



Washington Trust Bancorp, Inc. (WASH)

Updated October 26th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	9.0%	Market Cap:	\$968 M
Fair Value Price:	\$58	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/31/2021 ¹
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	1/7/2022 ²
Dividend Yield:	3.7%	5 Year Price Target	\$74	Years Of Dividend Growth:	10
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	2.0%

Overview & Current Events

Washington Trust Bancorp, Inc. operates as a holding company that has nearly \$6 billion assets. The company also provides banking services such as savings accounts, certificates of deposit and money market accounts. Washington Trust also offers loans for residential, commercial, consumer and construction customers as well as reverse mortgages. Lastly, the company also offers wealth management services, including asset management, financial planning and advisory services. Washington Trust has 22 branches located in Rhode Island and one branch in Connecticut.

On 10/25/2021, Washington Trust reported third quarter earnings results for the period ending 9/30/2021. Revenue fell 0.9% to \$56.6 million, but was \$2.7 million better than expected. GAAP earnings-per-share of \$1.07 was \$0.01 better than the prior year and \$0.11 above estimates.

Total loans fell \$13 million to \$4.3 billion. Deposits were up \$310 million, or 8%, to \$4.3 billion. There were no provisions for credit losses for the second consecutive quarter. Return on average equity and average assets was 13.37% and 1.26%, respectively, with both higher on a sequential basis. Wealth management revenues grew slightly to \$10.5 million and assets under management totaled \$7.4 billion. Net interest income grew 3.8% quarter-over-quarter while net interest margin expanded 3 basis points to 2.58%.

Washington Trust is expected to earn \$4.14 this year, down from \$4.20 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.82	\$2.13	\$2.16	\$2.41	\$2.54	\$2.70	\$2.64	\$3.93	\$3.96	\$4.00	\$4.14	\$5.28
DPS	\$0.88	\$0.94	\$1.03	\$1.22	\$1.36	\$1.46	\$1.54	\$1.76	\$2.00	\$2.05	\$2.08	\$2.65
Shares³	16	16	17	17	17	17	17	17	17	17	17	17

Washington Trust has seen its earnings-per-share compound at a rate of just over 9%, both for the last five and 10-year periods of time. This shows remarkable consistency over both periods. Earnings growth hasn't come at massive share buybacks either as the improvement is attributed to better business performance. For a very small regional bank, this is a very solid long-term growth rate. That said, we are more cautious in our long-term view because of lower interest rates and the possible lateness of the economic cycle as well as due to Washington Trust's size and scale.

Following a dividend increase of 1.96% for the 1/9/2021 payment date, Washington Trust has increased its dividend for the past 10 years. The most recent raise stands in stark contrast to the company's average increase of almost 10% dating back to 2011. Earnings-per-share still managed to grow last year even in the face of COVID-19 headwinds, so it remains to be seen if this last raise was an outlier or a sign of things to come for shareholders.

¹ Estimated date

² Estimated dividend payment date

³ Share count in millions

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.1	11.6	13.9	14.8	15.2	15.1	19.9	14.1	12.8	9.3	13.5	14.0
Avg. Yld.	3.7%	3.8%	3.4%	3.4%	3.5%	3.6%	2.9%	3.2%	3.9%	5.5%	3.7%	3.6%

Shares of Washington Trust have increased \$6, or 12.2%, since our 7/22/2021 report. Using the current share price and expected earnings-per-share for 2021, Washington Trust trades with a price-to-earnings ratio of 13.5. The stock has an average price-to-earnings ratio of approximately 14 over the medium- and long-term. We feel that this is a good starting place for a fair value estimate, implying a small tailwind from valuation expansion. Reaching our target valuation by 2026 would add 0.7% to annual returns over this period of time.

Washington Trust's dividend yield of 3.7% the average yield since 2011.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout		44%	48%	51%	54%	54%	58%	45%	51%	51%	50%	50%

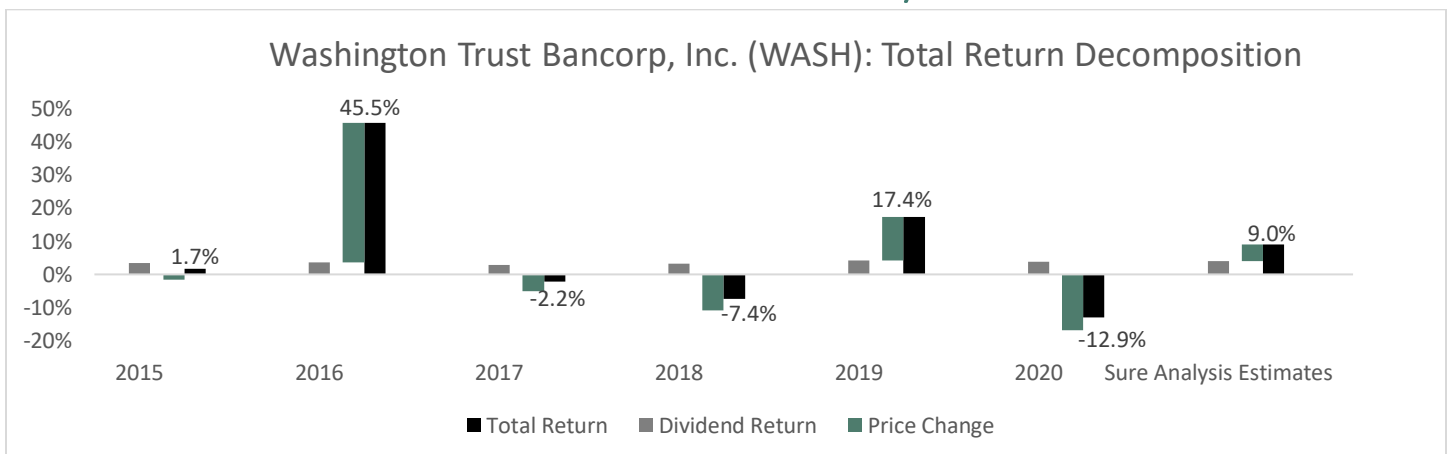
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was severely impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last recession. The company did pause its dividend in 2010, ending its 16-year run of dividend growth.

Washington Trust has no discernable competitive advantages as it has just a handful of branches that are primarily located in Rhode Island. The company does boast more than \$7 billion of assets under management in its wealth management business, a solid showing considering its size.

Final Thoughts & Recommendation

Following third quarter results, Washington Trust is expected to return 9.0% annually over the next five years, down from our prior estimate of 12.2%. This projection stems from a 5% earnings growth rate, 3.7% starting yield and a small contribution from multiple expansion. The company's quarter came in just above estimates. The yield remains attractive, but we now view the stock as a hold. Those wishing for an entry point are encouraged to wait for a slight pullback before buying shares of Washington Trust. We have lowered our five-year price target \$1 to \$74 due to revised EPS estimates.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	129	147	145	151	162	176	184	194	200	227
SG&A Exp.	55	63	63	62	66	71	72	72	75	86
Depr. And Amort.	4	4	4	4	4	5	4	4	4	4
Net Profit	30	35	36	41	43	46	46	68	69	70
Net Margin	23.0%	23.8%	24.9%	26.9%	26.8%	26.5%	24.9%	35.2%	34.5%	30.8%
Free Cash Flow	34	0	78	(3)	47	57	57	79	70	33
Income Tax	13	16	17	19	21	22	32	18	19	19

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,064	3,072	3,189	3,587	3,772	4,381	4,530	5,011	5,293	5,713
Cash & Equivalents	82	73	82	76	93	106	80	90	132	194
Goodwill & Int.	65	64	64	63	76	74	73	72	71	70
Total Liabilities	2,783	2,776	2,859	3,241	3,396	3,990	4,117	4,563	4,789	5,179
Long-Term Debt	574	395	311	429	402	872	814	973	1,164	617
Total Equity	281	296	330	346	375	391	413	448	503	534
D/E Ratio	2.04	1.34	0.94	1.24	1.07	2.23	1.97	2.17	2.31	1.15

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.0%	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	1.4%	1.3%	1.3%
Return on Equity	10.8%	12.2%	11.6%	12.1%	12.0%	12.1%	11.4%	15.9%	14.5%	13.5%
ROIC	3.5%	4.5%	5.4%	5.8%	5.6%	4.6%	3.7%	5.2%	4.5%	5.0%
Shares Out.	16	16	17	17	17	17	17	17	17	17
Revenue/Share	7.94	8.97	8.72	8.98	9.51	10.21	10.63	11.18	11.51	13.04
FCF/Share	2.06	0.02	4.70	(0.15)	2.74	3.29	3.26	4.54	4.04	1.90

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

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