



# Washington Trust Bancorp, Inc. (WASH)

Updated January 26<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$43	<b>5 Year CAGR Estimate:</b>	14.5%	<b>Market Cap:</b>	\$741 M
<b>Fair Value Price:</b>	\$56	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	03/30/23 <sup>1</sup>
<b>% Fair Value:</b>	77%	<b>5 Year Valuation Multiple Estimate:</b>	5.5%	<b>Dividend Payment Date:</b>	04/07/23 <sup>2</sup>
<b>Dividend Yield:</b>	5.2%	<b>5 Year Price Target</b>	\$72	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 December 15<sup>th</sup>, 2022, Washington Trust increased its quarterly dividend 3.7% to \$0.56.

On January 25<sup>th</sup>, 2023, Washington Trust reported fourth quarter and full year earnings results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue declined 5% to \$55.13 million. GAAP earnings-per-share of \$0.95 compared unfavorably to \$1.15 in the prior year. For the year, earnings-per-share equaled \$4.11 compared to \$4.39 in the prior year.

Total loans grew 5% to a company record \$5.1 billion. The company had a provision for credit losses of \$800 thousand. Deposits increased 1% to \$4.7 billion. Return on average equity and average assets was 14.96% and 1.01%, respectively, with both lower on a sequential basis. Wealth management revenues of \$8.6 million were down 18% and assets under management totaled \$5.3 billion. Net interest income improved 9.5% year-over-year to \$41.3 million while the net interest margin contracted 6 basis points to 2.65%.

Following earnings, we continue to expect that Washington Trust will earn \$4.68 per share in 2023.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.16	\$2.41	\$2.54	\$2.70	\$2.64	\$3.93	\$3.96	\$4.00	\$4.39	\$4.11	<b>\$4.68</b>	<b>\$5.97</b>
<b>DPS</b>	\$1.03	\$1.22	\$1.36	\$1.46	\$1.54	\$1.76	\$2.00	\$2.05	\$2.08	\$2.16	<b>\$2.24</b>	<b>\$2.86</b>
<b>Shares<sup>3</sup></b>	17	17	17	17	17	17	17	17	17	17	<b>17</b>	<b>17</b>

Washington Trust has seen its earnings-per-share compound at a rate of just over 7% since 2013. 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 the most recent dividend raise, Washington Trust has increased its dividend for the past 13 years. The most recent raise stands in stark contrast to the company's average increase of almost 9% dating back to 2013. 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.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.9	14.8	15.2	15.1	19.9	14.1	12.8	9.3	12.8	11.5	9.2	12.0
Avg. Yld.	3.4%	3.4%	3.5%	3.6%	2.9%	3.2%	3.9%	5.5%	3.7%	4.6%	5.2%	4.0%

Shares of Washington Trust have decreased \$5, or 10.4%, since our October 25<sup>th</sup>, 2022 report. Using the current share price and expected earnings-per-share for 2023, Washington Trust trades with a price-to-earnings ratio of 9.2. We believe a target price-to-earnings ratio of 12 reflects the company's growth prospects while taking into account the average valuation of peers. Reaching our target valuation by 2028 would add 5.5% to annual returns over this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	48%	51%	54%	54%	58%	45%	51%	51%	47%	53%	48%	48%

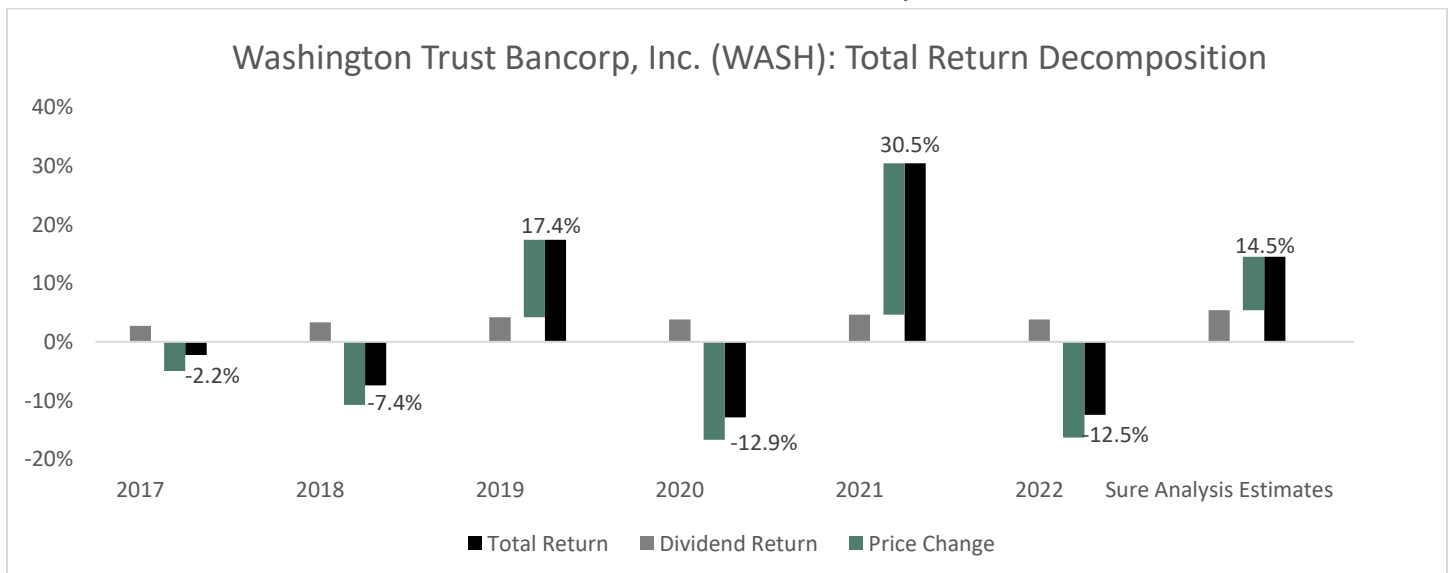
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was severely impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last 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 \$5 billion of assets under management in its wealth management business, a solid showing considering its size.

## Final Thoughts & Recommendation

After fourth quarter results, Washington Trust is expected to return 14.5% annually over the next five years, up from our prior estimate of 12.7%. This projection stems from a 5% earnings growth rate, the 5.2% starting yield, and a mid-single-digit contribution from multiple expansion. Washington Trust showed solid year-over-year loan growth and net interest income continues to benefit from interest rate hikes. We have lowered our five-year price target \$3 to \$75 due to a lower target valuation, but maintain our buy rating on shares of Washington Trust due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	145	151	162	176	184	194	200	227	229	219
<b>SG&amp;A Exp.</b>	63	62	66	71	72	72	75	86	91	88
<b>Depr. And Amort.</b>	4	4	4	5	4	4	4	4	4	
<b>Net Profit</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Margin</b>	36	41	43	46	46	68	69	70	77	72
<b>Free Cash Flow</b>	24.9%	26.9%	26.8%	26.5%	24.9%	35.2%	34.5%	30.8%	33.6%	32.8%
<b>Income Tax</b>	78	(3)	47	57	57	79	70	33	97	

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	3,189	3,587	3,772	4,381	4,530	5,011	5,293	5,713	5,851	6,660
<b>Cash &amp; Equivalents</b>	82	76	93	106	80	90	132	194	175	115
<b>Goodwill &amp; Int.</b>	64	63	76	74	73	72	71	70	69	68
<b>Total Liabilities</b>	2,859	3,241	3,396	3,990	4,117	4,563	4,789	5,179	5,286	6,206
<b>Long-Term Debt</b>	311	429	402	872	814	973	1,164	617	168	1,003
<b>Total Equity</b>	330	346	375	391	413	448	503	534	565	454
<b>LTD/E Ratio</b>	0.94	1.24	1.07	2.23	1.97	2.17	2.31	1.15	0.30	2.21

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.2%	1.2%	1.2%	1.1%	1.0%	1.4%	1.3%	1.3%	1.3%	1.1%
<b>Return on Equity</b>	11.6%	12.1%	12.0%	12.1%	11.4%	15.9%	14.5%	13.5%	14.0%	14.1%
<b>ROIC</b>	5.4%	5.8%	5.6%	4.6%	3.7%	5.2%	4.5%	5.0%	8.2%	6.5%
<b>Shares Out.</b>	17	17	17	17	17	17	17	17	17	17
<b>Revenue/Share</b>	8.72	8.98	9.51	10.21	10.63	11.18	11.51	13.04	13.11	12.58
<b>FCF/Share</b>	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.

### Disclaimer

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