



Washington Trust Bancorp, Inc. (WASH)

Updated October 24th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	15.7%	Market Cap:	\$386 M
Fair Value Price:	\$26	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/29/23 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.0%	Dividend Payment Date:	01/05/24 ²
Dividend Yield:	10.2%	5 Year Price Target	\$33	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	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 15th, 2022, Washington Trust increased its quarterly dividend 3.7% to \$0.56.

On October 23rd, 2023, Washington Trust reported third quarter earnings results for the period ending September 30th, 2023. For the quarter, revenue declined 15.3% to \$50 million, but this was \$227,000 more than expected. GAAP earnings-per-share of \$0.65 compared unfavorably to \$1.08 in the prior year, but was \$0.07 above estimates.

Total loans grew 4% sequentially to \$5.6 billion. The company had a provision for credit losses of \$500,000 down from \$700,000 for the second quarter of the year. Deposits improved 1% to \$4.7 billion. Return on average equity and average assets was 9.65% and 0.62% compared to 9.67% and 0.65%, respectively, in the preceding quarter. Wealth management revenues of \$8.9 million were down 1% and assets under administration declined 3% to \$6.1 billion. Net interest income grew 1% to \$33.8 million while the net interest margin contracted 6 basis points to 1.97%.

Following earnings results, we now expect that Washington Trust will earn \$2.55 in 2023, down from \$2.66, \$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
EPS	\$2.16	\$2.41	\$2.54	\$2.70	\$2.64	\$3.93	\$3.96	\$4.00	\$4.39	\$4.11	\$2.55	\$3.25
DPS	\$1.03	\$1.22	\$1.36	\$1.46	\$1.54	\$1.76	\$2.00	\$2.05	\$2.08	\$2.16	\$2.24	\$2.86
Shares³	17	17	17	17	17	17	17	17	17	17	17	17

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.

¹ Estimated date

² Estimated dividend payment date

³ 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	8.6	10.0
Avg. Yld.	3.4%	3.4%	3.5%	3.6%	2.9%	3.2%	3.9%	5.5%	3.7%	4.6%	10.2%	8.8%

Shares of Washington Trust have decreased \$8, or 26.7%, since our July 25th, 2023 report. Using the current share price and expected earnings-per-share for 2023, Washington Trust trades with a price-to-earnings ratio of 8.6. We now believe a target price-to-earnings ratio of 10 reflects the company's growth prospects while taking into account the average valuation of peers. Reaching our target valuation by 2028 would add 3.0% to annual returns over this period. We note that the dividend is nearly three times 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%	88%	88%

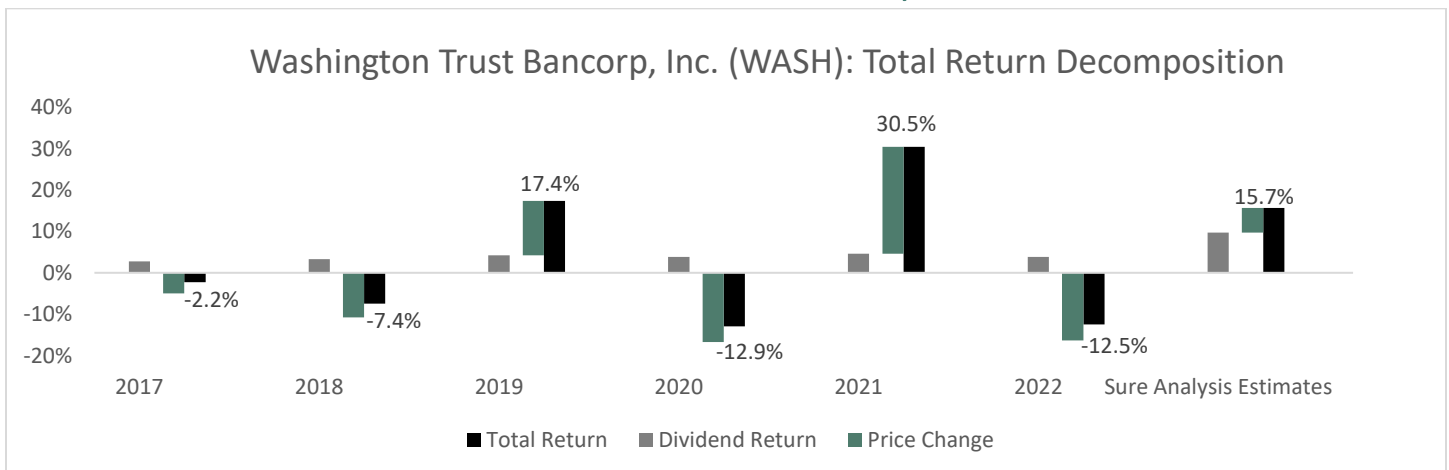
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was heavily impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last 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

After third quarter results, Washington Trust is expected to return 15.7% annually over the next five years, up from our prior estimate of 12.4%. This projection stems from a 5% earnings growth rate, the 10.2% starting yield, and a low single-digit contribution from multiple expansion. Shares of the company have suffered a significant decline since our last report. The dividend appears to be covered, but the yield is extremely high. We note again that the most recent increase was well below average. This is a situation that investors will need to monitor moving forward. We have lowered our five-year price target \$8 to \$33 due to lower earnings estimates for the year and a lower valuation target, 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
Revenue	145	151	162	176	184	194	200	227	229	219
SG&A Exp.	63	62	66	71	72	72	75	86	91	88
Depr. And Amort.	4	4	4	5	4	4	4	4	4	
Net Profit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Margin	36	41	43	46	46	68	69	70	77	72
Free Cash Flow	24.9%	26.9%	26.8%	26.5%	24.9%	35.2%	34.5%	30.8%	33.6%	32.8%
Income Tax	78	(3)	47	57	57	79	70	33	97	

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,189	3,587	3,772	4,381	4,530	5,011	5,293	5,713	5,851	6,660
Cash & Equivalents	82	76	93	106	80	90	132	194	175	115
Goodwill & Int.	64	63	76	74	73	72	71	70	69	68
Total Liabilities	2,859	3,241	3,396	3,990	4,117	4,563	4,789	5,179	5,286	6,206
Long-Term Debt	311	429	402	872	814	973	1,164	617	168	1,003
Total Equity	330	346	375	391	413	448	503	534	565	454
LTD/E Ratio	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
Return on Assets	1.2%	1.2%	1.2%	1.1%	1.0%	1.4%	1.3%	1.3%	1.3%	1.1%
Return on Equity	11.6%	12.1%	12.0%	12.1%	11.4%	15.9%	14.5%	13.5%	14.0%	14.1%
ROIC	5.4%	5.8%	5.6%	4.6%	3.7%	5.2%	4.5%	5.0%	8.2%	6.5%
Shares Out.	17	17	17	17	17	17	17	17	17	17
Revenue/Share	8.72	8.98	9.51	10.21	10.63	11.18	11.51	13.04	13.11	12.58
FCF/Share	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.

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