



Northwest Bancshares, Inc. (NWBI)

Updated October 31th, 2022 by Felix Martinez

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	9.8%	Market Cap:	\$1.90 B
Fair Value Price:	\$15	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/02/22
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	11/14/22
Dividend Yield:	5.4%	5 Year Price Target	\$19	Years Of Dividend Growth:	12
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

The bank was founded in 1896 in Bradford, Pennsylvania. At that time, the bank was known as Northwest Mutual Savings Association. Northwest Bancshares is a bank holding company that offers full-service financial institutions providing a complete line of personal and business banking products, including employee benefits, investment management services, and trust. Northwest is regulated by the Board of Governors of the Federal Reserve System. Northwest Bank is the leading subsidiary of Northwest Bancshares, and it operates 162 branches in central and western Pennsylvania, western New York, eastern Ohio, and Indiana. Northwest Bancshares trades under the ticker NEBI and has been paying a rising dividend for twelve consecutive years but paying a dividend for twenty-one years. Currently, the company has a market capitalization of \$1.90 billion.

On October 24th, 2022, the company announced the third quarter and first nine results for the fiscal year (FY)2022. Total interest income was up 14.6% for the quarter, from \$98.4 million to \$112.7 million compared to the third quarter of FY2021. This increase in net interest income is due to both the increase in market interest rates and the change in the company interest-earning asset mix. Also, net income was up for the quarter to \$37.3 million or \$0.29 per diluted share, compared to \$35.1 million or \$0.27 per diluted share, which is a 6.4% increase. For the first nine months of the year, net interest is up 1.7% compared to the first nine months of 2021. Net income, however, is down for the first nine months of the year versus the first nine months of last year. Net income is down (20.3)% year over year. Thus, earnings per share are also down from \$0.97 to \$0.78 per share, which is a decrease of (19.5)%.

The company continued to experience improvement in asset quality as classified loans decreased by \$146.6 million, or 38.1%, to \$237.7 million, or 2.2% of total loans, for the quarter, from \$384.4 million, or 3.8% of total loans, at September 30, 2021. Total delinquent loans also decreased to \$44.7 million, or 0.4% of loans receivable, for the quarter from \$64.0 million, or 0.6% of loans receivable, at September 30, 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.68	\$0.73	\$0.67	\$0.64	\$0.49	\$0.92	\$1.02	\$1.04	\$0.62	\$1.21	\$1.09	\$1.39
DPS	\$0.48	\$0.50	\$0.52	\$0.56	\$0.60	\$0.64	\$0.68	\$0.72	\$0.76	\$0.79	\$0.80	\$1.00
Shares¹	94	91	92	95	101	103	104	106	120	120	127.0	127.0

The company earnings have been very erratic thought the past ten years. From 2013 to 2016, earnings were on a downward trend. From 2017 to 2019, earnings were growing at a double-digit rate. Over the ten years, the company has grown earnings at a 6.6% Compound Annual Growth Rate (CAGR). Over the last five years, the company has had a 3.1% CAGR, driven mainly by the 2020 COVID-19 pandemic, which saw earnings drop by (40)% from \$1.04 per share in 2019 to \$0.62 per share in 2020. However, we expect the company to continue to grow earnings at a 5% annual rate for the next five years. This will be driven by optimizing its branch networks and acquiring smaller local banks. The company has a solid dividend history considering the erratic earnings growth. Over the past ten years, the dividend has grown at a

¹ Share count is 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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5.7% rate and a 4.6% rate over the past five years. Thus, we expect the company to continue to grow its dividend at 4.5% for the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.1	20.3	18.7	21.0	36.5	18.2	16.6	15.9	20.4	11.7	13.8	14.0
Avg. Yld.	4.0%	3.4%	4.2%	4.2%	3.3%	3.8%	4.0%	4.3%	6.0%	5.6%	5.4%	5.1%

Because of the erratic earnings over the years, its PE ratios have also seen their ups and downs. For example, in 2016, the company's PE was 36.5, and in 2021 it was 11.7. Over the past ten years, the company has had an average PE of 19.6 and a five-year PE average of 16.6. We think that a fair PE ratio would be 14. This is below its ten- and five-year average, but it would account for the erratic behavior of the company earnings. The dividend yield is desirable to income investors. The current dividend yield is 5.4%, higher than its own ten- and five-year average of 4.3% and 4.7%, respectively.

Safety, Quality, Competitive Advantage, & Recession Resiliency

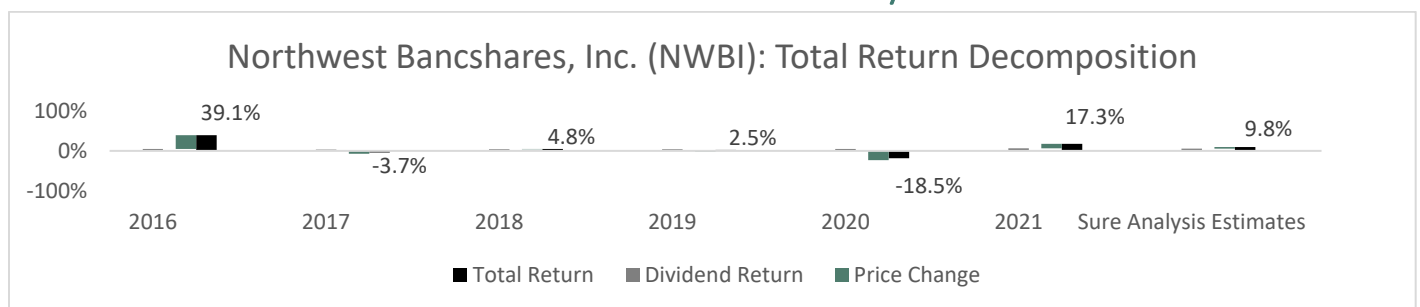
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	70.6%	68.5%	77.6%	87.5%	122%	69.6%	66.7%	69.2%	122%	65.3%	73%	72%

Northwest Bancshares is a small local bank compared to other national banks, but its most significant competitive advantage is its size. For example, it's easier for the company to optimize and minimize expenses which will help grow profit. Also, it is faster for small business owners or homeowners to obtain loans, which will help the company compete in the complete loan industry. The company did very well during the Great Recession, considering most banks had substantial earnings drops and dividend cuts. NWBI did not cut its dividend during the Great Recession, but earnings fell by (32)% in 2009. But in 2010, earnings grew by 53% to \$0.53 per share from \$0.44 per share in 2019. However, during the COVID-19 pandemic, the company's earnings fell (40)% from \$10.4 per share in 2019 to \$0.62 per share in 2020. Nevertheless, the company continues to pay a rising dividend. The company has a debt-to-equity ratio of 0.3, which is excellent. This is the reason the company was able to withstand the COVID-19 pandemic. Overall, NWBI has a solid balance sheet that has withstood two economic recessions.

Final Thoughts & Recommendation

Northwest Bancshares is a solid bank with an outstanding balance sheet and dividend history. The biggest concerns are inconsistent earnings and a higher dividend payout ratio. We expect the company to generate an annual rate of return over the next five years of 9.8%. This will primarily be driven by a higher dividend yield of 5.6%. Thus, Northwest Bancshares earns a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	321	318	317	329	390	438	428	457	521	507
SG&A Exp.	138	139	141	146	171	182	178	185	207	221
D&A Exp.	9	9	10	9	15	14	8	4	5	
Net Profit	63	67	62	61	50	94	105	110	75	154
Net Margin	19.7%	20.9%	19.6%	18.4%	12.7%	21.5%	24.6%	24.1%	14.4%	30.4%
Free Cash Flow	109	111	81	100	120	148	134	117	128	
Income Tax	26	26	22	28	22	41	28	31	18	47

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7,943	7,880	7,775	8,952	9,624	9,364	9,608	10,494	13,806	14,502
Cash & Equivalents	451	391	240	167	390	78	69	61	736	1,279
Accounts Receivable	23	19	19	21	22	23	24	26	36	26
Goodwill & Int. Ass.	178	177	178	271	340	333	327	369	402	394
Total Liabilities	6,814	6,725	6,712	7,789	8,453	8,156	8,350	9,141	12,268	12,918
Accounts Payable	1	1	1	2	1	0	1	1	2	2
Long-Term Debt	963	985	991	1,086	254	219	346	368	412	392
Shareholder's Equity	1,128	1,155	1,063	1,163	1,171	1,208	1,258	1,353	1,539	1,584
LTD/E Ratio	0.85	0.85	0.93	0.93	0.22	0.18	0.27	0.27	0.27	0.25

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.8%	0.8%	0.8%	0.7%	0.5%	1.0%	1.1%	1.1%	0.6%	1.1%
Return on Equity	5.6%	5.8%	5.6%	5.4%	4.3%	7.9%	8.6%	8.5%	5.2%	9.9%
ROIC	3.1%	3.1%	3.0%	2.8%	2.7%	6.6%	7.0%	6.6%	4.1%	7.9%
Shares Out.	94	91	92	95	101	103	104	106	120	120
Revenue/Share	3.41	3.48	3.43	3.47	3.88	4.27	4.13	4.32	4.33	3.97
FCF/Share	1.15	1.21	0.87	1.05	1.20	1.44	1.29	1.10	1.07	

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

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