



Washington Trust Bancorp, Inc. (WASH)

Updated January 27th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	6.7%	Market Cap:	\$1 B
Fair Value Price:	\$53	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	3/31/2022 ¹
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	4/8/2022 ²
Dividend Yield:	3.7%	5 Year Price Target	\$68	Years Of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	3.8%

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 1/26/2022, Washington Trust reported fourth quarter earnings results for the period ending 12/31/2021. For the quarter, revenue increased 25% to \$58.1 million, beating estimates by \$3.7 million. GAAP earnings-per-share of \$1.15 was \$0.08 better than the prior year and \$0.17 ahead estimates. For the year, revenue grew 1% to \$229 million while earnings-per-share improved 9.2% to \$4.39.

Total loans grew 1% to \$4.2 billion. Deposits were up \$162 million, or 4%, to a company record \$4.5 billion. There were no provisions for credit losses for the third consecutive quarter. Return on average equity and average assets was 14.34% and 1.36%, respectively, with both higher once again on a sequential basis. Wealth management revenues grew slightly to a record \$10.5 million and assets under management reached an all-time high of \$7.8 billion. Net interest income grew 5% quarter-over-quarter while net interest margin expanded 13 basis points to 2.71%.

Washington Trust is expected to earn \$3.79 in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.13	\$2.16	\$2.41	\$2.54	\$2.70	\$2.64	\$3.93	\$3.96	\$4.00	\$4.39	\$3.79	\$4.84
DPS	\$0.94	\$1.03	\$1.22	\$1.36	\$1.46	\$1.54	\$1.76	\$2.00	\$2.05	\$2.08	\$2.16	\$2.76
Shares³	16	17	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 8% since 2012. 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 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 3.8% for the 1/7/2022 payment date, Washington Trust has increased its dividend for the past 11 years. The most recent raise stands in stark contrast to the company's average increase of more than 9% dating back to 2012. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.6	13.9	14.8	15.2	15.1	19.9	14.1	12.8	9.3	12.8	15.3	14.0
Avg. Yld.	3.8%	3.4%	3.4%	3.5%	3.6%	2.9%	3.2%	3.9%	5.5%	3.7%	3.7%	4.1%

Shares of Washington Trust have increased \$2, or 3.6%, since our 10/26/2021 report. Using the current share price and expected earnings-per-share for 2022, Washington Trust trades with a price-to-earnings ratio of 15.3. 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 headwind from valuation contraction. Reaching our target valuation by 2027 would reduce annual returns by 1.8% over this period of time.

Washington Trust's dividend yield of 3.7% is the average yield since 2012.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	44%	48%	51%	54%	54%	58%	45%	51%	51%	47%	57%	57%

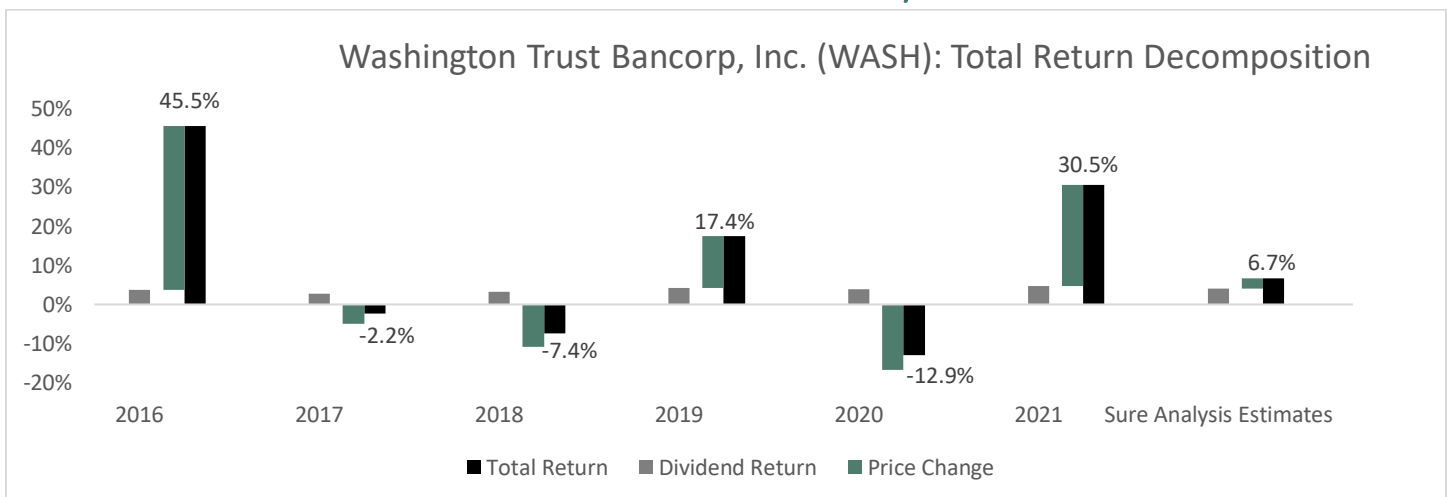
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was severely impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last 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 nearly \$8 billion of assets under management in its wealth management business, a solid showing considering its size.

Final Thoughts & Recommendation

Following fourth quarter results, Washington Trust is expected to return 6.7% annually over the next five years, down from our prior estimate of 9%. This projection stems from a 5% earnings growth rate and a 3.7% starting yield offset by a small headwind from multiple reversion. The company ended 2021 on a strong note, with record AUM and deposits. The yield remains attractive, but we continue to view the stock as a hold due to projected returns. We have lowered our five-year price target \$6 to \$68 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
LTD/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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