UMB Financial Corporation (UMBF)

Updated July 27th, 2018 by Nick McCullum

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	2.9%	**Volatility Percentile:**	69.1%
Fair Value Price:	$55	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	41.6%
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Valuation Percentile:**	13.3%
Dividend Yield:	1.6%	**5 Year Price Target**	$77	**Total Return Percentile:**	14.1%

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 late July, UMB Financial Corporation reported (7/24/18) financial results for the second quarter of fiscal 2018. In the quarter, the company generated $250 million of total revenue, a 1.1% increase over the prior year's reporting period. UMBF Financial also announced income from continuing operations of $55.4 million, or $1.11 per diluted share, which compares favorably to the $44.8 million, or $0.90 per diluted share, reported in the same period a year ago. This implies company-wide and per-share earnings growth of 23.7% and 23.3%, respectively, with the per-share results being negatively impacted from a rising share count. UMB Financial's quarterly performance was positively impacted by improvements on a number of fundamental banking metrics, including 5.8% growth in its total loan portfolio, a 56 basis point expansion in average loan yields, a 12 basis point expansion in net interest margin, and a 9.3% increase in net interest income. UMB Financial also benefitted tremendously from a lower tax rate in the quarter. More specifically, the company's effective tax rate through the first six months of the year dropped to 15.6% from 21.6% for the same period in 2017. Despite UMB Financial's strong performance in the quarter, shares fell by as much as 9% following the announcement as the company missed analyst expectations for both revenue and earnings.

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***

As we mentioned in our last quarterly update, 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 for more internal reinvestment). This 7% earnings growth estimate allows us to calculate 2018 and 2023 earnings-per-share estimates of $3.93 and $5.50, respectively, which are again unchanged since our last quarterly report.

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	***18.8***	***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%***

As we discussed in our last quarterly update, UMB Financial has historically traded at a premium to its financial sector peers. Despite the drop in stock price following UMB's most recent quarterly earnings release, the company continues to trade at an irrational earnings multiple today. We believe that a fair multiple for this company is around 14 times earnings. Reversion to this price-to-earnings ratio over a period of 5 years will introduce a -5.7% tailwind to the company's annualized returns during that time period.

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%***

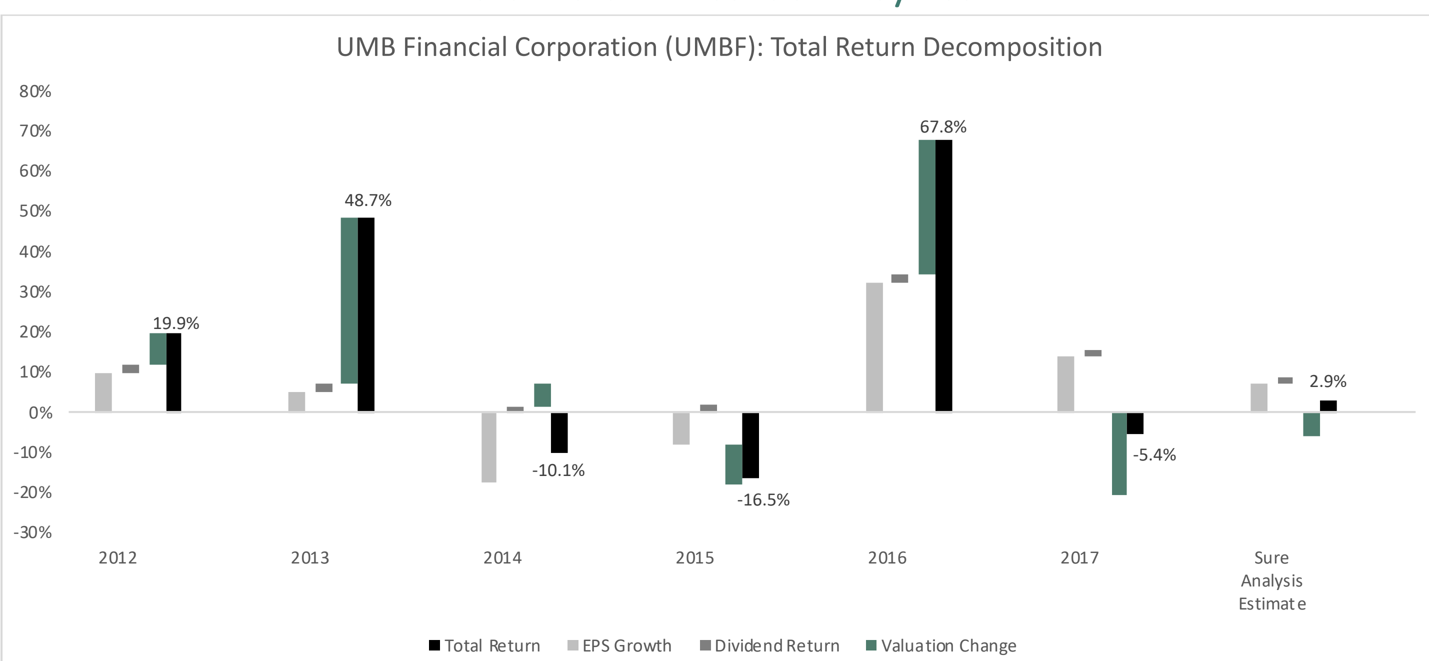
UMB Financial Corporation's largest competitive advantage is its entrenched position in the financial services sector. Because of industry regulations, it is very difficult for a new competitor to enter into the market and take market share from established lenders like UMB. The company's small size 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 89% 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

Our opinion on UMB Financial Corporation has remained essentially unchanged since our last report on the company, which was published earlier this month (the short gap between the reports is due to our concentrated efforts to publish research immediately following corporate earnings releases). While many investors may be tempted to bolster their exposure to the financial sector in today's rising interest rate environment, UMB Financial does not appear to be a sensible security for achieving this goal. The company continues to trade 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 and resulting 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



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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