



# Washington Trust Bancorp, Inc. (WASH)

Updated July 25<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$30	<b>5 Year CAGR Estimate:</b>	12.4%	<b>Market Cap:</b>	\$503 M
<b>Fair Value Price:</b>	\$32	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	09/29/23 <sup>1</sup>
<b>% Fair Value:</b>	94%	<b>5 Year Valuation Multiple Estimate:</b>	1.2%	<b>Dividend Payment Date:</b>	10/06/23 <sup>2</sup>
<b>Dividend Yield:</b>	7.5%	<b>5 Year Price Target</b>	\$41	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Washington Trust Bancorp, Inc. operates as a holding company that has more than \$6 billion in 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 July 24<sup>th</sup>, 2023, Washington Trust announced second quarter earnings results for the period ending June 30<sup>th</sup>, 2023. For the quarter, revenue fell 10.5% to \$47.8 million, which was \$0.6 million less than expected. GAAP earnings-per-share of \$0.66 compared unfavorably to \$1.14 in the prior year, but were \$0.03 above estimates.

Total loans grew 3% sequentially to a new company record \$5.4 billion. The company had a provision for credit losses of \$700,000, down \$100,000 from the first quarter. Deposits decreased 1% to \$4.7 billion. Return on average equity and average assets was 9.67% and 0.65% compared to 11.27% and 0.77%, respectively, in the preceding quarter. Wealth management revenues of \$9.0 million were up 4% and assets under administration grew 3% \$6.4 billion. Net interest income was down 10% to \$33.5 million while the net interest margin contracted 30 basis points to 2.03%. These declines were due to higher funding costs that outpaced higher asset yields.

Following earnings, we continue to expect that Washington Trust will earn \$2.66 in 2023, down from \$2.71 and \$4.68 previously.

## 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>\$2.66</b>	<b>\$3.39</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	<b>11.3</b>	<b>12.0</b>
Avg. Yld.	3.4%	3.4%	3.5%	3.6%	2.9%	3.2%	3.9%	5.5%	3.7%	4.6%	<b>7.5%</b>	<b>7.0%</b>

Shares of Washington Trust have increased \$1, or 3.4%, since our April 25<sup>th</sup>, 2023 report. Using the current share price and expected earnings-per-share for 2023, Washington Trust trades with a price-to-earnings ratio of 11.3. 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 1.2% to annual returns over this period. We note that the dividend is more than twice the average yield of 3.8% since 2013.

## 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%	<b>84%</b>	<b>84%</b>

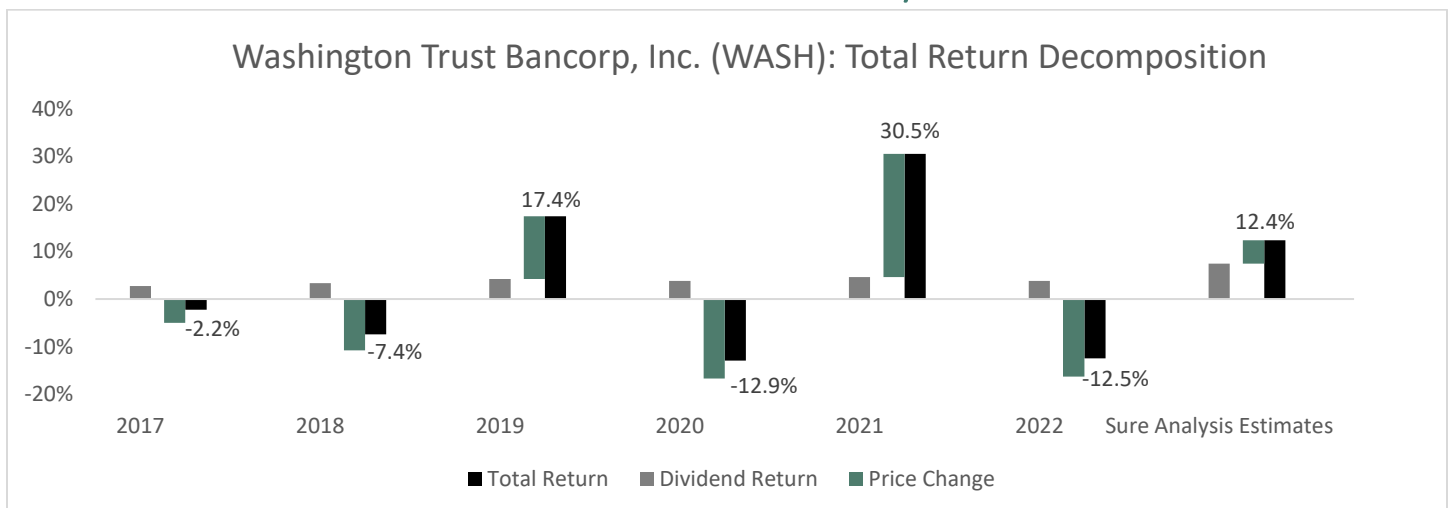
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was heavily impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last 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 \$6 billion of assets under management in its wealth management business, a solid showing considering its size.

## Final Thoughts & Recommendation

Following second quarter results, Washington Trust is expected to return 12.4% annually over the next five years, down from our prior estimate of 13.4%. This projection stems from a 5% earnings growth rate, the 7.5% starting yield, and a low single-digit contribution from multiple expansion. Shares of the company have recovered somewhat following the recent banking crisis that has emerged. The company continues to see new records for both total loans and AUM. We have lowered our five-year price target \$1 to \$41 due to lower earnings estimates for the year, 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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