

Washington Federal (WAFD)

\$35.65 (As of 01/13/20)

Price Target (6-12 Months): **\$38.00**

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: D

Growth: B

Momentum: F

Summary

Shares of Washington Federal have outperformed the industry over the past year. The company has surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Steady growth in loan balance, a strong liquidity position, improving economy and impressive credit quality will continue to support the company's profitability. Additionally, the bank's steady capital deployment activities will likely enhance shareholder value. However, relatively lower yields and the Federal Reserve's accommodative monetary policy stance are expected to adversely impact margins and will hamper revenue growth to some extent. Moreover, mounting operating expense levels remain a major near-term concern, and will hamper bottom-line growth. Furthermore, the earnings estimates have been moving lower ahead of its fiscal first quarter 2020 results.

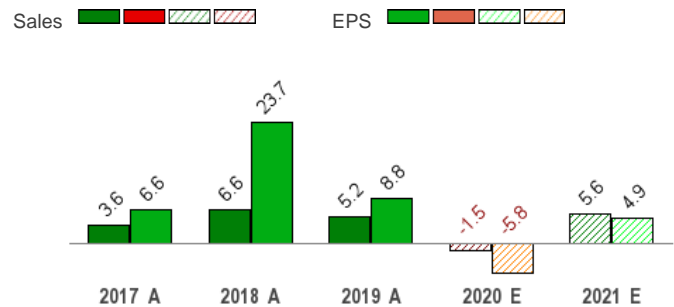
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.26 - \$27.31
20 Day Average Volume (sh)	309,390
Market Cap	\$2.8 B
YTD Price Change	-2.7%
Beta	1.10
Dividend / Div Yld	\$0.84 / 2.4%
Industry	Banks - Northeast
Zacks Industry Rank	Bottom 37% (159 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	01/13/2020
Earnings ESP	0.0%
P/E TTM	13.7
P/E F1	14.5
PEG F1	2.1
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	136 E	137 E	137 E	138 E	565 E
2020	135 E	136 E	137 E	139 E	535 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	\$0.64 E	\$0.65 E	\$2.58 E
2020	\$0.60 E	\$0.61 E	\$0.62 E	\$0.63 E	\$2.46 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 01/13/2020. The reports text is as of 01/14/2020.

Overview

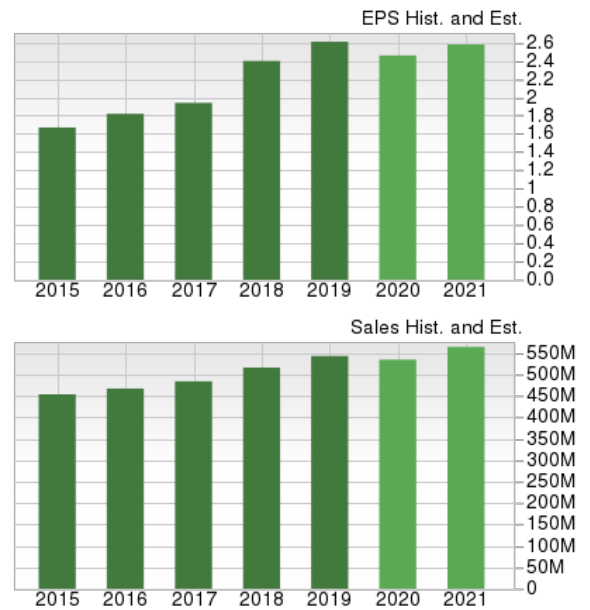
Headquartered in Seattle, WA, Washington Federal Inc. operates as a non-diversified unitary savings and loan holding company. The company conducts operations through its federally insured savings and loan association subsidiary, WaFd Bank, with 234 branches across eight western states.

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 Sep 30, 2019, the company had total assets of \$16.5 billion, cash and cash equivalents of \$419.2 million, net loans of \$12 billion, net deposits of \$11.9 billion, total deposits of \$12 billion and 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 uptrend is largely driven by improving net loan balance, which has seen a CAGR of 6.8% over the same time frame. With 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. Moreover, since fiscal 2011, the company has been increasing its dividend on a consistent basis, with the latest being announced in July 2019. Further, the company has its share repurchase program in place. As of Sep 30, 2019, it had nearly 8 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.

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. In fact, despite continued loan growth, NIM growth is likely to remain muted in the near term due to lower interest rates and the Federal Reserve's accommodative stance.
- ▼ 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. 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 Sep 30, 2019, 48.5% of the company's net 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.
- ▼ Shares of Washington Federal have outperformed the industry over the past six months. However, the company's fiscal 2020 earnings estimates moved 1.2% lower over the past 30 days. Further, the stock 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. Given the concerns and downward estimate revisions, the stock has limited upside potential.

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 Q4 Earnings Meet, Revenues Beat

Washington Federal's fourth-quarter fiscal 2019 (ended Sep 30) earnings came in at 66 cents per share, in line with the Zacks Consensus Estimate. The figure also reflects year-over-year growth of 6.5%.

Results benefited from a rise in revenues, decent growth in loan and deposit balances, and provision benefits. However, higher expense and lower interest rates were the undermining factors.

Net income for the quarter increased 1.6% year over year to \$52.4 million.

For fiscal 2019, earnings of \$2.61 per share were up 8.8% year over year, and matched the consensus estimate. Net income grew 3.1% to \$210.3 million.

Revenues & Costs Increase

Net revenues for the reported quarter came in at \$136.6 million, up 3.9% from the year-ago quarter. The figure marginally beat the Zacks Consensus Estimate of \$136.2 million.

For fiscal 2019, net revenues were \$543.4 million, up 5.3%. Also, the top line surpassed the consensus estimate of \$539.8 million.

Net interest income was \$120.2 million, up nearly 1% from the year-earlier quarter. However, net interest margin declined 14 basis points (bps) to 3.12%.

Total other income of \$16.5 million grew 34.4% from the prior-year quarter. This upside was mainly driven by increase in other income and loan fee income.

Operating expenses were up 4.2% from the prior-year quarter to \$72.5 million. Higher compensation and benefit, occupancy, information technology and other expenses led to this upswing.

The company's efficiency ratio was 53.08%, up from 52.94% recorded a year ago. A rise in efficiency ratio indicates deterioration in profitability.

At the end of the fiscal fourth quarter, return on average common equity was 10.32%, up from 10.29% witnessed at the end of the prior-year quarter. Return on average assets was 1.26%, down from 1.31%.

Loans & Deposits Rise

As of Sep 30, 2019, net loans receivables amounted to \$11.9 billion, up from \$11.5 billion recorded on Sep 30, 2018. Also, customer deposit accounts were \$12 billion, up from \$11.4 billion.

Credit Quality Improves

As of Sep 30, 2019, the ratio of non-performing assets to total assets was 0.27%, down 17 bps year over year. Furthermore, the allowance for loan losses and reserve for unfunded commitments were 1.04% of gross loans outstanding, down from 1.06% recorded on Sep 30, 2018.

Additionally, release for loan losses was \$1.9 million during the quarter against \$5.5 million recorded a year ago.

Share Repurchase Update

During fiscal 2019, Washington Federal repurchased 4.1 million shares at average price of \$30.46 per share.

Outlook

Effective tax rate is expected to be roughly 21% going forward.

Quarter Ending **09/2019**

Report Date	Oct 15, 2019
Sales Surprise	0.32%
EPS Surprise	0.00%
Quarterly EPS	0.66
Annual EPS (TTM)	2.61

Recent News

Dividend Update

On Oct 29, Washington Federal announced a quarterly cash dividend of 21 cents per share. The dividend was paid on Nov 22 to stockholders on record as of Nov 8.

Valuation

Washington Federal's shares are up 25.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 13.1% and 14.4% over the past year, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 14.29X forward 12 months earnings, which compares to 11.55X for the Zacks sub-industry, 14.95X for the Zacks sector and 19.00X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.94X and as low as 9.82X, with a 5-year median of 13.88X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 15.26X 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	14.29	11.55	14.95	19
	5-Year High	18.94	16.7	16.21	19.34
	5-Year Low	9.82	9.49	12.01	15.17
	5-Year Median	13.88	13.37	13.98	17.44
P/B TTM	Current	1.37	1.52	2.84	4.49
	5-Year High	1.6	2.14	2.89	4.49
	5-Year Low	0.94	1.29	1.83	2.85
	5-Year Median	1.33	1.69	2.5	3.61
P/S F12M	Current	5.14	3.69	6.53	3.52
	5-Year High	6.55	4.74	6.61	3.52
	5-Year Low	3.75	3.46	5.2	2.54
	5-Year Median	5.04	4.02	6.04	3

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 254)



Top Peers

Bank of Hawaii Corporation (BOH)	Neutral
Cadence Bancorp (CADE)	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
Prosperity Bancshares, Inc. (PB)	Neutral
Signature Bank (SBNY)	Neutral

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	WAFD Neutral	X Industry	S&P 500	CADE Neutral	PB Neutral	SBNY Neutral
VGM Score	D	-	-	D	D	C
Market Cap	2.79 B	233.18 M	24.31 B	2.27 B	4.86 B	7.47 B
# of Analysts	2	2	13	5	7	14
Dividend Yield	2.36%	1.74%	1.76%	3.95%	2.59%	1.63%
Value Score	D	-	-	C	B	C
Cash/Price	0.15	0.26	0.04	0.47	0.09	0.12
EV/EBITDA	12.77	9.94	14.12	6.16	9.26	12.49
PEG Ratio	2.07	1.66	2.05	NA	1.38	1.14
Price/Book (P/B)	1.39	1.24	3.34	0.92	1.18	1.57
Price/Cash Flow (P/CF)	11.73	12.00	13.66	7.48	13.34	10.11
P/E (F1)	14.52	12.52	18.82	9.14	13.77	12.22
Price/Sales (P/S)	3.81	2.89	2.64	2.48	5.61	3.89
Earnings Yield	6.90%	7.99%	5.29%	10.95%	7.27%	8.18%
Debt/Equity	1.11	0.40	0.72	0.15	0.00	1.05
Cash Flow (\$/share)	3.04	2.17	6.94	2.37	5.32	13.61
Growth Score	B	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	12.07%	12.16%	10.56%	NA	2.15%	14.63%
Proj. EPS Growth (F1/F0)	-5.75%	3.64%	7.49%	9.12%	7.68%	4.06%
Curr. Cash Flow Growth	-3.70%	24.38%	14.83%	44.59%	12.12%	22.33%
Hist. Cash Flow Growth (3-5 yrs)	6.67%	13.64%	9.00%	NA	3.93%	16.23%
Current Ratio	1.02	0.98	1.23	0.99	0.62	0.98
Debt/Capital	52.53%	28.66%	42.99%	13.06%	0.00%	51.19%
Net Margin	28.65%	21.64%	11.08%	20.00%	38.03%	31.37%
Return on Equity	10.47%	10.18%	17.16%	9.81%	8.02%	13.09%
Sales/Assets	0.04	0.05	0.55	0.06	0.04	0.04
Proj. Sales Growth (F1/F0)	-1.56%	3.19%	4.23%	-2.01%	41.58%	6.88%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	1.02%	0.26%	0.73%	0.68%	0.50%	-0.06%
1 Week Price Chg	-3.05%	-0.51%	0.39%	-2.49%	-1.82%	1.34%
4 Week Price Chg	-3.96%	-0.34%	1.84%	3.51%	-0.95%	1.39%
12 Week Price Chg	-2.57%	5.48%	6.48%	0.00%	-0.35%	12.30%
52 Week Price Chg	27.73%	12.89%	23.15%	0.80%	5.54%	24.11%
20 Day Average Volume	309,390	11,195	1,578,594	1,067,807	397,145	299,562
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.82%	-0.43%	0.04%
(F1) EPS Est 4 week change	-1.20%	0.00%	0.00%	-2.12%	-0.53%	0.22%
(F1) EPS Est 12 week change	-9.00%	-2.07%	-0.48%	-6.83%	-0.17%	-2.74%
(Q1) EPS Est Mthly Chg	-1.61%	0.00%	0.00%	-2.17%	-0.40%	0.56%

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	D
Growth Score	B
Momentum Score	F
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.