UMB Financial Corporation (UMBF)

Updated April 3rd, 2018 by Nick McCullum

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	3.4%	**Quality Percentile:**	N/A
Fair Value Price:	$55	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	N/A
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.2%	**Total Return Percentile:**	N/A
Dividend Yield:	1.6%	**5 Year Price Target**	$77	**Valuation Percentile:**	N/A

Overview & Current Events

UMB Financial Corporation is a financial services holding company headquartered in Kansas City, Missouri. Through a number of operating subsidiaries, UMB Financial Corporation offers complete banking, asset management, health spending solutions, and related financial services to commercial, institutional, and personal customers nationwide. The company's most prominent operating subsidiary is UMB Bank, N.A. UMB Financial Corporation has increased its dividend for 26 consecutive years, which makes the company a Dividend Champion.

In January, UMB Financial reported (1/23/18) financial results for the fourth quarter of fiscal 2017. In the quarter, total revenue increased by 9.9% year-on-year while adjusted earnings-per-share increased by 9.2%. For the full-year period, total revenue increased by 9.4% while adjusted earnings-per-share increased by 19.1%. The company's strong performance was driven by substantial increases in loans and deposits.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.20	$2.26	$2.77	$3.04	$3.20	$2.65	$2.44	$3.22	$3.67	***$3.93***	***$5.50***
DPS	$0.71	$0.75	$0.79	$0.83	$0.87	$0.91	$0.95	$0.99	$1.04	***$1.09***	***$1.65***

UMB Financial has not provided guidance for fiscal 2018. With that said, the company's adjusted earnings-per-share have compounded at about 7% per year since 2009. We believe that a similar rate of growth is reasonable for the company moving forward, particularly given the tailwind of rising interest rates and the company's low dividend payout ratio (which allows it to reinvest more capital into organic growth opportunities). This 7% earnings growth estimate allows us to calculate 2018 and 2023 earnings-per-share estimates of $3.93 and $5.50, respectively.

From a dividend perspective, the company's distributions to shareholders have not grown as fast as its earnings. Since 2009, dividends-per-share have grown at 5% per year, resulting in a lower payout ratio over time. With that said, we the company's payout ratio has historically hovered around 30%. We expect a payout ratio of 30% by 2023, resulting in $1.65 of dividends per share.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.5	16.9	14.1	15.0	17.0	22.3	21.4	17.7	20.2	***18.3***	***14.0***
Avg. Yld.	1.7%	2.0%	2.0%	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	***1.6%***	***2.2%***

UMB Financial Corporation has traded at an average price-to-earnings ratio of 18 since 2009. While we are normally hesitant to move away from the historical base case for corporate valuations, we believe that this multiple is a bit rich for a financial holding company like UMB Financial. Instead, we see a fair value multiple for this company around 14 times earnings. If UMB Financial's valuation reverts to 14 times earnings over the next 5 years, this will have a -5.2% impact on the company's annualized returns during that period.

UMB Financial trades at a premium to many other financials, a characteristic that is evident in its dividend yield of 1.6%. If the company's valuation normalizes to our estimate of its fair value, this will result in a significantly higher dividend yield and provide a more compelling buying opportunity for income-oriented investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	91.3%	91.4%	91.2%	91.4%	91.1%	90.6%	90.1%	90.5%	90.0%	***90.0%***	***90.0%***
Payout	32.3%	33.2%	28.5%	27.3%	27.2%	34.3%	38.9%	30.7%	28.3%	***27.7%***	***30.0%***
Std. Dev.	49.5%	26.0%	40.9%	22.3%	19.9%	24.1%	25.1%	26.2%	24.2%	***25.0%***	***25.0%***

UMB Financial Corporation's largest competitive advantage is its entrenched position in the financial services sector. Because of industry regulations, it is very difficult for a new competitor to enter into the market and take market share from established lenders like UMB. The company's small size is also a potential advantage, as it allows the company to explore smaller, less-competitive growth opportunities that the big banks – such as Wells Fargo (WFC) – would not be interested in pursuing.

Like all financial institutions, UMB Financial Corporations' balance sheet is primarily composed of debt in the form of customer deposits. More specifically, approximately 83% of the company's balance sheet was funded by deposits at the end of the most recent reporting period. It is important to compare UMB's safety and quality metrics to those of other financial institutions, not to those of companies in other industries. UMB's debt as a percentage of its total assets has declined modestly over the last decade and remains at a level that is acceptable (for a lender).

Final Thoughts & Recommendation

In today's rising interest rate environment, many investors are attempting to bolster their exposure to the financial services sector. Unfortunately, UMB Financial Corporation does not appear to be the best way to achieve this goal. The company is trading at a valuation premium to the rest of the financial services industry, with no major difference between its business model and that of its peers. Accordingly, we believe that the company's valuation is likely to contract, placing its earnings multiple more in-line with its peers. This results in lackluster total return expectations for this company. We're rating UMB Financial Corporation as a sell and recommend that investors deploy their capital in more compelling opportunities in the financial sector.

Total Return Breakdown by Year