



Washington Trust Bancorp, Inc. (WASH)

Updated April 25th, 2022 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$50 | 5 Year CAGR Estimate: | 10.1% | Market Cap: | \$861 M |
| Fair Value Price: | \$53 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 06/30/22 ¹ |
| % Fair Value: | 93% | 5 Year Valuation Multiple Estimate: | 1.4% | Dividend Payment Date: | 07/11/22 ² |
| Dividend Yield: | 4.3% | 5 Year Price Target | \$68 | Years Of Dividend Growth: | 11 |
| Dividend Risk Score: | D | Retirement Suitability Score: | C | Rating: | Buy |

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 April 25th, 2022, Washington Trust reported first quarter earnings results for the period ending March 31st, 2022. Revenue decreased 11.3% to \$52.3 million, which was \$1.5 million less than expected. GAAP earnings-per-share of \$0.94 compared unfavorably to \$1.17 in the prior year, but was \$0.02 above estimates.

Excluding the Paycheck Protection Program, total loans grew 1% to a company record \$4.3 billion. Deposits increased 6% to a company record \$4.7 billion. Provisions for credit losses was just \$100K, which follows no provisions for credit losses for three consecutive quarters. Return on average equity and average assets was 12.04% and 1.14%, respectively, with both lower on a sequential basis. Wealth management revenues of \$10.5 million matched the all-time high and assets under management totaled \$7.8 billion. Net interest income fell 7% quarter-over-quarter and net interest margin fell 14 basis points to 2.57%.

Following earnings, Washington Trust is expected to earn \$3.82 in 2022, up from \$3.79 previously.

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 | \$3.82 | \$4.88 |
| 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 January 7th, 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 | 13.1 | 14.0 |
| Avg. Yld. | 3.8% | 3.4% | 3.4% | 3.5% | 3.6% | 2.9% | 3.2% | 3.9% | 5.5% | 3.7% | 4.3% | 4.0% |

Shares of Washington Trust have decreased \$8, or 13.8%, since our January 27th, 2022 report. Using the current share price and expected earnings-per-share for 2022, Washington Trust trades with a price-to-earnings ratio of 13.1. 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 multiple expansion. Reaching our target valuation by 2027 would add 1.4% to annual returns over this period.

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% |

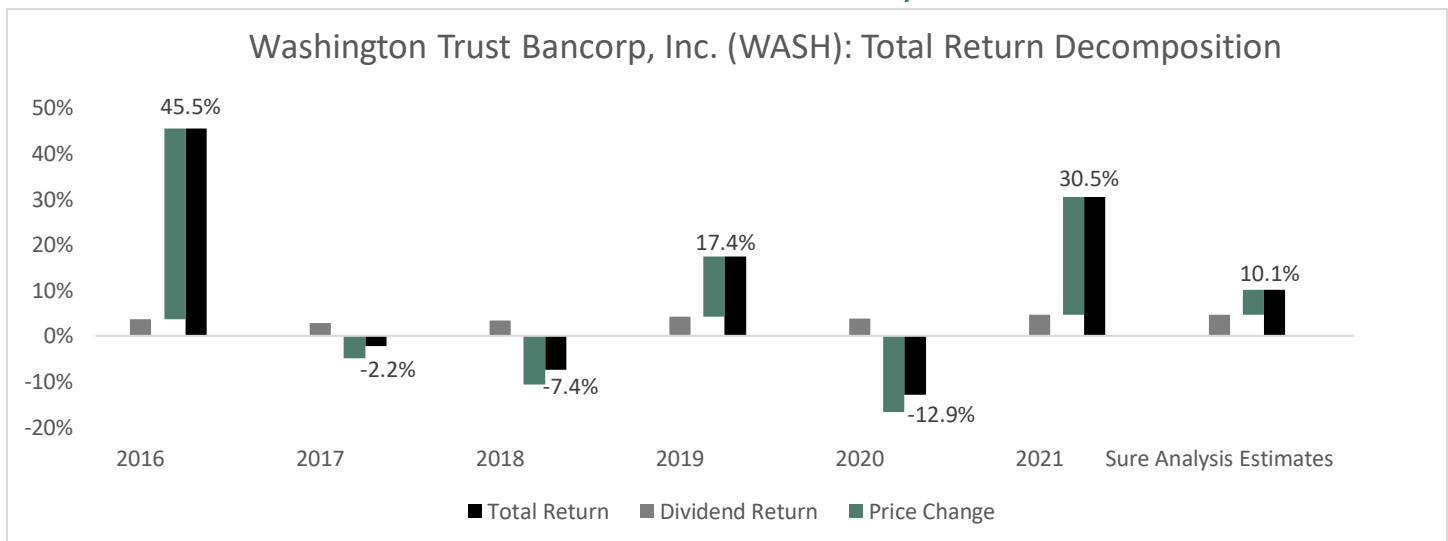
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was severely impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last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

After first quarter results, Washington Trust is expected to return 10.1% annually over the next five years, up from our prior estimate of 6.7%. This projection stems from a 5% earnings growth rate, a 4.3% starting yield, and a small contribution from multiple expansion. Washington Trust's quarter was mixed, but the company saw solid growth in most areas. Provisions for credit losses remain very low. We now view Washington Trust as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 147 | 145 | 151 | 162 | 176 | 184 | 194 | 200 | 227 | 229 |
| SG&A Exp. | 63 | 63 | 62 | 66 | 71 | 72 | 72 | 75 | 86 | 91 |
| Depr. And Amort. | 4 | 4 | 4 | 4 | 5 | 4 | 4 | 4 | 4 | 4 |
| Net Profit | 35 | 36 | 41 | 43 | 46 | 46 | 68 | 69 | 70 | 77 |
| Net Margin | 23.8% | 24.9% | 26.9% | 26.8% | 26.5% | 24.9% | 35.2% | 34.5% | 30.8% | 33.6% |
| Free Cash Flow | 0 | 78 | (3) | 47 | 57 | 57 | 79 | 70 | 33 | 97 |
| Income Tax | 16 | 17 | 19 | 21 | 22 | 32 | 18 | 19 | 19 | 21 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 3,072 | 3,189 | 3,587 | 3,772 | 4,381 | 4,530 | 5,011 | 5,293 | 5,713 | 5,851 |
| Cash & Equivalents | 73 | 82 | 76 | 93 | 106 | 80 | 90 | 132 | 194 | 175 |
| Goodwill & Int. | 64 | 64 | 63 | 76 | 74 | 73 | 72 | 71 | 70 | 69 |
| Total Liabilities | 2,776 | 2,859 | 3,241 | 3,396 | 3,990 | 4,117 | 4,563 | 4,789 | 5,179 | 5,286 |
| Long-Term Debt | 395 | 311 | 429 | 402 | 872 | 814 | 973 | 1,164 | 617 | 168 |
| Total Equity | 296 | 330 | 346 | 375 | 391 | 413 | 448 | 503 | 534 | 565 |
| LTD/E Ratio | 1.34 | 0.94 | 1.24 | 1.07 | 2.23 | 1.97 | 2.17 | 2.31 | 1.15 | 0.30 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 1.1% | 1.2% | 1.2% | 1.2% | 1.1% | 1.0% | 1.4% | 1.3% | 1.3% | 1.3% |
| Return on Equity | 12.2% | 11.6% | 12.1% | 12.0% | 12.1% | 11.4% | 15.9% | 14.5% | 13.5% | 14.0% |
| ROIC | 4.5% | 5.4% | 5.8% | 5.6% | 4.6% | 3.7% | 5.2% | 4.5% | 5.0% | 8.2% |
| Shares Out. | 16 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Revenue/Share | 8.97 | 8.72 | 8.98 | 9.51 | 10.21 | 10.63 | 11.18 | 11.51 | 13.04 | 13.11 |
| FCF/Share | 0.02 | 4.70 | (0.15) | 2.74 | 3.29 | 3.26 | 4.54 | 4.04 | 1.90 | 5.58 |

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

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