6%	1.4%	1.2%	1.2%	1.1%	0.9%	1.3%	1.4%	1.3%
Return on Equity	15.9%	14.5%	12.2%	11.3%	11.1%	10.8%	8.7%	11.9%	11.9%	10.2%
ROIC	12.3%	12.3%	10.9%	9.6%	9.6%	9.8%	7.9%	10.9%	11.5%	10.2%
Shares Out.	28	27	27	26	26	26	26	26	26	26
Revenue/Share	9.04	8.47	7.17	7.21	7.11	7.02	7.28	7.40	7.56	7.65
FCF/Share	4.07	4.14	2.90	3.00	2.58	2.95	2.95	3.49	2.84	3.91

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