

Western Alliance Bancorp

CEO/CFO meeting takeaways

Reiterate Rating: BUY | PO: 60.00 USD | Price: 48.28 USD

Returning to offense mode

We believe Western Alliance-WAL shares offer a compelling risk/reward, especially in the absence of additional interest rate shocks. Mgmt. did a commendable job defending the franchise during the March panic, is well on its way to repositioning the balance sheet / business mix (lower L/D ratio, build CET1 capital, diversify deposits, enhance compliance infrastructure), and over the next twelve months should potentially return to faster growth. Stock trading at 6.5x our \$7.65 2024e EPS vs. 9x peer median and 0.9x YE24e TBV vs. 16% avg. ROTCE forecast for FY24/25. Reiterate Buy rating & \$60 PO.

\$8 in 2024 EPS within reach

While mgmt. has yet to provide 2024 guidance, investors have wondered whether \$8 in consensus 2024e EPS is achievable (\$7.86 annzd. 3Q23). Our conversation with mgmt. indicated confidence that NII had troughed given ability to replace higher cost funding. We believe NII defensibility will be touch-and-go given mgmt. intent to lower the L/D ratio to mid-80s (vs 91% 3Q) and add \$3-4bn in HQLA securities. We forecast NII of ~\$600mn/qtr through 2Q24. Mortgage rates a swing factor. Our sense is that a 7%ish rate (lower = better) should make it easier to hit Street EPS forecast.

Cyclical, strategic positioning positives

Total deposit costs (including ECR) at 3.25% (CDs 4.83%) as of 3Q23 vs. 2.33% peer median, reduces catch-up risk on deposit pricing and should allow flexibility to lower deposits costs if/when the Fed cuts (our forecast assumes no rate cuts). Moreover, the leverage to the mortgage business should boost EPS growth / ROTCE if lower rates rejuvenate housing activity. While credit risk should not be underestimated (has served as an overhang on the stock), mgmt's actions to proactively identify issues during 2Q23 and a generally lower risk credit profile reduces risk of outsized credit losses.

Management meeting takeaways

Our conversation with CEO Ken Vecchione and CFO Dale Gibbons centered on the following topics: Evolution of the business model pre vs. post SVB. Balance sheet actions to boost capital, liquidity profile. Strategic considerations at becoming a \$100bn asset bank (likely 2027/28 event; \$71bn as of 3Q23). Areas of credit stress limited (office CRE, pockets of hotel portfolio), appear well contained. Deposit growth/pricing strategies. Outlook and classification of ECR deposits. Franchise investments and potential for an improved efficiency ratio on pick-up in mortgage activity.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.83	9.70	8.06	7.65	8.75
GAAP EPS	8.66	9.70	9.21	7.65	8.75
EPS Change (YoY)	75.2%	9.9%	-16.9%	-5.1%	14.4%
Consensus EPS (Bloomberg)			7.85	8.00	9.13
DPS	1.20	1.42	1.44	1.44	1.44
Valuation (Dec)					
P/E	5.5x	5.0x	6.0x	6.3x	5.5x
GAAP P/E	5.6x	5.0x	5.2x	6.3x	5.5x
Dividend Yield	2.5%	2.9%	3.0%	3.0%	3.0%

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Equity

Ebrahim H. Poonawala
Research Analyst
BofAS
+1 646 743 0490
ebrahim.poonawala@bofa.com

Brandon Berman
Research Analyst
BofAS
+1 646 855 3933
brandon.berman@bofa.com

Isiah Austin
Research Analyst
BofAS
+1 646 855 0472
isiah.austin@bofa.com

Gabriel Angelini
Research Analyst
BofAS
+1 646 855 3081
gabriel.angelini@bofa.com

David Kigunda
Research Analyst
BofAS
+1 646 743 0179
david.kigunda@bofa.com

Stock Data

Price	48.28 USD
Price Objective	60.00 USD
Date Established	25-Jul-2023
Investment Opinion	C-1-7
52-Week Range	7.46 USD -81.17 USD
Mrkt Val / Shares Out (mn)	5287 USD / 109.5
Average Daily Value	90.98 USD
BofA Ticker / Exchange	WAL / NYS
Bloomberg / Reuters	WAL US / WAL.N
ROE (2023E)	15.5%
ESGMeter™	Medium

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See page 3 for a list of acronyms

iQprofileSM Western Alliance Bancorp

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	1,582	2,250	2,381	2,507	2,833
% change	32.4%	42.2%	5.8%	5.3%	13.0%
Net Fee Income	396	318	458	452	470
Securities Gains / (Losses)	8	7	(26)	0	0
Total Operating Income	1,986	2,575	2,813	2,958	3,303
Operating Expenses	(831)	(1,156)	(1,603)	(1,752)	(1,903)
% change	69.0%	39.2%	38.7%	9.3%	8.6%
Provisions Expense	21	(68)	(73)	(108)	(150)
% change	-117.3%	NA	7.6%	47.3%	38.9%
Operating Pre-Tax Income	1,177	1,350	1,137	1,098	1,250
Operating Net Income to Comm S/Hold.	912	1,045	851	837	958
GAAP Net Income	916	1,058	864	850	970

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	55,983	67,734	70,676	78,497	82,260
Average Interest Earning Assets	46,399	61,560	65,548	69,516	75,620
Total Gross Customer Loans	44,711	53,046	50,439	53,089	55,761
% change	65.3%	18.6%	-4.9%	5.3%	5.0%
Total Customer Deposits	47,612	53,644	54,982	64,214	68,420
% change	49.1%	12.7%	2.5%	16.8%	6.5%
Tangible Equity	4,330	4,678	5,263	6,054	6,855
Common Shareholders' Equity	4,668	5,061	5,641	6,431	7,232

Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	3.41%	3.66%	3.63%	3.61%	3.75%
Effective Tax Rate	19.4%	19.2%	20.9%	19.4%	19.4%
Loan / Deposit Ratio	93.9%	98.9%	91.7%	82.7%	81.5%
Tangible Common Equity / Assets	7.7%	6.9%	7.4%	7.7%	8.3%
ROA	2.0%	1.7%	1.3%	1.1%	1.2%
ROE	21.8%	20.3%	15.5%	13.2%	13.9%
RoTE	24.5%	23.2%	17.6%	14.8%	14.8%
Dividend Payout Ratio	13.6%	14.6%	18.4%	18.8%	16.5%
Efficiency Ratio (Cost / Income Ratio)	42.0%	45.0%	56.5%	59.2%	57.6%

Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	20.3%	12.6%	15.4%	15.3%	14.2%
NPLs plus Foreclosed Real Estate / Loans	0.2%	0.2%	0.5%	0.5%	0.5%
Loan Loss Reserves / NPLs	347.80%	364.35%	135.58%	141.63%	153.09%
Loan Loss Reserves / Total Loans	0.56%	0.58%	0.67%	0.70%	0.75%

Company Sector

Banks-US Regionals

Company Description

Western Alliance Bancorporation is the bank holding company for Western Alliance Bank and provides various banking products and related services primarily in Arizona, California, and Nevada via approx. 35 branch locations, as well as loan production offices. Western Alliance Bancorporation was founded in 1994 and is headquartered in Phoenix, Arizona.

Investment Rationale

We believe that current valuation does not reflect the resiliency of the business model. Superior profitability coming into the current crisis, healthy capital levels and strong execution from the mgmt. team should allow the bank to navigate the highly uncertain operating backdrop. Improved visibility on steady-state EPS power should drive a re-rating higher in the stock.

Stock Data

Average Daily Volume 1,884,418

Quarterly Earnings Estimates

	2022	2023
Q1	2.23A	2.30A
Q2	2.39A	1.96A
Q3	2.42A	1.97A
Q4	2.67A	1.84E

Acronyms:

CET1 – common equity tier 1

CRE – commercial real estate

ECR – earnings credit rate

HQLA – high quality liquid assets

L/D – loan to deposit

NII – net interest income

ROTCE – return on tangible common equity

SVB – Silicon Valley Bank

Price objective basis & risk

Western Alliance Bancorp (WAL)

Our \$60 PO is based on 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 7.0x/1.3x multiples respectively, below the bank's 5 year pre pandemic median of 14.8x/2.8x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop.

Downside risks to our PO are: worse than expected credit losses, greater than expected net interest margin compression, and slower than expected economic growth. Upside risks to our PO are: credit resilience, better than expected margin performance, and stronger than expected economic growth.

Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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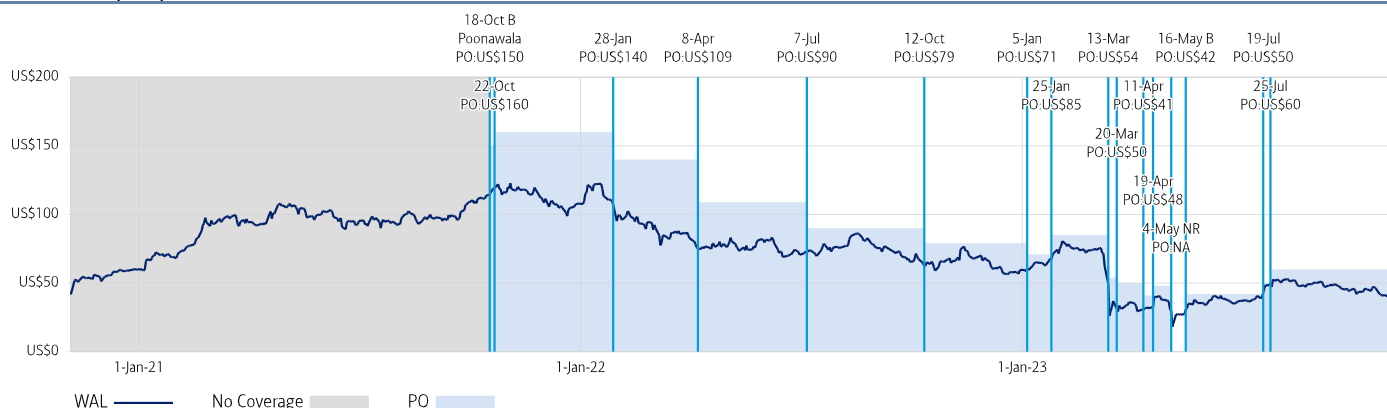
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Western Alliance (WAL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Banks Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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