Westamerica Bancorp (WABC)

Updated October 20th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$1.5 billion
Fair Value Price:	$68	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/05/22
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.6%	**Dividend Payment Date:**	11/19/22[1]
Dividend Yield:	3.1%	**5 Year Price Target**	$75	**Years Of Dividend Growth:**	29
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 $260 million.

On October 20th, 2022 Westamerica Bancorporation reported third quarter earnings results for the period ending September 30th, 2022. Revenue grew 31.4% to $72.6 million while GAAP earnings-per-share of $1.26 compared to $0.82 in the prior year.

As of the end of the quarter, nonperforming loans totaled $966K. Provisions for credit losses totaled $21.2 million, down 4.9% sequentially. Total loans fell 15.9% to $989 million, mostly due to a steep decline in Paycheck Protection Program (PPP) loans. Net interest income was $60.8 million, which compares to $48 million for the second quarter of 2022. Average total deposits grew 4.4% to $6.5 billion.

Analysts expect that the company will earn $3.75 in 2022, up from $3.60 and $3.40 previously.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.93	$2.50	$2.32	$2.30	$2.29	$2.32	$2.67	$2.98	$2.98	$3.22	***$3.75***	***$4.14***
DPS	$1.48	$1.49	$1.52	$1.53	$1.56	$1.57	$1.60	$1.63	$1.64	$1.65	***$1.68***	***$1.85***
Shares[2]	27	27	26	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 until 2018, which was just the second year since 2009 that earnings increased year-over- year. The company has seen flat or higher earnings-per-share each year since. We anticipate an annual earnings-per-share growth rate of 2% through 2027 due to quality of loans and increases in revenue.

Westamerica Bancorporation has increased its dividend for the past 29 years. The company most recently increased its dividend by 2.4% for the November 19th, 2021 payment date. The dividend has compounded at a rate of 1.2% annually over the last decade. Note that the company also tends to raise its dividend every other year, but does so in the fourth 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.6	19.1	21.5	19.9	21.7	25.7	24.3	22.7	18.6	17.9	***14.4***	***18.0***
Avg. Yld.	3.2%	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	2.4%	3.0%	2.9%	***3.1%***	***2.5%***

Westamerica Bancorporation's stock has declined $5, or 8.5%, since our July 22nd, 2022 update. Given expected earnings-per-share for the year, the price-to-earnings ratio (P/E) is 14.4. 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 more than 19. We believe a multiple of 18 times earnings is a good starting point given the likely lateness of the current economic cycle. If shares were to revert to our target P/E, valuation would add 4.6% to annual returns through 2027.

Westamerica Bancorporation trades with a forward yield of 3.1%, which is higher than the yield of the S&P 500 and just below the stock's long-term historical average 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	51%	60%	66%	67%	68%	68%	60%	55%	55%	51%	***45%***	***45%***

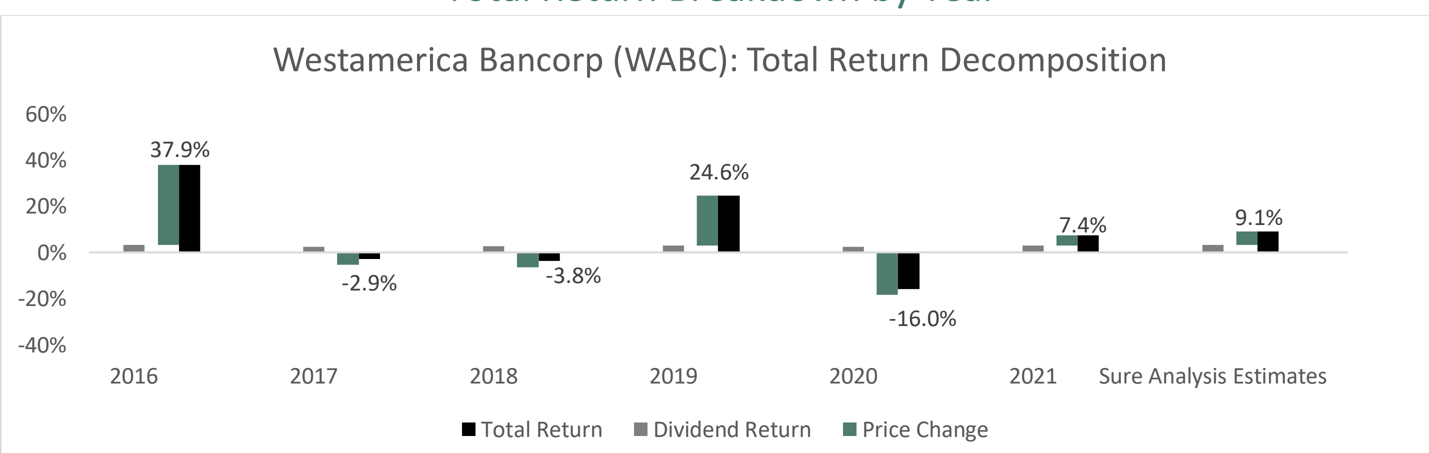
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company's dividend payout ratio 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. The Federal Reserve has indicated that rate hikes will likely remain aggressive in 2022, which should be a material benefit to Westamerica Bancorporation were this to occur.

Final Thoughts & Recommendation

Following second quarter results, Westamerica Bancorporation is projected to return 9.1% annually through 2027, up from our previous estimate of 6.4%. Our projected returns stem from a 2% earnings growth rate, 3.1% dividend yield, and a single-digit contribution from multiple expansion. Once again, Westamerica Bancorporation saw strength in most areas outside of PPP loans and shares offer a decent yield. The company is also seeing a benefit from higher interest rates that should continue. That said, Westamerica Bancorporation earns a hold rating due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	235	207	189	182	180	192	198	204	206	215
SG&A Exp.	69	68	66	63	62	62	64	62	62	60
D&A Exp.	14	18	16	16	20	26	24	21	23	17
Net Profit	81	67	61	59	59	50	72	80	80	87
Net Margin	34.6%	32.5%	32.2%	32.3%	32.6%	26.0%	36.2%	39.4%	39.0%	40.3%
Free Cash Flow	115	84	79	66	76	78	94	77	106	87
Income Tax	25	19	18	18	21	37	19	25	26	31

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,952	4,847	5,036	5,169	5,366	5,513	5,569	5,620	6,748	7,461
Cash & Equivalents	491	472	381	433	462	575	420	373	621	1,132
Accounts Receivable	20	19	19	20	21	24	26	29	33	36
Goodwill & Int. Ass.	145	140	136	132	129	126	124	123	123	123
Total Liabilities	4,392	4,304	4,509	4,637	4,805	4,923	4,953	4,888	5,903	6,634
Long-Term Debt	41	83	110	53	59	58	51	-	-	-
Shareholder's Equity	560	543	527	532	561	590	616	731	845	827
LTD/E Ratio	0.07	0.15	0.21	0.10	0.11	0.10	0.08	-	-	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	1.4%	1.2%	1.2%	1.1%	0.9%	1.3%	1.4%	1.3%	1.2%
Return on Equity	14.5%	12.2%	11.3%	11.1%	10.8%	8.7%	11.9%	11.9%	10.2%	10.3%
ROIC	12.3%	10.9%	9.6%	9.6%	9.8%	7.9%	10.9%	11.5%	10.2%	10.3%
Shares Out.	27	27	26	26	26	26	26	26	26	26
Revenue/Share	8.47	7.17	7.21	7.11	7.02	7.28	7.40	7.56	7.65	8.00
FCF/Share	4.14	2.90	3.00	2.58	2.95	2.95	3.49	2.84	3.91	3.25

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