



Washington Trust Bancorp, Inc. (WASH)

Updated January 29th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	6.1%	Market Cap:	\$506 M
Fair Value Price:	\$21	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/29/24 ¹
% Fair Value:	140%	5 Year Valuation Multiple Estimate:	-6.5%	Dividend Payment Date:	04/12/24 ²
Dividend Yield:	7.5%	5 Year Price Target	\$27	Years Of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

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 ~20 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 January 24th, 2024, Washington Trust announced fourth quarter and full year earnings results for the period ending December 31st, 2023. For the quarter, revenue decreased 16.6% to \$45.96 million, which was \$2.98 million below estimates. GAAP earnings-per-share of \$0.76 compared unfavorably to \$0.95 in the prior year, but this was \$0.19 more than expected. For 2023, revenue declined 11.6% to \$193.25 million while earnings-per-share of \$2.82 compared unfavorably to \$4.11 in the prior year.

Total loans grew 1% sequentially to \$5.6 billion. The company had a provision for credit losses of \$1.2 million, up from \$700,000. Total deposits of \$5.3 billion were down 1% sequentially, but up 7% year-over-year. Return on average equity and average assets were 11.77% and 0.71% compared to 9.65% and 0.62%, respectively, in the preceding quarter.

Wealth management revenues of \$8.9 million were down 1% while assets under administration increased 7% to \$6.6 billion. Net interest income fell 3% to \$32.7 million while the net interest margin contracted 9 basis points to 1.88%.

Washington Trust is projected to earn \$2.14 in 2024, representing a 24.1% decrease year-over-year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.41	\$2.54	\$2.70	\$2.64	\$3.93	\$3.96	\$4.00	\$4.39	\$4.11	\$2.82	\$2.14	\$2.73
DPS	\$1.22	\$1.36	\$1.46	\$1.54	\$1.76	\$2.00	\$2.05	\$2.08	\$2.16	\$2.24	\$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 1.8% since 2014. The company has seen a rapid decline over the last five years, with earnings-per-share falling close to 12% since 2019. We remain cautious in our long-term view because of the declining benefit from higher interest rates, expected cuts in 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 contrast to the company's average increase of 7% dating back to 2014. Earnings-per-share still managed to grow in the face of COVID-19 headwinds, so it remains to be seen if this last raise was an outlier or a sign of

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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things to come for shareholders. We note that the company has now held the dividend constant for 5 consecutive payments.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.8	15.2	15.1	19.9	14.1	12.8	9.3	12.8	11.5	11.5	14.0	10.0
Avg. Yld.	3.4%	3.5%	3.6%	2.9%	3.2%	3.9%	5.5%	3.7%	4.6%	6.9%	7.5%	10.5%

Shares of Washington Trust have increased \$8, or 36.4%, since our October 24th, 2023 report. Using the current share price and expected earnings-per-share for 2024, Washington Trust trades with a price-to-earnings ratio of 14.0. We reaffirm our target price-to-earnings ratio of 10, as we believe this reflects the company's growth prospects while considering the average valuation of peers. Reaching our target valuation by 2029 would reduce annual returns by 6.5% over this period. We note that the dividend is nearly twice the stock's average yield of 4.1% since 2014. Given the extremely high yield, lack of dividend increase at the usual time, and the extremely high payout ratio, Washington Trust's distribution could be at risk of being cut.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	51%	54%	54%	58%	45%	51%	51%	47%	53%	79%	105%	105%

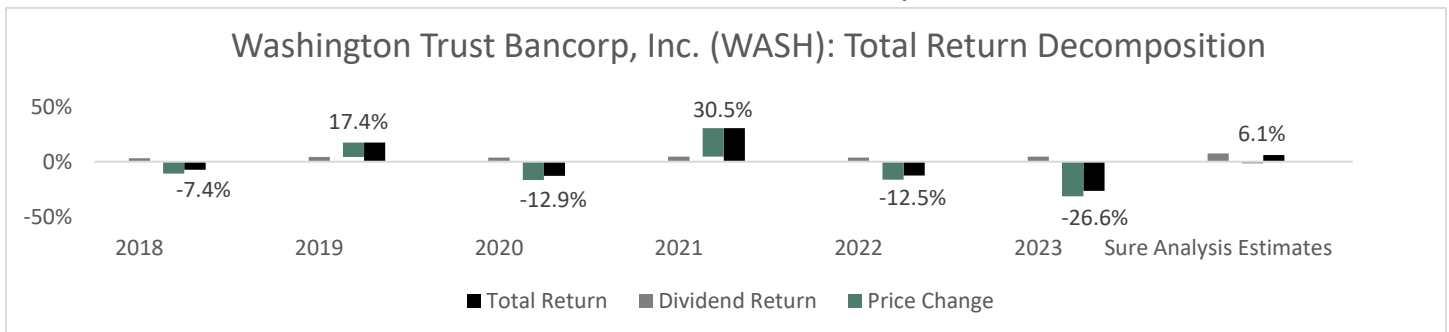
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was heavily impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last 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 fourth quarter results, Washington Trust is expected to return 6.1% annually over the next five years, down from our prior estimate of 15.7%. This projection stems from a 5% earnings growth rate and the 7.5% starting yield, offset by a mid-single-digit headwind from multiple contraction. The company produced lower results last year and expectations for 2024 include a further decline in earnings-per-share. The yield is high, but the dividend could be at risk for cut given the payout ratio. This is a situation that investors will need to monitor moving forward. We have lowered our five-year price target \$6 to \$27 due to lower earnings estimates for the year and now rate shares of Washington Trust as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	151	162	176	184	194	200	227	229	219	193
SG&A Exp.	62	66	71	72	72	75	86	91	88	90
Depr. And Amort.	4	4	5	4	4	4	4	4	4	
Net Profit	41	43	46	46	68	69	70	77	72	48
Net Margin	26.9%	26.8%	26.5%	24.9%	35.2%	34.5%	30.8%	33.6%	32.8%	24.9%
Free Cash Flow	(3)	47	57	57	79	70	33	97	107	
Income Tax	19	21	22	32	18	19	19	21	19	8

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,587	3,772	4,381	4,530	5,011	5,293	5,713	5,851	6,660	7,203
Cash & Equivalents	76	93	106	80	90	132	194	175	115	87
Goodwill & Int.	63	76	74	73	72	71	70	69	68	68
Total Liabilities	3,241	3,396	3,990	4,117	4,563	4,789	5,179	5,286	6,206	6,730
Long-Term Debt	429	402	872	814	973	1,164	617	168	1,003	1,213
Total Equity	346	375	391	413	448	503	534	565	454	473
LTD/E Ratio	1.24	1.07	2.23	1.97	2.17	2.31	1.15	0.30	2.21	2.57

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.2%	1.1%	1.0%	1.4%	1.3%	1.3%	1.3%	1.1%	0.7%
Return on Equity	12.1%	12.0%	12.1%	11.4%	15.9%	14.5%	13.5%	14.0%	14.1%	10.4%
ROIC	5.8%	5.6%	4.6%	3.7%	5.2%	4.5%	5.0%	8.2%	6.5%	3.1%
Shares Out.	17	17	17	17	17	17	17	17	17	17
Revenue/Share	8.98	9.51	10.21	10.63	11.18	11.51	13.04	13.11	12.58	11.33
FCF/Share	(0.15)	2.74	3.29	3.26	4.54	4.04	1.90	5.58	6.15	

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

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