

Washington Federal (WAFD)

\$23.20 (As of 07/27/20)

Price Target (6-12 Months): **\$25.00**

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: B

Growth: F

Momentum: D

Summary

Shares of Washington Federal have underperformed the industry over the past year. Its earnings met the Zacks Consensus Estimate in only one of the trailing four quarters and missed on the other three occasions. Its fiscal third-quarter results reflect significantly higher credit costs amid coronavirus concern. Near-zero interest rates and the Federal Reserve's accommodative policy stance are expected to hurt the bank's net interest margin (NIM) and revenue growth to some extent. Further, increasing operating expenses (as the bank continues technology upgrades) are expected to hurt profitability. However, steady growth in loan balance and a strong liquidity position are expected to continue supporting profitability over time. The company's capital deployment activities indicate balance sheet strength and enhance shareholder value.

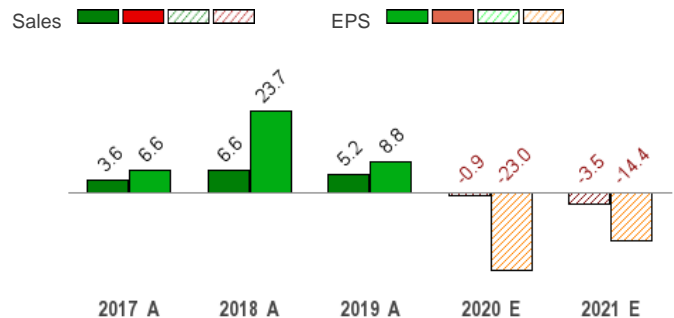
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.26 - \$20.92
20 Day Average Volume (sh)	421,168
Market Cap	\$1.8 B
YTD Price Change	-36.7%
Beta	0.98
Dividend / Div Yld	\$0.88 / 3.8%
Industry	Banks - Northeast
Zacks Industry Rank	Top 42% (105 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.1%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	7.6%
Expected Report Date	10/20/2020
Earnings ESP	0.0%
P/E TTM	10.6
P/E F1	11.5
PEG F1	1.7
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	133 E	127 E	129 E	130 E	519 E
2020	166 A	134 A	131 A	141 E	538 E
2019	138 A	133 A	136 A	137 A	543 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.35 E	\$0.34 E	\$0.37 E	\$0.37 E	\$1.72 E
2020	\$0.58 A	\$0.49 A	\$0.46 A	\$0.46 E	\$2.01 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 07/27/2020. The reports text is as of 07/28/2020.

Overview

Headquartered in Seattle, WA, Washington Federal Inc. operates as a non-diversified unitary savings and loan holding company.

Washington Federal conducts operations through its federally insured savings and loan association subsidiary, *WaFd Bank*, with approximately 230 branches across eight western states.

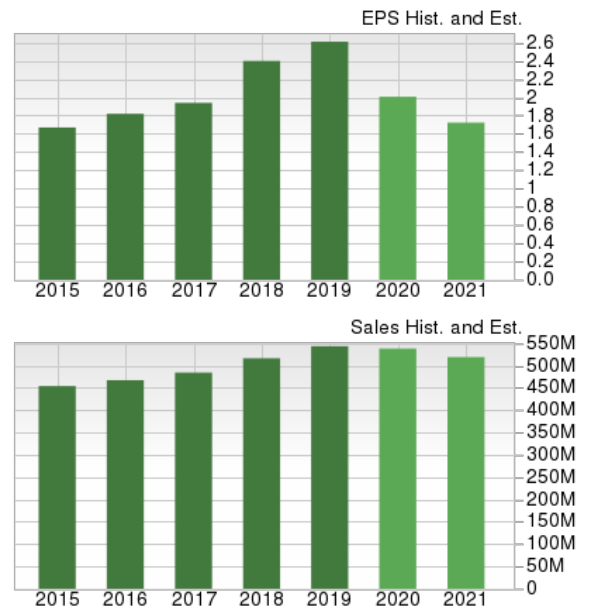
Washington Federal's business primarily consists of attracting deposits from general public and investing these funds in various types of loans, including first-lien mortgages on single-family dwellings, construction loans, land acquisition and development loans, loans on multi-family and other income producing properties, home equity loans and business loans.

Washington Federal 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. Washington Federal also engages in providing real estate investment and insurance brokerage services.

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

As of Jun 30, 2020, Washington Federal had total assets of \$18.2 billion, cash and cash equivalents of \$1.2 billion, net loans of \$12.7 billion, total customer deposits of \$13.1 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 nine months of fiscal 2020. Owing to a steady rise in loan demand, the company's top line will likely improve further to some extent.
- ▲ As of Jun 30, 2020, Washington Federal had a total debt of \$2.8 billion, and cash and cash equivalents worth \$1.2 billion. Nonetheless, its times interest earned of 5.5% at fiscal third quarter-end has remained steady at this range over the last several quarters. Thus, given 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, as of Jun 30, 2020, the company had 4.6 million shares remaining under the buyback authorization. Nonetheless, repurchases have been suspended for the time being as the company continues to evaluate the extent of coronavirus-related economic impact on financials.

Growth in loans and a robust 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 nine months of fiscal 2020 owing to flattening of the yield curve and lower interest rates. In fact, despite persistent 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 three quarters 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 underperformed the industry over the past three months. Also, the company's fiscal 2020 earnings estimates have moved marginally downward over the past month. Thus, given the concerns and lack of positive 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 Q3 Earnings Miss on High Provisions

Washington Federal's third-quarter fiscal 2020 (ended Jun 30) earnings were 46 cents per share, missing the Zacks Consensus Estimate by a penny. The figure also declined 31.3% year over year.

The results reflect a decline in revenues, significant rise in provisions and higher operating expenses. However, improving loan and deposit balances were a tailwind.

Net income was \$34.9 million, declining 35.3% from the prior-year quarter.

Quarter Ending **06/2020**

Report Date	Jul 22, 2020
Sales Surprise	-0.57%
EPS Surprise	-2.13%
Quarterly EPS	0.46
Annual EPS (TTM)	2.19

Revenues Down, Expenses Rise

Net revenues came in at \$130.7 million, down 3.7% from the year-ago quarter. The figure marginally lagged the Zacks Consensus Estimate of \$131.4 million.

Net interest income was \$117.4 million, down 3.5% from the year-ago quarter. Also, net interest margin declined 36 basis points (bps) to 2.82%.

Total other income of \$13.3 million decreased 5.5% from the prior-year quarter. The fall was mainly due to lower deposit fee income and other income.

Operating expenses were up 6.2% year over year to \$75.3 million. Rise in compensation and benefits costs, as well as information technology expenses largely resulted in higher operating expenses.

The company's efficiency ratio was 57.65%, up from 52.24% recorded a year ago. A rise in efficiency ratio indicates deterioration in profitability.

As of Jun 30, 2020, net loans receivables were \$12.7 billion compared with \$11.9 billion on Sep 30, 2019. Further, customer deposit accounts amounted to \$13.1 billion, up from \$12 billion reported as of Sep 30, 2019.

Credit Quality Worsens

As of Jun 30, 2020, the ratio of non-performing assets to total assets was 0.25%, down 2 bps from the Sep 30, 2019 level.

However, provision for credit losses was \$10.8 million compared with nil provision a year ago. Substantially higher provisions reflect estimated impacts to energy, hospitality, restaurant and senior living industries.

Also, allowance for credit losses and reserve for unfunded commitments were 1.29% of gross loans outstanding, up 25 bps from the Sep 30, 2019 figure.

Profitability Ratios Deteriorate

At fiscal third quarter-end, return on average common equity was 7.01%, down from 10.68% in the comparable prior-year period. Return on average assets was 0.78%, down from 1.31% in the corresponding period of last year.

Share Repurchase Update

During the quarter, Washington Federal repurchased 1,594 shares at a weighted average price of \$24.90 per share.

Recent News

Dividend Update

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

Valuation

Washington Federal's shares are down 36.7% in the year-to-date period and 36.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 36.2% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 31.4% and 14%, respectively.

The S&P 500 index witnessed no change in the year-to-date period and was up 6.9% in the past year.

The stock is currently trading at 13.09X forward 12 months earnings, which compares to 10.72X for the Zacks sub-industry, 16.35X for the Zacks sector and 22.49X 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 13.84X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$25 price target reflects 14.12X 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	13.09	10.72	16.35	22.49
	5-Year High	18.94	16.73	16.35	22.49
	5-Year Low	8.86	8.78	11.59	15.25
	5-Year Median	13.84	12.65	14.16	17.52
P/TB TTM	Current	1.05	1.38	3.33	12.69
	5-Year High	1.91	2.88	4	12.94
	5-Year Low	0.98	1.04	2.01	5.96
	5-Year Median	1.59	2.27	3.48	9.52
P/S F12M	Current	3.45	2.85	6.04	3.55
	5-Year High	6.55	4.69	6.66	3.35
	5-Year Low	3.19	2.77	4.96	2.53
	5-Year Median	5.04	2.85	6.06	3.02

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Top 42% (105 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - Northeast				Industry Peers		
	WAFD	X Industry	S&P 500	CADE	PB	SBNY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	C	B	B
Market Cap	1.80 B	154.20 M	22.74 B	1.01 B	5.10 B	5.71 B
# of Analysts	3	2	14	6	9	19
Dividend Yield	3.79%	2.83%	1.8%	2.49%	3.34%	2.10%
Value Score	B	-	-	C	B	A
Cash/Price	0.65	0.51	0.07	1.81	0.07	0.78
EV/EBITDA	9.35	6.16	13.03	-1.80	9.80	5.31
PEG Ratio	1.64	2.45	3.03	NA	1.05	1.16
Price/Book (P/B)	0.91	0.79	3.17	0.49	0.89	1.17
Price/Cash Flow (P/CF)	7.63	7.60	12.05	4.58	12.47	7.93
P/E (F1)	11.51	11.40	21.90	17.87	10.54	11.04
Price/Sales (P/S)	2.45	1.80	2.38	1.10	4.75	2.90
Earnings Yield	8.66%	8.77%	4.30%	5.60%	9.48%	9.06%
Debt/Equity	1.41	0.39	0.76	0.18	0.02	0.94
Cash Flow (\$/share)	3.04	2.25	7.01	1.75	4.42	13.44
Growth Score	F	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	9.95%	12.32%	10.85%	-25.41%	4.67%	10.22%
Proj. EPS Growth (F1/F0)	-23.11%	-25.95%	-7.56%	-73.84%	4.07%	-11.03%
Curr. Cash Flow Growth	-3.70%	9.97%	5.47%	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	1.05	0.98	1.31	0.95	0.75	0.98
Debt/Capital	58.45%	28.16%	44.41%	15.40%	2.10%	48.53%
Net Margin	25.93%	18.58%	10.45%	-38.95%	35.42%	26.12%
Return on Equity	8.46%	8.54%	15.13%	2.26%	8.32%	10.74%
Sales/Assets	0.04	0.05	0.54	0.05	0.04	0.04
Proj. Sales Growth (F1/F0)	-0.99%	0.00%	-2.00%	-4.03%	39.54%	18.68%
Momentum Score	D	-	-	F	B	B
Daily Price Chg	-3.49%	-0.11%	0.48%	-3.60%	-2.25%	-2.69%
1 Week Price Chg	-1.96%	0.33%	0.37%	5.97%	2.31%	5.06%
4 Week Price Chg	-12.12%	-2.71%	5.61%	-6.07%	-4.51%	1.84%
12 Week Price Chg	-9.20%	-1.33%	13.36%	29.68%	-5.51%	4.47%
52 Week Price Chg	-36.14%	-27.74%	-3.30%	-52.65%	-19.77%	-15.79%
20 Day Average Volume	421,168	11,951	1,917,592	1,655,801	485,763	361,348
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-53.13%	0.00%	0.86%
(F1) EPS Est 4 week change	7.60%	0.00%	0.21%	-55.27%	1.51%	4.48%
(F1) EPS Est 12 week change	-1.39%	-4.35%	-2.00%	-60.72%	10.41%	1.84%
(Q1) EPS Est Mthly Chg	5.81%	0.00%	0.00%	-24.85%	1.51%	5.25%

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	B
Growth Score	F
Momentum Score	D
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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