

Washington Federal (WAFD)

\$25.55 (As of 05/04/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: A

Summary

Washington Federal's earnings outpaced the Zacks Consensus Estimate in only one of the trailing four quarters. Its first-quarter 2020 results reflect the adverse impact of interest rate cuts and coronavirus-related mayhem. Near-zero interest rates and the Federal Reserve's accommodative monetary policy stance are expected to adversely impact net interest margin (NIM) and hurt revenue growth to some extent. Moreover, increasing operating expenses (as the bank continues with technology upgrades) are expected to hurt bottom-line growth. However, steady growth in loan balance and a strong liquidity position are expected to continue supporting profitability. Additionally, the bank's enhanced capital deployment activities are likely to strengthen shareholder value. Shares of the company have outperformed the industry over the past year.

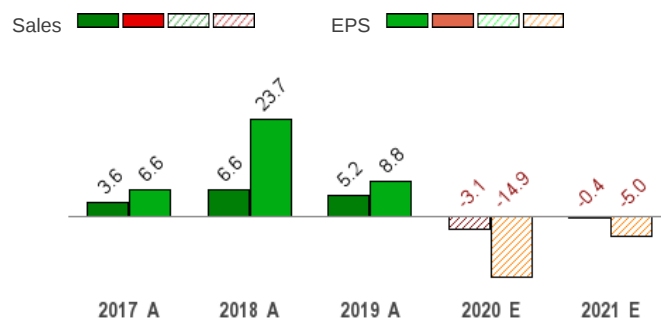
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.26 - \$20.92
20 Day Average Volume (sh)	399,389
Market Cap	\$2.0 B
YTD Price Change	-30.3%
Beta	0.99
Dividend / Div Yld	\$0.88 / 3.4%
Industry	Banks - Northeast
Zacks Industry Rank	Bottom 12% (222 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.9%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	07/21/2020
Earnings ESP	-2.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	142 E	127 E	127 E	128 E	524 E
2020	166 A	134 A	130 E	130 E	526 E
2019	138 A	133 A	136 A	137 A	543 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.52 E	\$0.55 E	\$0.58 E	\$2.11 E
2020	\$0.58 A	\$0.49 A	\$0.53 E	\$0.53 E	\$2.22 E
2019	\$0.65 A	\$0.63 A	\$0.67 A	\$0.66 A	\$2.61 A

*Quarterly figures may not add up to annual.

P/E TTM	10.7
P/E F1	11.5
PEG F1	1.6
P/S TTM	2.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/04/2020. The reports text is as of 05/05/2020.

Overview

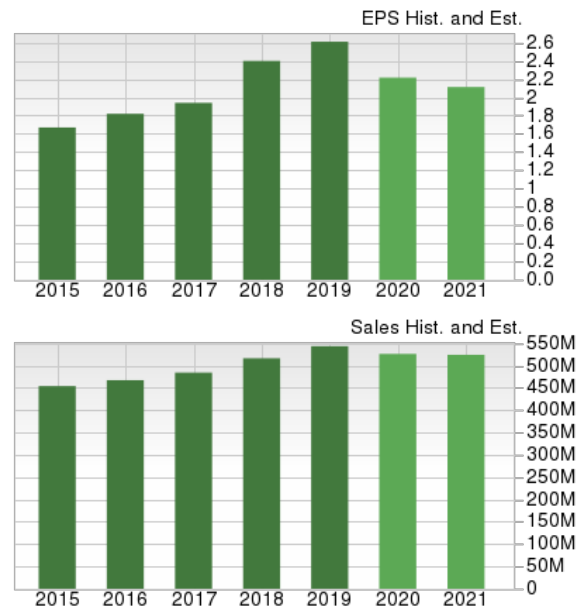
Headquartered in Seattle, WA, Washington Federal Inc. operates as a non-diversified unitary savings and loan holding company. The company conducts operations through its federally insured savings and loan association subsidiary, WaFd Bank, with 234 branches across eight western states.

Washington Federal's business primarily consists of attracting deposits from general public and investing these funds in various types of loans, including first-lien mortgages on single-family dwellings, construction loans, land acquisition and development loans, loans on multi-family and other income producing properties, home equity loans and business loans. It also invests in certain U.S. government and agency obligations, among others.

Washington Federal's deposit products include checking accounts, passbook and statement accounts, money market accounts and time deposits or certificate accounts. The company also engages in real estate investment and insurance brokerage activities.

Washington Federal operates with Sep 30 as its fiscal year-end.

As of Mar 31, 2020, the company had total assets of \$17.4 billion, cash and cash equivalents of \$1.5 billion, net loans of \$11.9 billion, net deposits of \$12 billion, total customer deposits of \$12.1 billion, as well as stockholders' equity of \$2 billion.



Reasons To Buy:

- ▲ Washington Federal is focused on its organic growth efforts. The company's revenues have witnessed a CAGR of 4.1% over the last five fiscal years (2015-2019). The upswing is largely driven by improving net loan balance, which has seen a CAGR of 6.8% over the same time frame. The uptrend in both revenues and loan balances continued in the first six months fiscal 2020. With a steady rise in loan demand, the company's top line will likely grow further.
- ▲ As of Mar 31, 2020, Washington Federal had total debt of \$3.1 billion, and cash and cash equivalents worth \$1.5 billion. Nonetheless, as the times interest earned remained unchanged at 5.3% on a sequential basis at first quarter-end and it has a record of consistent earnings growth, the company has lesser likelihood of default on interest and/or debt repayments if the economic situation worsens further.
- ▲ Washington Federal's earnings strength and strong balance sheet position, along with its trend of returning capital to shareholders, will boost investors' confidence in the stock. Since fiscal 2011, the company has been increasing its quarterly dividend on a regular basis, with the latest announced in January 2020. Further, the company has its share repurchase program in place. As of Mar 31, 2020, the company had 4.6 million shares remaining under the buyback authorization.

Growth in loans and a solid balance sheet will continue aiding Washington Federal's profitability. Further, the bank's solid capital deployment activities will enhance shareholder value.

Reasons To Sell:

- ▼ While Washington Federal witnessed rise in NIM in the last several years, the same declined in fiscal 2019 to 3.16% from 3.27% in fiscal 2018. Likewise, NIM contracted in the first half of fiscal 2020 owing to flattening of the yield curve and lower interest rates. In fact, despite continued loan growth, NIM growth is likely to remain muted in the near term due to near-zero interest rates.
- ▼ Mounting operating expenses pose a major challenge for Washington Federal. Over the last fiscal five years (2015-2019), expenses have seen a CAGR of 5.9%, largely due to higher compensation costs and information technology costs. A similar trend persisted in first half of fiscal 2020. Expenses are likely to continue increasing owing to the bank's branch acquisition strategy and technology upgrades.
- ▼ Shares of Washington Federal have outperformed the industry over the past six months. However, the company's fiscal 2020 earnings estimates have moved 1.8% downward over the past 30 days. The stock seems overvalued than the broader industry. Its current price-to-earnings (F1) and price-to-book ratios are higher than the respective industry averages. Given the concerns and downward estimate revisions, the upbeat price performance is not expected to continue in the near term.

Pressure on margins amid interest rate cuts is a major headwind for Washington Federal and will hurt top-line growth. Additionally, increasing operating expenses are likely to hurt bottom-line growth.

Last Earnings Report

Washington Federal Q2 Earnings Miss on High Provisions

Washington Federal's second-quarter fiscal 2020 (ended Mar 31) earnings were 49 cents per share, missing the Zacks Consensus Estimate of 55 cents. The figure also declined 22.2% year over year.

The results reflect a decline in net interest income amid lower interest rates, significant rise in provisions and higher operating expenses. However, improving loan and deposit balances, and increase in total other income were tailwinds.

Net income was \$38 million, declining 25.7% from the prior-year quarter.

Revenues & Expenses Rise

Net revenues came in at \$133.9 million, up nearly 1% from the year-ago quarter. The figure marginally surpassed the Zacks Consensus Estimate of \$133.2 million.

Net interest income was \$117.6 million, down 2% from the year-ago quarter. Also, net interest margin declined 5 basis points (bps) to 3.10%.

Total other income of \$16.2 million increased 26.8% from the prior-year quarter. This upside was mainly driven by gain on sale of investment securities and higher deposit fee income.

Operating expenses were up 16.9% year over year to \$79.4 million. Rise in all cost components led to this increase.

The company's efficiency ratio was 59.34%, up from 51.15% recorded a year ago. A rise in efficiency ratio indicates deterioration in profitability.

At the end of the fiscal second quarter, return on average common equity was 7.43%, down from 10.20% in the comparable prior-year period. Return on average assets was 0.93%, down from 1.24% in the corresponding period of last year.

As of Mar 31, 2020, net loans receivables were \$12 billion compared with \$11.9 billion on Sep 30, 2019. Further, customer deposit accounts amounted to \$12.1 billion, marginally up from \$12 billion reported as of Sep 30, 2019.

Credit Quality Worsens

As of Mar 31, 2020, the ratio of non-performing assets to total assets was 0.24%, down 3 bps from the Sep 30, 2019 level.

However, provision for loan losses increased to \$6.2 million from \$0.8 million recorded a year ago. Substantially higher provisions reflect the economic slowdown caused by the coronavirus pandemic.

Additionally, allowance for loan losses and reserve for unfunded commitments were 1.10% of gross loans outstanding, up 6 bps from the Sep 30, 2019 figure.

Share Repurchase Update

During the quarter, Washington Federal repurchased 2.4 million shares at weighted average price of \$32.43 per share.

Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	0.49%
EPS Surprise	-10.91%
Quarterly EPS	0.49
Annual EPS (TTM)	2.40

Recent News

Dividend Update

On Apr 28, Washington Federal announced a quarterly cash dividend of 22 cents per share. The dividend will be paid out on May 22 to stockholders of record as of May 8.

Valuation

Washington Federal's shares are down 23.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 34.5% and 22.5% over the past year, respectively.

The S&P 500 index is down 3.3% in the past year.

The stock is currently trading at 11.86X forward 12 months earnings, which compares to 10.68X for the Zacks sub-industry, 14.86X for the Zacks sector and 20.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.94X and as low as 8.86X, with a 5-year median of 13.90X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$27 price target reflects 12.56X forward earnings.

The table below shows summary valuation data for WAFD

Valuation Multiples - WAFD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.86	10.68	14.86	20.18
	5-Year High	18.94	16.72	16.18	20.18
	5-Year Low	8.86	8.36	11.24	15.19
	5-Year Median	13.9	13.07	13.94	17.44
P/B	Current	1	0.97	2.08	3.75
	5-Year High	1.6	2.14	2.9	4.55
	5-Year Low	0.82	0.71	1.71	2.84
	5-Year Median	1.33	1.69	2.53	3.64
P/S F12M	Current	3.79	2.86	4.98	3.19
	5-Year High	6.55	4.64	6.7	3.44
	5-Year Low	3.19	2.86	4.98	2.54
	5-Year Median	5.04	3.98	6.06	3.01

As of 05/04/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (222 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Community Bank System, Inc. (CBU)	Neutral	4
First Financial Bankshares, Inc. (FFIN)	Neutral	3
New York Community Bancorp, Inc. (NYCB)	Neutral	2
Old National Bancorp (ONB)	Neutral	3
Prosperity Bancshares, Inc. (PB)	Neutral	3
Signature Bank (SBNY)	Neutral	3
Bank of Hawaii Corporation (BOH)	Underperform	3
Cadence Bancorp (CADE)	Underperform	5

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	WAFD	X Industry	S&P 500	CADE	PB	SBNY
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	D	-	-	C	D	D
Market Cap	1.99 B	154.27 M	19.65 B	794.32 M	5.52 B	5.47 B
# of Analysts	3	2	14	6	10	14
Dividend Yield	3.44%	2.69%	2.19%	11.29%	3.16%	2.19%
Value Score	C	-	-	B	D	C
Cash/Price	0.75	0.45	0.06	1.28	0.07	0.29
EV/EBITDA	9.78	6.57	11.76	0.62	10.65	8.37
PEG Ratio	1.68	1.43	2.48	NA	1.18	1.01
Price/Book (P/B)	1.00	0.81	2.63	0.38	0.94	1.15
Price/Cash Flow (P/CF)	8.41	7.57	10.38	3.53	13.19	7.59
P/E (F1)	11.73	10.72	18.81	5.59	11.85	10.85
Price/Sales (P/S)	2.62	1.87	2.02	0.82	5.14	2.79
Earnings Yield	8.69%	9.28%	5.07%	17.90%	8.44%	9.21%
Debt/Equity	1.54	0.42	0.73	0.18	0.02	1.07
Cash Flow (\$/share)	3.04	2.25	7.01	1.75	4.42	13.44
Growth Score	D	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	11.28%	12.52%	10.87%	NA	4.67%	12.08%
Proj. EPS Growth (F1/F0)	-15.07%	-22.87%	-8.14%	-35.56%	-2.01%	-13.41%
Curr. Cash Flow Growth	-3.70%	9.97%	5.88%	15.06%	12.62%	-4.00%
Hist. Cash Flow Growth (3-5 yrs)	6.67%	13.63%	8.55%	28.34%	2.48%	12.57%
Current Ratio	1.10	0.98	1.25	0.91	0.75	0.99
Debt/Capital	60.56%	29.51%	44.07%	14.98%	2.10%	51.75%
Net Margin	27.66%	19.35%	11.00%	-26.46%	35.42%	27.75%
Return on Equity	9.38%	9.10%	16.43%	6.74%	8.32%	11.50%
Sales/Assets	0.05	0.05	0.55	0.05	0.04	0.04
Proj. Sales Growth (F1/F0)	-3.20%	0.00%	-1.76%	-3.08%	37.75%	7.88%
Momentum Score	A	-	-	F	C	C
Daily Price Chg	-0.20%	-0.02%	-0.01%	2.82%	-0.43%	0.56%
1 Week Price Chg	2.61%	5.41%	0.53%	11.87%	14.65%	7.85%
4 Week Price Chg	0.31%	4.70%	6.66%	27.57%	24.48%	33.93%
12 Week Price Chg	-26.48%	-29.46%	-20.38%	-61.89%	-19.69%	-28.93%
52 Week Price Chg	-23.39%	-28.23%	-13.44%	-72.95%	-21.18%	-23.55%
20 Day Average Volume	399,389	15,953	2,567,149	1,998,638	817,039	556,961
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.26%	3.95%	0.00%
(F1) EPS Est 4 week change	-2.06%	-4.28%	-6.96%	-19.35%	3.75%	-8.66%
(F1) EPS Est 12 week change	-11.86%	-23.61%	-13.90%	-37.79%	-9.89%	-18.07%
(Q1) EPS Est Mthly Chg	-2.78%	-8.22%	-13.62%	-30.81%	-1.57%	-7.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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