



# Washington Trust Bancorp, Inc. (WASH)

Updated October 26<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	5.1%	<b>Market Cap:</b>	\$604 M
<b>Fair Value Price:</b>	\$24	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	12/30/24 <sup>1</sup>
<b>% Fair Value:</b>	142%	<b>5 Year Valuation Multiple Estimate:</b>	-6.8%	<b>Dividend Payment Date:</b>	01/13/25 <sup>2</sup>
<b>Dividend Yield:</b>	6.6%	<b>5 Year Price Target</b>	\$31	<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

Washington Trust Bancorp, Inc. operates as a holding company that has almost \$7 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 15<sup>th</sup>, 2022, Washington Trust increased its quarterly dividend 3.7% to \$0.56.

On October 21<sup>st</sup>, 2024, Washington Trust reported third quarter earnings results for the period ending September 30<sup>th</sup>, 2024. For the quarter, revenue declined 0.9% to \$48.53 million, but this was \$0.66 million more than expected. GAAP earnings-per-share of \$0.64 compared unfavorably to \$0.65 in the prior year, but this was \$0.08 ahead of estimates.

Total loans decreased \$100K sequentially to \$5.5 billion. The company had a provision for credit losses of \$200,000 compared to \$500,000 in Q2 2024. Total deposits of \$4.8 billion were up by 3% sequentially. Return on average equity and average assets were 8.99% and 0.60% compared to 9.43% and 0.60%, respectively, in the preceding quarter. Wealth management revenues of \$10 million were up 3% while assets under administration improved 4% to \$7 billion. Net interest income grew 2.0% to \$32.3 million while the net interest margin expanded 2 basis point to 1.85%.

Washington Trust is projected to earn \$2.39 per share in 2024, up from \$2.08, \$2.06, and \$2.14 previously. This would represent a 15.2% decrease year-over-year. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.41	\$2.54	\$2.70	\$2.64	\$3.93	\$3.96	\$4.00	\$4.39	\$4.11	\$2.82	<b>\$2.39</b>	<b>\$3.05</b>
<b>DPS</b>	\$1.22	\$1.36	\$1.46	\$1.54	\$1.76	\$2.00	\$2.05	\$2.08	\$2.16	\$2.24	<b>\$2.24</b>	<b>\$2.86</b>
<b>Shares<sup>3</sup></b>	17	17	17	17	17	17	17	17	17	17	<b>17</b>	<b>17</b>

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 by more than 9% 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 the lack of dividend growth is concerning. We note that the company has now held the dividend constant for eight consecutive payments, meaning that Washington Trust's dividend growth streak will end this year.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> 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	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	14.2	10.0
Avg. Yld.	3.4%	3.5%	3.6%	2.9%	3.2%	3.9%	5.5%	3.7%	4.6%	6.9%	6.6%	9.4%

Shares of Washington Trust has gained \$2, or 6.3%, since our July 23<sup>rd</sup>, 2024 report. Using the current share price and expected earnings-per-share for 2024, Washington Trust trades with a price-to-earnings ratio of 14.2. 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 6.8% over this period. We note that the dividend yield is very generous. However, given the extremely high yield, lack of dividend increases 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%	94%	94%

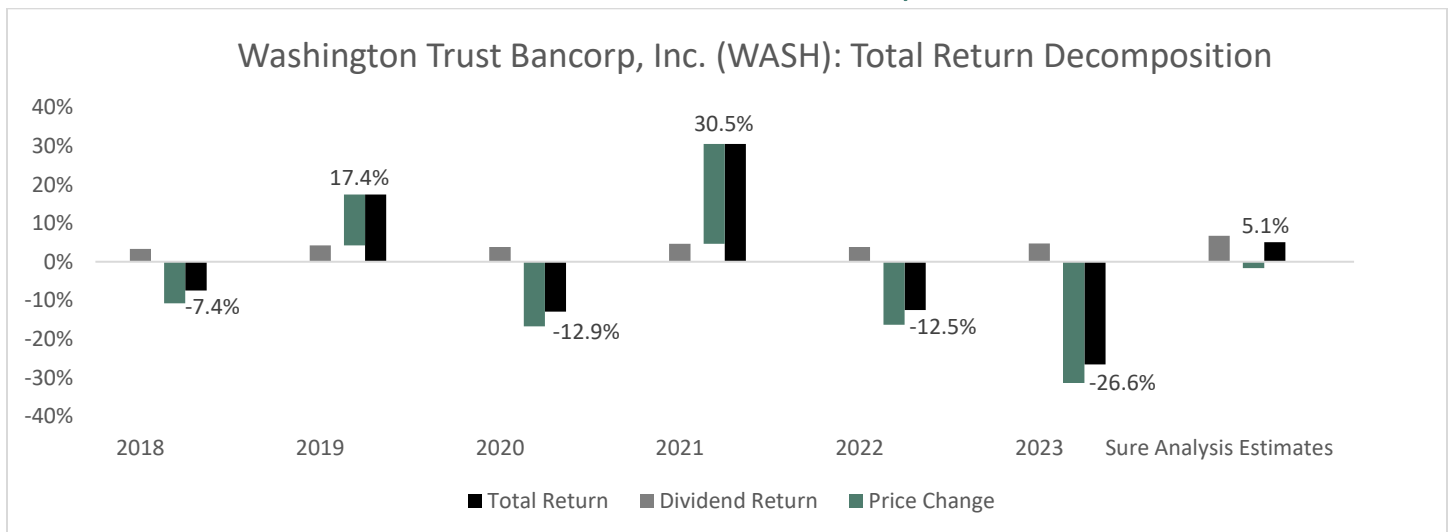
Earnings-per-share declined 44% from 2007 to 2009, showing that Washington Trust was heavily impacted by the Great Recession. The company did respond with a new high for earnings-per-share by 2011. Unlike many financial institutions, Washington Trust maintained and grew its dividend through the last 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 \$7 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 5.1% annually over the next five years, up from our prior estimate of 4.3%. This projection stems from a 5% earnings growth rate and the starting yield of 6.6%, offset by a mid-single-digit headwind from multiple contraction. Most metrics showed growth while PCLs decreased. The stock's 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 raised our five-year price target \$4 to \$31 due to higher earnings estimates for the year, but continue to 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
<b>Revenue</b>	151	162	176	184	194	200	227	229	219	193
<b>SG&amp;A Exp.</b>	62	66	71	72	72	75	86	91	88	90
<b>Depr. And Amort.</b>	4	4	5	4	4	4	4	4	4	5
<b>Net Profit</b>	41	43	46	46	68	69	70	77	72	48
<b>Net Margin</b>	26.9%	26.8%	26.5%	24.9%	35.2%	34.5%	30.8%	33.6%	32.8%	24.9%
<b>Free Cash Flow</b>	(3)	47	57	57	79	70	33	97	107	26
<b>Income Tax</b>	19	21	22	32	18	19	19	21	19	8

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	3,587	3,772	4,381	4,530	5,011	5,293	5,713	5,851	6,660	7,203
<b>Cash &amp; Equivalents</b>	76	93	106	80	90	132	194	175	115	87
<b>Goodwill &amp; Int.</b>	63	76	74	73	72	71	70	69	68	68
<b>Total Liabilities</b>	3,241	3,396	3,990	4,117	4,563	4,789	5,179	5,286	6,206	6,730
<b>Long-Term Debt</b>	429	402	872	814	973	1,164	617	168	1,003	1,213
<b>Total Equity</b>	346	375	391	413	448	503	534	565	454	473
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	1.2%	1.2%	1.1%	1.0%	1.4%	1.3%	1.3%	1.3%	1.1%	0.7%
<b>Return on Equity</b>	12.1%	12.0%	12.1%	11.4%	15.9%	14.5%	13.5%	14.0%	14.1%	10.4%
<b>ROIC</b>	5.8%	5.6%	4.6%	3.7%	5.2%	4.5%	5.0%	8.2%	6.5%	3.1%
<b>Shares Out.</b>	17	17	17	17	17	17	17	17	17	17
<b>Revenue/Share</b>	8.98	9.51	10.21	10.63	11.18	11.51	13.04	13.11	12.58	11.33
<b>FCF/Share</b>	(0.15)	2.74	3.29	3.26	4.54	4.04	1.90	5.58	6.15	1.56

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

### Disclaimer

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