



Northwest Bancshares, Inc. (NWBI)

Updated August 21th, 2023 by Felix Martinez

Key Metrics

Current Price:	\$11	5 Year CAGR Estimate:	10.2%	Market Cap:	\$1.45 B
Fair Value Price:	\$13	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	08/02/23
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.5%	Dividend Payment Date:	08/14/23
Dividend Yield:	7.0%	5 Year Price Target	\$14	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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 NWBI and has been paying a rising dividend for thirteen consecutive years. Currently, the company has a market capitalization of \$1.45 billion.

On July 24th, 2023, the company announced the second quarter results for the fiscal year (FY)2023. The company reported net income of \$33.0 million, a minor decrease of 1.1% compared to the same quarter in 2022. The returns on average shareholders' equity and average assets for Q2 2023 were 8.72% and 0.93%, slightly lower than the previous year's figures of 8.90% and 0.94%, respectively. The company strategically grew loans by around \$840.0 million over the last year, with commercial loans expanding by 42.2%, mainly due to new commercial lending verticals. The sale of mortgage servicing rights and investment securities allowed for capital reallocation into more lucrative ventures. Net interest income rose by 8.3% to \$108.5 million in Q2 2023, driven by higher market interest rates and a shift in asset composition. Notably, the Company's credit quality improved, evidenced by a decrease in classified loans.

Despite stable deposit balances, noninterest income decreased by 2.1% to \$29.8 million in Q2 2023, attributed to a reduction in mortgage banking income. Conversely, noninterest expenses rose by 5.5%, mainly due to increased processing expenses and restructuring costs. The provision for credit losses also increased by 48.2% to \$8.9 million, primarily owing to growth within the commercial loan portfolio and economic uncertainties.

Lastly, the provision for income taxes increased by 6.7% to \$10.5 million in Q2 2023, mainly due to higher income before taxes during the current year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.73	\$0.67	\$0.64	\$0.49	\$0.92	\$1.02	\$1.04	\$0.62	\$1.21	\$1.05	\$0.98	\$1.08
DPS	\$0.50	\$0.52	\$0.56	\$0.60	\$0.64	\$0.68	\$0.72	\$0.76	\$0.79	\$0.80	\$0.80	\$0.88
Shares¹	91.0	92.0	95.0	101.0	103.0	104.0	106.0	120.0	120.0	120.0	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 4.1% Compound Annual Growth Rate (CAGR). Over the last five years, the company has had a -0.8% 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 2% annual rate for the next five years. This will be driven by optimizing its branch networks and acquiring smaller local banks. The company has

¹ Share count is in millions.

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a solid dividend history considering the erratic earnings growth. Over the past ten years, the dividend has grown at a 5.4% rate and a 3.3% rate over the past five years. Thus, we expect the company to continue to grow its dividend at 2.0% for the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.3	18.7	21.0	36.5	18.2	16.6	15.9	20.4	11.7	13.3	11.5	13.0
Avg. Yld.	3.4%	4.2%	4.2%	3.3%	3.8%	4.0%	4.3%	6.0%	5.6%	5.7%	7.0%	6.3%

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 19.3 and a five-year PE average of 15.6. We think that a fair PE ratio would be 13x. 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 7.0%, higher than its own ten- and five-year average of 4.3% and 4.7%, respectively.

Safety, Quality, Competitive Advantage, & Recession Resiliency

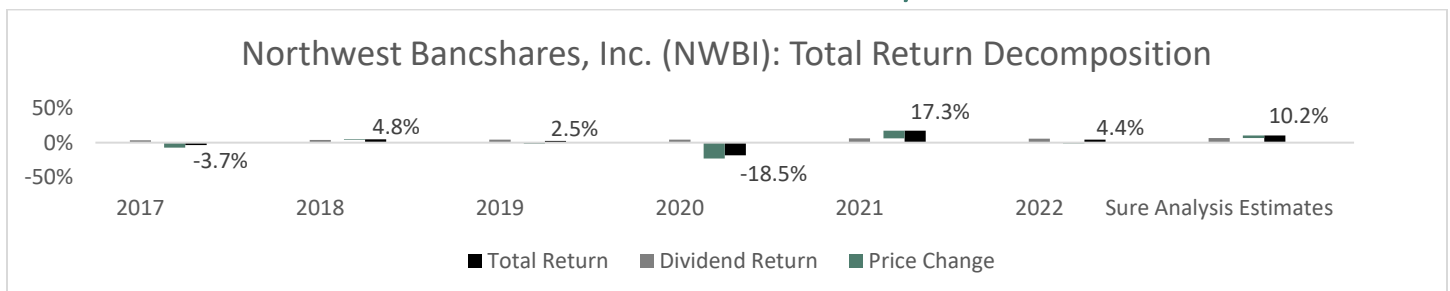
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	68.5%	77.6%	87.5%	122%	69.6%	66.7%	69.2%	122%	65.3%	76.2%	82%	82%

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 2009. 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 13.3%. This will primarily be driven by a higher dividend yield of 7.7%. Thus, Northwest Bancshares earns a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	318	317	329	390	438	428	457	521	507	530
SG&A Exp.	139	141	146	171	182	178	185	207	221	216
D&A Exp.	9	10	9	15	14	8	4	5		
Net Profit	67	62	61	50	94	105	110	75	154	134
Net Margin	20.9%	19.6%	18.4%	12.7%	21.5%	24.6%	24.1%	14.4%	30.4%	25.2%
Free Cash Flow	111	81	100	120	148	134	117	128		
Income Tax	26	22	28	22	41	28	31	18	47	40

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,880	7,775	8,952	9,624	9,364	9,608	10,494	13,806	14,502	14,113
Cash & Equivalents	391	240	167	390	78	69	61	736	1,279	139
Accounts Receivable	19	19	21	22	23	24	26	36	26	36
Goodwill & Int. Ass.	177	178	271	340	333	327	369	402	394	390
Total Liabilities	6,725	6,712	7,789	8,453	8,156	8,350	9,141	12,268	12,918	12,622
Accounts Payable	1	1	2	1	0	1	1	2	2	3
Long-Term Debt	985	991	1,086	254	219	346	368	412	392	924
Shareholder's Equity	1,155	1,063	1,163	1,171	1,208	1,258	1,353	1,539	1,584	1,491
LTD/E Ratio	0.85	0.93	0.93	0.22	0.18	0.27	0.27	0.27	0.25	0.62

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.8%	0.7%	0.5%	1.0%	1.1%	1.1%	0.6%	1.1%	0.9%
Return on Equity	5.8%	5.6%	5.4%	4.3%	7.9%	8.6%	8.5%	5.2%	9.9%	8.7%
ROIC	3.1%	3.0%	2.8%	2.7%	6.6%	7.0%	6.6%	4.1%	7.9%	6.1%
Shares Out.	91	92	95	101	103	104	106	120	120	127
Revenue/Share	3.48	3.43	3.47	3.88	4.27	4.13	4.32	4.33	3.97	4.16
FCF/Share	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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