Westamerica Bancorp (WABC)

Updated April 20th, 2023 by Nathan Parsh

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	16.0%	**Market Cap:**	$1.1 billion
Fair Value Price:	$70	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	05/05/23
% Fair Value:	59%	**5 Year Valuation Multiple Estimate:**	11.3%	**Dividend Payment Date:**	05/19/23[1]
Dividend Yield:	4.1%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Buy

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 nearly $270 million.

On April 20th, 2023 Westamerica Bancorporation reported first quarter earnings results for the period ending March 31st, 2023. Revenue increased 44.6% to $80.1 million while GAAP earnings-per-share of $1.51 compared to $0.84 in the prior year.

As of the end of the quarter, nonperforming loans totaled $785,000, up just slightly on a sequential basis. First quarter results included a provision for credit losses reversal of $1.6 million, which contributed $0.04 to earnings-per-share results. This compared favorably to provisions for credit losses of $22.9 million in the same period a year ago. Total loans fell 8.1% to $946 million, mostly due to a steep decline in Paycheck Protection Program (PPP) loans. Net interest income was $69.6 million, which compares to $69.2 million for the fourth quarter of 2022 and $43.8 million in the first quarter of 2022. Net interest margin of 4.18% compared to 3.95% in the fourth quarter of 2022 and 2.51% in the first quarter of 2022. Average total deposits fell 5.2% to $6.1 billion.

Analysts expect that the company will earn $5.38 in 2023, down from $5.98 previously.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.50	$2.32	$2.30	$2.29	$2.32	$2.67	$2.98	$2.98	$3.22	$4.54	***$5.38***	***$5.94***
DPS	$1.49	$1.52	$1.53	$1.56	$1.57	$1.60	$1.63	$1.64	$1.65	$1.68	***$1.68***	***$1.85***
Shares[2]	27	26	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 2028 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.

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[1] Estimated dividend payment date
[2] In millions of shares

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.1	21.5	19.9	21.7	25.7	24.3	22.7	18.6	17.9	13.0	***7.6***	***13.0***
Avg. Yld.	3.1%	3.0%	3.3%	3.1%	2.6%	2.8%	2.4%	3.0%	2.9%	2.8%	***4.1%***	***2.4%***

Westamerica Bancorporation's stock have declined $15, or 26.8%, since our January 20th, 2023 update. Using the expected earnings-per-share for the year, the price-to-earnings ratio (P/E) is 7.6. 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 have lowered our target valuation to 13 times earnings from 16 times earnings given the likely lateness of the current economic cycle. If shares were to revert to our target P/E, valuation would add 11.3% to annual returns through 2028.

Westamerica Bancorporation trades with a forward yield of 4.1%, which is higher than the yield of the S&P 500 and the stock's long-term historical average 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	60%	66%	67%	68%	68%	60%	55%	55%	51%	37%	***31%***	***31%***

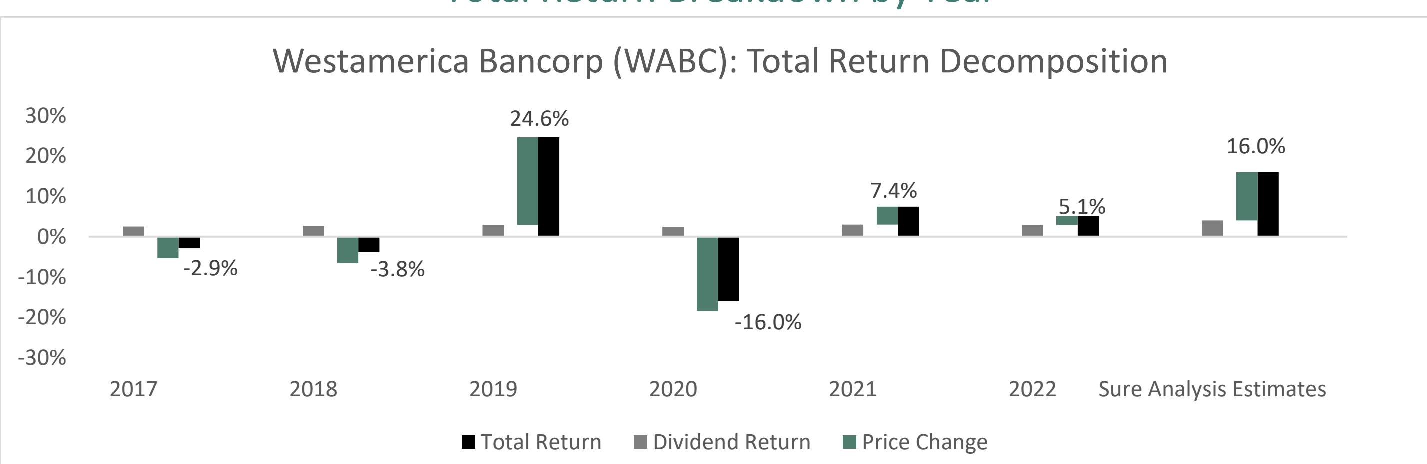
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company's dividend payout ratio 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 interest rates will likely remain higher for longer in 2023, which should be a material benefit to Westamerica Bancorporation were this to occur.

Final Thoughts & Recommendation

Following first quarter results, Westamerica Bancorporation is projected to return 16.0% annually through 2028, up from our previous estimate of 15.4%. Our projected returns stem from a 2% earnings growth rate, 4.1% dividend yield, and a low double-digit contribution from multiple expansion. Loan growth continues to be weak, primarily due to the PPP program, but deposits also decreased. That said, the company is also seeing a benefit from higher interest rates that should continue. We continue to rate shares of Westamerica Bancorporation as a buy 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	207	189	182	180	192	198	204	206	215	265
SG&A Exp.	57	55	52	52	52	53	51	51	48	46
D&A Exp.	18	16	16	20	26	24	21	23	17	17
Net Profit	67	61	59	59	50	72	80	80	87	122
Net Margin	32.5%	32.2%	32.3%	32.6%	26.0%	36.2%	39.4%	39.0%	40.3%	46.1%
Free Cash Flow	84	79	66	76	78	94	77	106	87	122
Income Tax	19	18	18	21	37	19	25	26	31	44

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,847	5,036	5,169	5,366	5,513	5,569	5,620	6,748	7,461	6,950
Cash & Equivalents	472	381	433	462	575	420	373	621	1,132	294
Accounts Receivable	19	19	20	21	24	26	29	33	36	54
Goodwill & Int. Ass.	140	136	132	129	126	124	123	123	123	122
Total Liabilities	4,304	4,509	4,637	4,805	4,923	4,953	4,888	5,903	6,634	6,348
Long-Term Debt	83	110	53	59	58	51	---	---	---	---
Shareholder's Equity	543	527	532	561	590	616	731	845	827	602
LTD/E Ratio	0.15	0.21	0.10	0.11	0.10	0.08	---	---	---	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.4%	1.2%	1.2%	1.1%	0.9%	1.3%	1.4%	1.3%	1.2%	1.7%
Return on Equity	12.2%	11.3%	11.1%	10.8%	8.7%	11.9%	11.9%	10.2%	10.3%	17.1%
ROIC	10.9%	9.6%	9.6%	9.8%	7.9%	10.9%	11.5%	10.2%	10.3%	16.4%
Shares Out.	27	26	26	26	26	26	26	26	26	26
Revenue/Share	7.17	7.21	7.11	7.02	7.28	7.40	7.56	7.65	8.00	9.85
FCF/Share	2.90	3.00	2.58	2.95	2.95	3.49	2.84	3.91	3.25	4.20

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