

Washington Federal (WAFD)

\$34.68 (As of 02/06/20)

Price Target (6-12 Months): **\$37.00**

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:C

Value: D

Growth: C

Momentum: B

Summary

Shares of Washington Federal have outperformed the industry over the past year. The company surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The bank's first-quarter fiscal 2020 results reflect higher revenues and provision benefits. Steady growth in loan balance, a strong liquidity position, improving domestic economy and impressive credit quality will continue to support the company's profitability. Additionally, the bank's enhanced capital deployment activities are likely to strengthen shareholder value. However, relatively lower yields and the Federal Reserve's accommodative monetary policy stance are expected to adversely impact net interest margin and hurt revenues to some extent. Moreover, mounting operating expense levels remain a major near-term concern, and will hamper bottom-line growth.

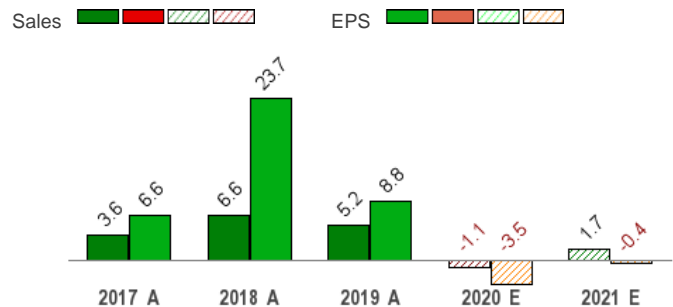
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.26 - \$27.82
20 Day Average Volume (sh)	408,859
Market Cap	\$2.7 B
YTD Price Change	-5.4%
Beta	1.08
Dividend / Div Yld	\$0.88 / 2.5%
Industry	Banks - Northeast
Zacks Industry Rank	Top 31% (80 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.3%
Last Sales Surprise	22.7%
EPS F1 Est- 4 week change	2.2%
Expected Report Date	04/20/2020
Earnings ESP	0.0%
P/E TTM	13.7
P/E F1	13.8
PEG F1	2.0
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	136 E	136 E	137 E	137 E	546 E
2020	166 A	133 E	134 E	135 E	537 E
2019	138 A	133 A	136 A	137 A	543 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.64 E	\$0.63 E	\$0.66 E	\$2.51 E
2020	\$0.58 A	\$0.59 E	\$0.60 E	\$0.63 E	\$2.52 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

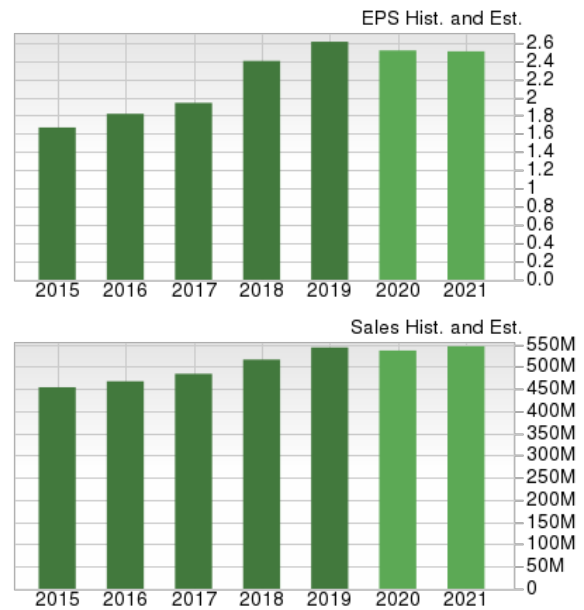
Headquartered in Seattle, WA, Washington Federal Inc. operates as a non-diversified unitary savings and loan holding company. The company conducts operations through its federally insured savings and loan association subsidiary, WaFd Bank, with 234 branches across eight western states.

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 Dec 31, 2019, the company had total assets of \$16.4 billion, cash and cash equivalents of \$483.8 million, net loans of \$11.9 billion, net deposits of \$11.9 billion, total customer deposits of \$11.9 billion and stockholders' equity of \$2.1 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. Both revenues and loan balances continued the uptrend in the first quarter fiscal 2020. With a steady rise in loan demand and improving economy, the company's top line will further grow.
- ▲ 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 Dec 31, 2019, it had nearly 7.1 million shares authorized for repurchase.
- ▲ Washington Federal's credit quality continues to improve. Since fiscal 2010, credit costs (including provision for loan losses and gains/losses on sales of REO) have declined significantly. Notably, provision for loan losses reflected a reversal of \$1.7 million in fiscal 2019 against an expense of \$45.0 million in fiscal 2010. The similar trend continued in first-quarter fiscal 2020.
- ▲ Shares of Washington Federal have underperformed the industry over the past six months. However, the company's fiscal 2020 earnings estimates moved 2.4% upward over the past 30 days. Given the strong fundamentals and positive estimate revisions, the stock has upside potential.

Growth in loans, solid asset quality and improving economy will support Washington Federal's profitability. The bank's solid capital deployment activities will enhance shareholder value.

Reasons To Sell:

- ▼ While Washington Federal witnessed rise in net interest margin (NIM) in the last several years, the same declined in fiscal 2019 to 3.16% from 3.27% in fiscal 2018. Likewise, in the first quarter fiscal 2020, NIM contracted owing to the flattening of the yield curve. In fact, despite continued loan growth, NIM growth is likely to remain muted in the near term due to lower 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-quarter fiscal 2020. Expenses are likely to continue increasing owing to the bank's branch acquisition strategy and technology upgrades.
- ▼ Further, Washington Federal has considerable exposure to risky loan portfolios. As of Dec 31, 2019, 42.5% of the company's gross loan balance comprised single-family residential portfolio. Though housing market has been stabilizing and consumer sentiments remain positive, deterioration in any of these might hurt the company's prospects.
- ▼ Further, Washington Federal seems overvalued when compared with the broader industry. Its current price-to-earnings (F1) and price-to-book ratios are higher than the respective industry averages.

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 Q1 Earnings Lag, Revenues Beat

Washington Federal's first-quarter fiscal 2020 (ended Dec 31) adjusted earnings came in at 58 cents per share, missing the Zacks Consensus Estimate of 60 cents. Results exclude the net positive impact of two significant non-recurring items.

Including such items, net income was \$65.7 million or 84 cents per share, up from \$52.9 million or 65 cents per share in the year-ago quarter.

Results reflect increase in revenues and improving credit quality. However, higher expenses, decline in loan and deposit balances, and shrinking margins were the undermining factors.

Revenues Up, Expenses Rise

Net revenues came in at \$166.1 million, up 20.2% from the year-ago quarter. The figure surpassed the Zacks Consensus Estimate of \$135.3 million by a wide margin.

Net interest income was \$119.7 million, marginally up from the year-ago quarter. However, net interest margin declined 6 basis points (bps) to 3.15%.

Total other income of \$46.4 million increased considerably from the prior-year quarter. This upside was mainly driven by increase in other income and loan fee income.

Operating expenses were up 15.3% year over year to \$82.6 million. Higher compensation and benefits, occupancy, product delivery and information technology expenses led to this rise.

The company's adjusted efficiency ratio was 57.05% up from 51.88% recorded a year ago. A rise in efficiency ratio indicates deterioration in profitability.

At the end of the fiscal first quarter, return on average common equity was 12.89%, up from 10.64% witnessed at the end of the prior-year quarter. Return on average assets was 1.60%, up from 1.32%.

As of Dec 31, 2019, both net loans receivables and customer deposit accounts amounted to \$11.9 billion, marginally down from the prior quarter.

Credit Quality Improves

As of Dec 31, 2019, the ratio of non-performing assets to total assets was 0.24%, down 3 bps sequentially. Furthermore, release for loan losses increased to \$1 million from \$0.5 million recorded a year ago.

Additionally, allowance for loan losses and reserve for unfunded commitments were 1.04% of gross loans outstanding, unchanged from the figure recorded in the prior quarter.

Share Repurchase Update

During the quarter, Washington Federal repurchased 0.9 million shares at weighted average price of \$36.62 per share.

Quarter Ending **12/2019**

Report Date	Jan 14, 2020
Sales Surprise	22.72%
EPS Surprise	-3.33%
Quarterly EPS	0.58
Annual EPS (TTM)	2.54

Recent News

Dividend Update

On Jan 22, Washington Federal announced a quarterly cash dividend of 22 cents per share, representing a hike of 4.8% from the prior payout. The dividend will be paid out on Feb 21 to stockholders on record as of Feb 7.

Valuation

Washington Federal's shares are up 18.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 3.5% and 10.6% over the past year, respectively.

The S&P 500 index is up 22.6% in the past year.

The stock is currently trading at 13.81X forward 12 months earnings, which compares to 11.63X for the Zacks sub-industry, 14.94X for the Zacks sector and 19.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.84X and as low as 9.82X, with a 5-year median of 13.90X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 14.74X 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	13.81	11.63	14.94	19.17
	5-Year High	18.84	16.7	16.21	19.34
	5-Year Low	9.82	9.49	12.01	15.18
	5-Year Median	13.9	13.44	14.07	17.46
P/B TTM	Current	1.33	1.46	2.84	4.56
	5-Year High	1.6	2.14	2.89	4.56
	5-Year Low	0.94	1.29	1.83	2.85
	5-Year Median	1.34	1.69	2.51	3.62
P/S F12M	Current	5.03	3.88	6.53	3.55
	5-Year High	6.55	4.74	6.61	3.55
	5-Year Low	3.75	3.46	5.39	2.54
	5-Year Median	5.04	3.98	6.04	3

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Top 31% (80 out of 255)



Top Peers

Prosperity Bancshares, Inc. (PB)	Outperform
Bank of Hawaii Corporation (BOH)	Neutral
Community Bank System, Inc. (CBU)	Neutral
First Financial Bankshares, Inc. (FFIN)	Neutral
New York Community Bancorp, Inc. (NYCB)	Neutral
Old National Bancorp (ONB)	Neutral
Signature Bank (SBNY)	Neutral
Cadence Bancorp (CADE)	Underperform

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	WAFD Neutral	X Industry	S&P 500	CADE Underperform	PB Outperform	SBNY Neutral
VGM Score	C	-	-	C	D	D
Market Cap	2.70 B	219.26 M	24.40 B	2.08 B	4.98 B	7.80 B
# of Analysts	2	2	13	6	9	16
Dividend Yield	2.54%	1.73%	1.75%	4.30%	2.53%	1.56%
Value Score	D	-	-	D	C	C
Cash/Price	0.18	0.27	0.04	0.53	0.12	0.10
EV/EBITDA	12.33	9.95	14.17	5.44	9.47	12.79
PEG Ratio	1.96	1.57	2.05	NA	1.35	1.17
Price/Book (P/B)	1.31	1.19	3.31	0.85	0.83	1.63
Price/Cash Flow (P/CF)	11.41	11.73	13.63	8.02	12.80	10.56
P/E (F1)	13.72	12.25	19.08	9.01	13.49	12.54
Price/Sales (P/S)	3.53	2.79	2.67	2.10	5.21	4.02
Earnings Yield	7.27%	8.14%	5.24%	11.07%	7.41%	7.97%
Debt/Equity	1.10	0.42	0.71	0.15	0.02	1.01
Cash Flow (\$/share)	3.04	2.17	6.89	2.03	5.69	13.61
Growth Score	C	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	11.93%	12.73%	10.80%	NA	3.30%	13.63%
Proj. EPS Growth (F1/F0)	-3.64%	2.13%	7.23%	4.94%	7.64%	5.55%
Curr. Cash Flow Growth	-3.70%	22.92%	9.51%	33.01%	4.79%	22.33%
Hist. Cash Flow Growth (3-5 yrs)	6.67%	13.47%	8.55%	32.11%	1.02%	16.23%
Current Ratio	1.03	0.98	1.20	0.87	0.75	0.98
Debt/Capital	52.31%	29.13%	42.90%	13.14%	2.06%	50.37%
Net Margin	29.22%	21.16%	11.76%	20.38%	34.66%	30.36%
Return on Equity	10.01%	10.14%	16.98%	9.20%	8.04%	12.57%
Sales/Assets	0.05	0.05	0.54	0.06	0.04	0.04
Proj. Sales Growth (F1/F0)	-1.27%	1.43%	4.15%	-2.46%	39.77%	7.78%
Momentum Score	B	-	-	B	C	A
Daily Price Chg	-1.14%	-0.31%	-0.11%	-0.97%	-0.63%	-2.07%
1 Week Price Chg	-3.16%	-1.89%	-2.60%	-6.41%	3.45%	-2.68%
4 Week Price Chg	-2.50%	-2.04%	1.51%	-9.36%	2.39%	4.22%
12 Week Price Chg	-5.86%	0.90%	5.63%	0.12%	3.97%	14.52%
52 Week Price Chg	16.73%	6.09%	17.01%	-17.71%	-1.31%	8.46%
20 Day Average Volume	408,859	9,565	1,961,054	1,721,482	828,595	448,755
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.54%	0.00%
(F1) EPS Est 4 week change	2.24%	0.00%	-0.00%	-6.86%	4.34%	1.94%
(F1) EPS Est 12 week change	1.00%	-0.33%	-0.16%	-7.67%	4.20%	2.14%
(Q1) EPS Est Mthly Chg	-3.28%	0.00%	0.00%	-10.22%	5.18%	2.26%

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	D
Growth Score	C
Momentum Score	B
VGM Score	C

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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