



Washington Federal, Inc. (WAFD)

Updated July 15th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	15.9%	Market Cap:	\$1.7 B
Fair Value Price:	\$39	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	08/18/23
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.8%	Dividend Payment Date¹:	09/01/23
Dividend Yield:	3.7%	5 Year Price Target	\$50	Years Of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Washington Federal, Inc. is the parent company of Washington Federal, a national bank that runs more than 200 offices across eight states, primarily in the West of the United States. Key states include Washington, Oregon, and Arizona, which account for nearly 80% of loans. Profits are derived mostly from interest sources, as non-interest income makes up only about 9% of net revenue. Most of the loan book is oriented toward single-family mortgages, which account for 35% of the portfolio as of December 31st, 2022. Construction loans account for 12%, commercial real estate loans for nearly 19%, commercial and industrial loans for 15%, and multifamily loans for about an additional 16%. Washington Federal is a \$1.7 billion company and has about 2,150 employees.

Washington Federal's 2025 vision has a digital focus to become a highly profitable, digital-first bank that leverages data to anticipate financial needs and improve client relationships. In the years before, the focus has been on a stronger and more diversified balance sheet by shifting the emphasis from consumer deposits and home loans to commercial and industrial loans. In November 2022, WAFD announced a deal to acquire Luther Burbank Corporation for \$654 million. This acquisition will help the company to enter the lucrative and "fast-growing" California market.

On July 14th, 2023, Washington Federal released third-quarter fiscal year 2023 results for the period ending June 30th, 2023. For the quarter the company reported quarterly earnings of \$61.8 million which represents a 2.4% decline compared with quarterly earnings of \$63.3 million in the same quarter last year. Diluted earnings-per-share equaled \$0.89 compared to \$0.91 in the year ago period, a 2.1% decrease.

The company saw positive deposit growth with net deposit inflows totaling \$259 million. Despite challenges in the interest rate environment and the banking industry turmoil in the past six months, net income remained relatively stable compared to the same quarter last year. The contraction of the net interest margin by 42 basis points from December 2022 to March 2023, and a further 5 basis points from March to June 2023, indicates a slower pace of margin contraction, which is seen as a positive sign for the bank's future. Washington Federal's net interest margin was 3.21% in the third fiscal quarter of 2023 compared to 3.26% for the quarter ended March 31, 2022. The company's efficiency ratio in the third fiscal quarter of 2023 remained stable at 51.9%, compared to 51.6% for the same period one year ago. Although the bank had experienced nine consecutive years of net recoveries, the last two quarters saw net loan charge-offs due to the rapid rise in interest rates. However, overall credit quality remains favorable, as over 85% of loans are secured by real estate with an estimated average loan-to-value ratio of under 45%. While certain segments may face additional stress, the bank believes its conservative underwriting practices will ultimately benefit its performance.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.45	\$1.55	\$1.67	\$1.78	\$1.94	\$2.40	\$2.61	\$2.26	\$2.39	\$3.39	\$3.90	\$4.98
DPS	\$0.36	\$0.46	\$0.51	\$0.55	\$0.59	\$0.67	\$0.79	\$0.87	\$0.91	\$0.95	\$1.00	\$1.40
Shares²	102	98	93	90	87	83	79	76	65	65	64	63

¹ Estimated date.

² 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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Washington Federal has grown its earnings-per-share by 9.9% per year over the past nine years and 10.2% over the past five years. We expect earnings to increase by 5% per year for the next five years based on the good loan and deposit momentum combined with the digitalization of the bank.

After the financial crisis, the company has been able to increase its yearly dividend payout for 13 consecutive years. Over the last five years, the average annual dividend growth rate is 8.3%. In February 2023, the company increased its quarterly dividend by 4.2% from \$0.24 to \$0.25 per share. During the reported quarter, Washington Federal repurchased 1,116,649 shares at an average price of \$25.62 per share.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.5	14.3	13.2	13.5	16.7	14.2	12.0	13.1	12.4	12.2	6.9	10.0
Avg. Yld.	1.9%	2.0%	2.1%	2.4%	2.3%	1.8%	2.0%	2.6%	3.0%	2.7%	3.7%	2.8%

During the past decade shares of Washington Federal have traded with an average price-to-earnings ratio of about 13.4 times earnings and today, it stands at 6.9. We are using 10 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 3.7% which is above the average yield over the past decade of 2.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	25%	30%	31%	31%	30%	28%	30%	38%	38%	28%	26%	28%

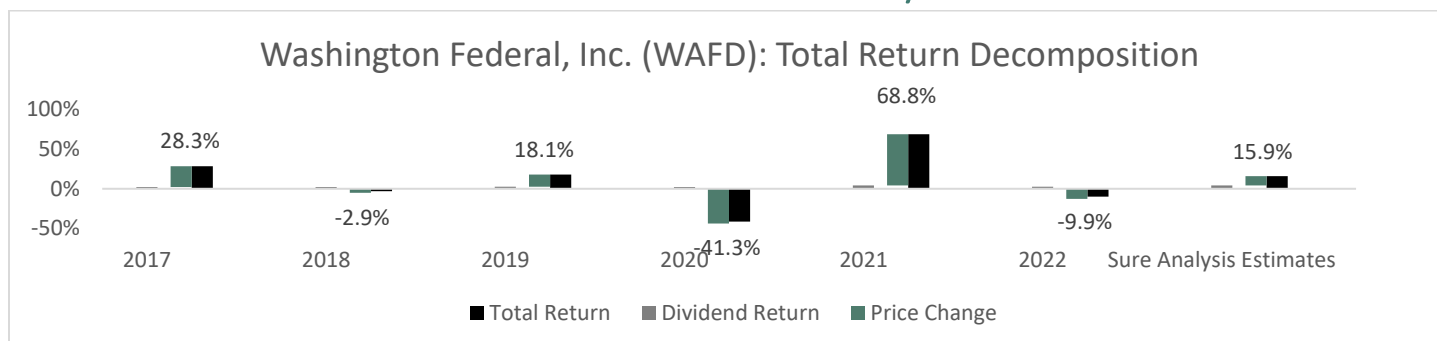
During the past five years, the company's dividend payout ratio has averaged around 31%. Washington Federal's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Washington Federal's solid and well-diversified loans and deposit balances, along with impressive credit quality, will likely continue to support its future profitability. The ongoing 2025 digitalization project of the organization's processes and services should support significant business volume growth and cost synergies in the next years.

Final Thoughts & Recommendation

Washington Federal is a national bank with a strong loan book and sound credit quality. The company has a solid track-record and above-average dividend yield of 3.7% combined with a sustainable dividend payout ratio, making it appealing for income-oriented investors. However, WAFD is facing difficulties in navigating the current interest rate environment in the short term and the turmoil in the banking industry impacted the share price over the last six months. Growth in loans, improved interest margins, and the robust balance sheet will likely support Washington Federal's earnings growth in the long run. We estimate total return potential of 15.9% per year for the next five years based on 5% earnings-per-share growth, the current starting yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	402	434	474	477	486	516	544	570	580	662
SG&A Exp.	118	150	166	173	166	186	198	228	252	203
D&A Exp.	16	17	18	20	42	47	31	40	34	64
Net Profit	152	157	160	164	174	204	210	173	184	236
Net Margin	37.7%	36.3%	33.8%	34.4%	35.7%	39.5%	38.6%	30.4%	31.7%	35.6%
Free Cash Flow	152	122	96	180	164	164	199	135	285	257
Income Tax	83	88	89	84	83	53	53	46	50	64

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	13,083	14,756	14,568	14,888	15,254	15,866	16,475	18,794	19,651	20,770
Cash & Equivalents	204	782	284	450	313	269	419	1,703	2,091	684
Acc. Receivable	49	52	40	38	42	47	49	54	51	64
Goodwill & Int.	264	303	299	297	299	311	309	310	310	309
Total Liabilities	11,145	12,783	12,613	12,912	13,248	13,869	14,442	16,780	17,525	18,500
Long-Term Debt	1,930	1,930	1,830	2,080	2,225	2,330	2,250	2,700	1,720	18,500
Total Equity	1,938	1,973	1,956	1,976	2,006	1,997	2,033	2,014	1,826	1,974
LTD/E Ratio	1.00	0.98	0.94	1.05	1.11	1.17	1.11	1.34	0.81	0.93

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.2%	1.1%	1.1%	1.1%	1.2%	1.3%	1.3%	1.0%	1.0%	1.2%
Return on Equity	7.9%	8.0%	8.2%	8.3%	8.7%	10.2%	10.4%	8.6%	9.6%	12.4%
ROIC	4.0%	4.1%	4.2%	4.2%	4.2%	4.8%	4.9%	3.9%	4.3%	5.7%
Shares Out.	102	98	93	90	87	83	79	76	65	65
Revenue/Share	3.84	4.27	4.93	5.19	5.44	6.06	6.76	7.43	7.99	10.12
FCF/Share	1.45	1.20	1.00	1.96	1.84	1.92	2.47	1.76	3.93	3.92

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

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