Westamerica Bancorp (WABC)

Updated April 19th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	13.3%	**Market Cap:**	$1.2 B
Fair Value Price:	$69	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	05/06/24
% Fair Value:	67%	**5 Year Valuation Multiple Estimate:**	8.5%	**Dividend Payment Date:**	05/20/24[1]
Dividend Yield:	3.8%	**5 Year Price Target**	$76	**Years Of Dividend Growth:**	30
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Rating:**	Buy

Overview & Current Events

Westamerica Bancorporation is the holding company for Westamerica Bank. Westamerica Bancorporation is a regional community bank with 79 branches in Northern and Central California. The company can trace its origins back to 1884. Westamerica Bancorporation offers clients access to savings, checking and money market accounts. The company's loan portfolio consists of both commercial and residential real estate loans, as well as construction loans. Westamerica Bancorporation is the seventh largest bank headquartered in California. It has annual revenues of about $300 million.

On April 18th, 2024 Westamerica Bancorporation reported first quarter results for the period ending March 31st, 2024. For the quarter, revenue declined 4.9% to $76.2 million while GAAP earnings-per-share of $1.37 compared to $1.51 in the prior year.

As of the end of the quarter, nonperforming loans increased 362% to $957,000 but represented just 0.1% of total loans. First quarter results included provisions for credit losses of $300,000 compared to a reversal of provision for credit losses of $1.55 million. Total loans declined 9.8% to $853.6 million as commercial loans were down 19.3% and consumer loans were lower by 19.6%. Commercial real estate loans, the largest portion of the company's loan book, decreased just 0.8%. Net interest income was $66.1 million, which compares to $69.7 million for the fourth quarter of 2023 and $69.6 million in the first quarter of 2023. Net interest margin of 4.30% compared to 4.41% in the fourth quarter of 2023 and 4.18% in the first quarter of 2023. Average total deposits declined 11.3% to $5.4 billion.

Analysts expect that the company will earn $5.32 in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.32	$2.30	$2.29	$2.32	$2.67	$2.98	$2.98	$3.22	$4.54	$6.06	***$5.32***	***$5.87***
DPS	$1.52	$1.53	$1.56	$1.57	$1.60	$1.63	$1.64	$1.65	$1.68	$1.72	***$1.76***	***$1.94***
Shares[2]	26	26	26	26	26	26	26	26	26	27	***27***	***27***

Earnings-per-share for Westamerica Bancorporation more than doubled from 2008 to 2009, an accomplishment that few banks can claim. Earnings-per-share had declined in what is essentially a straight line until 2018, which was just the second year since 2009 that earnings increased year-over- year. The company had seen flat or higher earnings-per-share each year since before returning to growth in 2022 and 2023. It should be noted that the company is expected to see earnings decline in 2024. We anticipate an annual earnings-per-share growth rate of 2% through 2029.

Westamerica Bancorporation has increased its dividend for the past 30 years. The company most recently increased its dividend by 4.8% for the August 18th, 2023 payment date. The dividend has compounded at a rate of 1.4% annually over the last decade. Note that the company also tends to raise its dividend every other year, but typically does so in the fourth quarter to keep its dividend growth streak alive.

[1] Estimated dividend payment date
[2] In millions of shares

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.5	19.9	21.7	25.7	24.3	22.7	18.6	17.9	13.0	8.3	***8.6***	***13.0***
Avg. Yld.	3.0%	3.3%	3.1%	2.6%	2.8%	2.4%	3.0%	2.9%	2.8%	3.0%	***3.8%***	***2.5%***

Westamerica Bancorporation's stock has decreased $4, or 8.0%, since our January 20th, 2024 update. Using the expected earnings-per-share for the year, the price-to-earnings ratio (P/E) is 8.6. The stock has seen its average P/E multiple vary dramatically over the past decade. Eliminating the years where the average P/E was above 24 (2017, 2018), shares of Westamerica Bancorporation have averaged a multiple of more than 19. We reaffirm our target valuation of 13 times earnings as we believe this is a better representation of the company today. If shares were to revert to our target P/E, valuation would add 8.5% to annual returns through 2029.

Westamerica Bancorporation trades with a forward yield of 3.8%, which is higher than both the average yield of the S&P 500 and the stock's long-term historical average 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	66%	67%	68%	68%	60%	55%	55%	51%	37%	28%	***33%***	***33%***

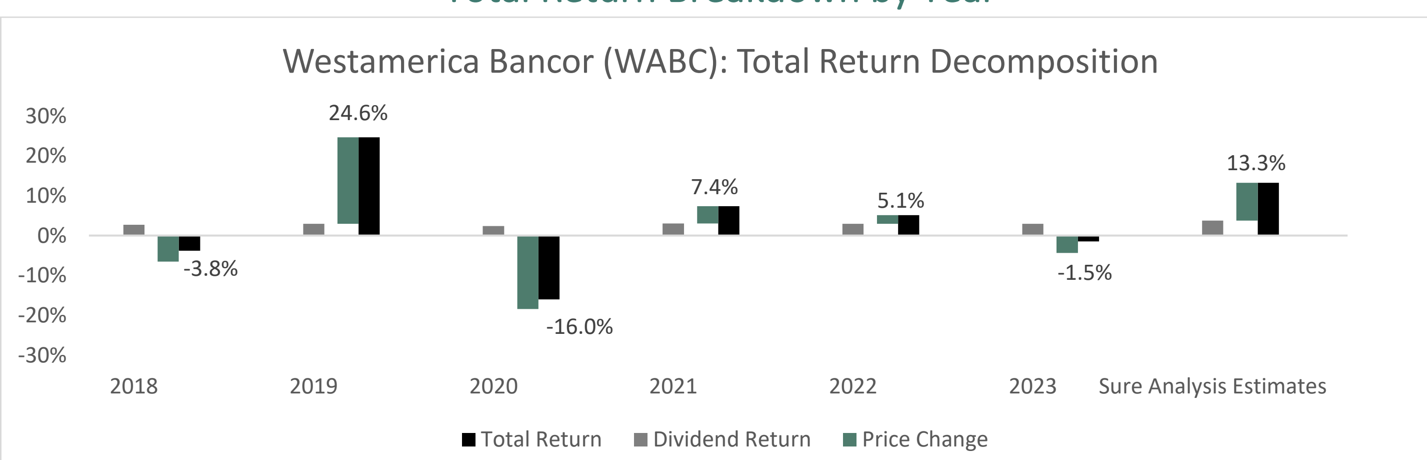
While earnings-per-share increased significantly during the last recession, this does not make Westamerica Bancorporation recession proof, or even an attractive investment. The company has proven that it cannot be a reliable source of earnings growth. Despite this, the company's dividend payout ratio has been relatively stable.

Westamerica Bancorporation's key competitive advantage is its ability to see an improvement in net interest income as interest rates rise. The Federal Reserve has indicated that interest rates will likely remain higher for longer as the fight against inflation continues, which should be a material benefit to Westamerica Bancorporation were this to occur.

Final Thoughts & Recommendation

Following first quarter results, Westamerica Bancorporation is projected to return 13.3% annually through 2029, up from our previous estimate of 11.4%. Our projected returns stem from a 2% earnings growth rate, a 3.8% dividend yield, and a high single-digit contribution from multiple expansion. Loan and deposit growth remain weak, but the company continues to see a benefit from higher interest rates. Provision for credit losses account for a very small percentage of total loans. We continue to rate shares of Westamerica Bancorporation as a buy due to projected returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	189	182	180	192	198	204	206	215	265	324
SG&A Exp.	55	52	52	52	53	51	51	48	46	48
D&A Exp.	16	16	20	26	24	21	23	17	17	12
Net Profit	61	59	59	50	72	80	80	87	122	162
Net Margin	32.2%	32.3%	32.6%	26.0%	36.2%	39.4%	39.0%	40.3%	46.1%	50.0%
Free Cash Flow	79	66	76	78	94	77	106	87	113	157
Income Tax	18	18	21	37	19	25	26	31	44	60

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,036	5,169	5,366	5,513	5,569	5,620	6,748	7,461	6,950	6,365
Cash & Equivalents	381	433	462	575	420	373	621	1,132	294	190
Accounts Receivable	19	20	21	24	26	29	33	36	54	55
Goodwill & Int. Ass.	136	132	129	126	124	123	123	123	122	122
Total Liabilities	4,509	4,637	4,805	4,923	4,953	4,888	5,903	6,634	6,348	5,592
Long-Term Debt	20	-	-	-	-	-	-	-	-	-
Shareholder's Equity	527	532	561	590	616	731	845	827	602	773
LTD/E Ratio	0.04	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.2%	1.1%	0.9%	1.3%	1.4%	1.3%	1.2%	1.7%	2.4%
Return on Equity	11.3%	11.1%	10.8%	8.7%	11.9%	11.9%	10.2%	10.3%	17.1%	23.5%
ROIC	10.9%	10.9%	10.8%	8.7%	11.9%	11.9%	10.2%	10.3%	17.1%	23.5%
Shares Out.	26	26	26	26	26	26	26	26	26	27
Revenue/Share	7.21	7.11	7.02	7.28	7.40	7.56	7.65	8.00	9.85	12.12
FCF/Share	3.00	2.58	2.95	2.95	3.49	2.84	3.91	3.25	4.20	5.88

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