



# Northwest Bancshares, Inc. (NWBI)

Updated February 10<sup>th</sup>, 2024 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$11	<b>5 Year CAGR Estimate:</b>	8.1%	<b>Market Cap:</b>	\$1.5 B
<b>Fair Value Price:</b>	\$12	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	02/01/24
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.3%	<b>Dividend Payment Date:</b>	02/14/24
<b>Dividend Yield:</b>	6.7%	<b>5 Year Price Target</b>	\$13	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 \$1.5 billion.

On January 22<sup>nd</sup>, 2024, the company announced the fourth quarter results for the fiscal year (FY)2023. The company reported a net income of \$29.0 million for the quarter ending December 31, 2023, translating to \$0.23 per diluted share. This marks a 16.3% decrease from the same period in the previous year when net income stood at \$34.6 million, or \$0.27 per diluted share. The annualized returns on average shareholders' equity and average assets for the same quarter were 7.64% and 0.80%, respectively, down from 9.38% and 0.98% in the prior year.

Despite facing challenges in liquidity and interest rates, the company strategically grew loans by 4.5%, reallocated funds to a more profitable commercial portfolio, and maintained stability in its deposit base. Torchio also outlined cost-control measures, including branch consolidation, staff adjustments, and contract renegotiations, which contributed to increased flexibility and support for future growth.

Despite challenges, the company's net income for the full year ended December 31, 2023, increased by 1.0% to \$135.0 million, or \$1.06 per diluted share, compared to the prior year. The company attributed this growth to increased net interest income, partially offset by higher noninterest expenses.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$0.67	\$0.64	\$0.49	\$0.92	\$1.02	\$1.04	\$0.62	\$1.21	\$1.05	\$1.06	<b>\$0.93</b>	<b>\$1.03</b>
<b>DPS</b>	\$0.52	\$0.56	\$0.60	\$0.64	\$0.68	\$0.72	\$0.76	\$0.79	\$0.80	\$0.80	<b>\$0.80</b>	<b>\$0.88</b>
<b>Shares<sup>1</sup></b>	92.0	95.0	101.0	103.0	104.0	106.0	120.0	120.0	120.0	127.0	<b>127.0</b>	<b>127.0</b>

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 5.2% Compound Annual Growth Rate (CAGR). Over the last five years, the company has had a -2.2% 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 a solid dividend history considering the erratic earnings growth. Over the past ten years, the dividend has grown at a

<sup>1</sup> Share count is in millions.

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4.9% rate and a 2.1% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.7	21.0	36.5	18.2	16.6	15.9	20.4	11.7	13.3	11.78	12.8	13.0
Avg. Yld.	4.2%	4.2%	3.3%	3.8%	4.0%	4.3%	6.0%	5.6%	5.7%	6.4%	6.7%	6.6%

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 18.4 and a five-year PE average of 14.6. 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 6.7%, higher than its own ten- and five-year average of 4.3% and 4.7%, respectively.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

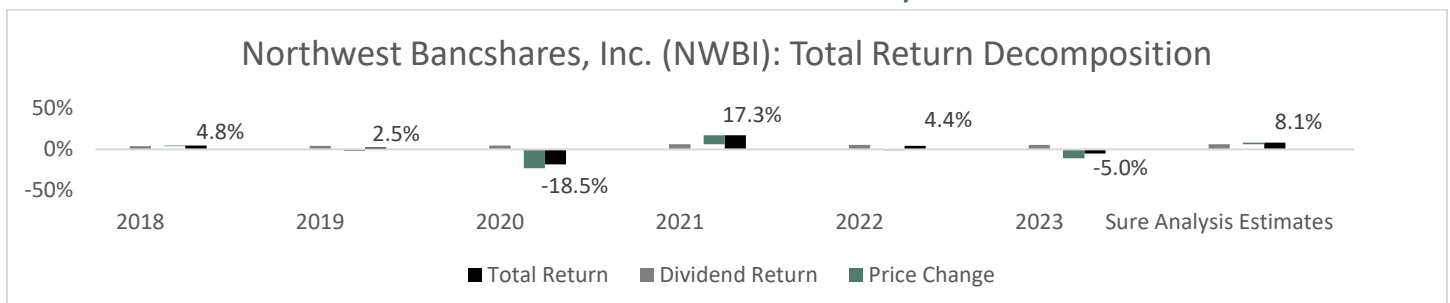
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	77.6%	87.5%	122.4%	69.6%	66.7%	69.2%	122.6%	65.3%	76.2%	75.5%	86%	86%

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 0.6, which is good. 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 8.1%. This will primarily be driven by a higher dividend yield of 6.7%. Thus, Northwest Bancshares earns a hold at the current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	317	329	390	438	428	457	521	507	530	548
<b>SG&amp;A Exp.</b>	141	146	171	182	178	185	207	221	216	214
<b>D&amp;A Exp.</b>	10	9	15	14	8	4	5			
<b>Net Profit</b>	62	61	50	94	105	110	75	154	134	135
<b>Net Margin</b>	19.6%	18.4%	12.7%	21.5%	24.6%	24.1%	14.4%	30.4%	25.2%	24.6%
<b>Free Cash Flow</b>	81	100	120	148	134	117	128			
<b>Income Tax</b>	22	28	22	41	28	31	18	47	40	40

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	7,775	8,952	9,624	9,364	9,608	10,494	13,806	14,502	14,113	14,420
<b>Cash &amp; Equivalents</b>	240	167	390	78	69	61	736	1,279	139	122
<b>Accounts Receivable</b>	19	21	22	23	24	26	36	26	36	47
<b>Goodwill &amp; Int. Ass.</b>	178	271	340	333	327	369	402	394	390	386
<b>Total Liabilities</b>	6,712	7,789	8,453	8,156	8,350	9,141	12,268	12,918	12,622	12,870
<b>Accounts Payable</b>	1	2	1	0	1	1	2	2	3	14
<b>Long-Term Debt</b>	991	1,086	254	219	346	368	412	392	924	643
<b>Shareholder's Equity</b>	1,063	1,163	1,171	1,208	1,258	1,353	1,539	1,584	1,491	1,551
<b>LTD/E Ratio</b>	0.93	0.93	0.22	0.18	0.27	0.27	0.27	0.25	0.62	0.41

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	0.8%	0.7%	0.5%	1.0%	1.1%	1.1%	0.6%	1.1%	0.9%	1.0%
<b>Return on Equity</b>	5.6%	5.4%	4.3%	7.9%	8.6%	8.5%	5.2%	9.9%	8.7%	8.9%
<b>ROIC</b>	3.0%	2.8%	2.7%	6.6%	7.0%	6.6%	4.1%	7.9%	6.1%	5.9%
<b>Shares Out.</b>	92	95	101	103	104	106	120	120	127	127
<b>Revenue/Share</b>	3.43	3.47	3.88	4.27	4.13	4.32	4.33	3.97	4.16	4.30
<b>FCF/Share</b>	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.

### Disclaimer

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