United Bankshares (UBSI)

Updated August 4th, 2018 by Josh Arnold

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	11.4%	**Volatility Percentile:**	68.3%
Fair Value Price:	$41	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	57.0%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.8%	**Valuation Percentile:**	75.9%
Dividend Yield:	3.6%	**5 Year Price Target**	$55	**Total Return Percentile:**	77.1%

Overview & Current Events

United Bankshares was formed in 1982 and since that time, has acquired more than 30 separate banking institutions. This focus on acquisitions, in addition to organic growth, has allowed United to expand into a regional powerhouse in the Mid-Atlantic with a $3.9 billion market cap and annual revenue of $730 million.

United reported record Q2 earnings on 7/26/18, following up on similar strength in Q1. Earnings-per-share were 63 cents against 37 cents in the comparable quarter last year. Q2 marked the one-year anniversary of the company's sizable Cardinal acquisition and as a result, the bank is seeing its profitability ramp higher from expected merger synergies. Return on assets was 1.42% in Q2, a staggeringly high amount that compares to just 0.82% last year. United is seeing higher asset totals, higher net interest income and a lower tax rate, in addition to operating leverage from the Cardinal business. In short, United is firing on all cylinders and we've maintained our estimate of $2.50 for this year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.00	$1.55	$1.65	$1.61	$1.64	$1.70	$1.92	$1.98	$1.99	$1.54	***$2.50***	***$3.35***
DPS	$1.16	$1.17	$1.20	$1.21	$1.24	$1.25	$1.28	$1.29	$1.32	$1.33	***$1.36***	***$1.48***

Earnings-per-share has been pretty steadily moving higher in recent years with the exception of last year, the product of higher noninterest expense from integrating Cardinal. However, that was a one-time blip as Cardinal was a huge acquisition for United and thus, going forward, we are expecting 6% annual earnings-per-share growth. Note that this year's results will be boosted by a lower tax rate but that also affords United a permanent increase in return on assets.

United will achieve this growth through continued asset base growth as well as margin expansion. Its asset base has grown on average by 11% annually in the past decade but in the past four years, that number is a staggering 22%. It grows organically but the main source of its success has been acquisitions, something it has proven willing and able to do on a large scale. In addition, continued low funding costs but rising market rates have allowed United to boost its margins. With rates still moving higher in excess of the rate of growth in deposit costs, United looks poised to continue this growth. There are some powerful tailwinds for United right now, so the outlook is very bright indeed.

Growth in the dividend has taken a back seat to management's acquisition-heavy strategy but the bank's yield is still very strong at 3.6%. We see the payout continuing its low single digit growth rate moving forward.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.6	12.7	15.7	15.5	15.9	16.4	16.6	19.4	19.3	23.6	***15.1***	***16.5***
Avg. Yld.	3.5%	6.0%	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	***3.6%***	***2.7%***

United's price-to-earnings multiple has been volatile in the past decade but overall, it has been fairly stable. Last year's multiple was inflated by a drop in earnings and this year's valuation is seeing the opposite impact as earnings-per-share rebounds. However, over time we expect United to see its multiple move back to 16.5 from the current 15.1, representing a more normalized valuation. That implies a modest 1.8% tailwind to total returns going forward. The valuation has already begun to normalize after the Q2 report, so United is not as undervalued as it was.

As a result of higher earnings, a higher valuation and slow dividend growth, the yield looks poised to fall significantly in the coming years to a still-respectable 2.7%. United's current yield is strong but this is not a dividend growth story.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
ROA	1.09%	0.86%	1.01%	0.89%	0.98%	0.98%	1.05%	1.10%	1.01%	0.85%	***1.35%***	***1.40%***
Debt/A	91%	90%	89%	89%	88%	88%	87%	86%	85%	83%	***82%***	***80%***
Int. Cov.	1.8	2.0	2.4	3.3	4.0	5.0	6.1	6.7	6.5	5.2	***6.0***	***6.2***
Payout	58%	75%	73%	72%	75%	73%	64%	64%	66%	87%	***54%***	***44%***
Std. Dev.	78.3%	66.4%	36.9%	41.6%	22.7%	18.5%	20.7%	23.3%	25.4%	24.9%	***28.0%***	***35.0***

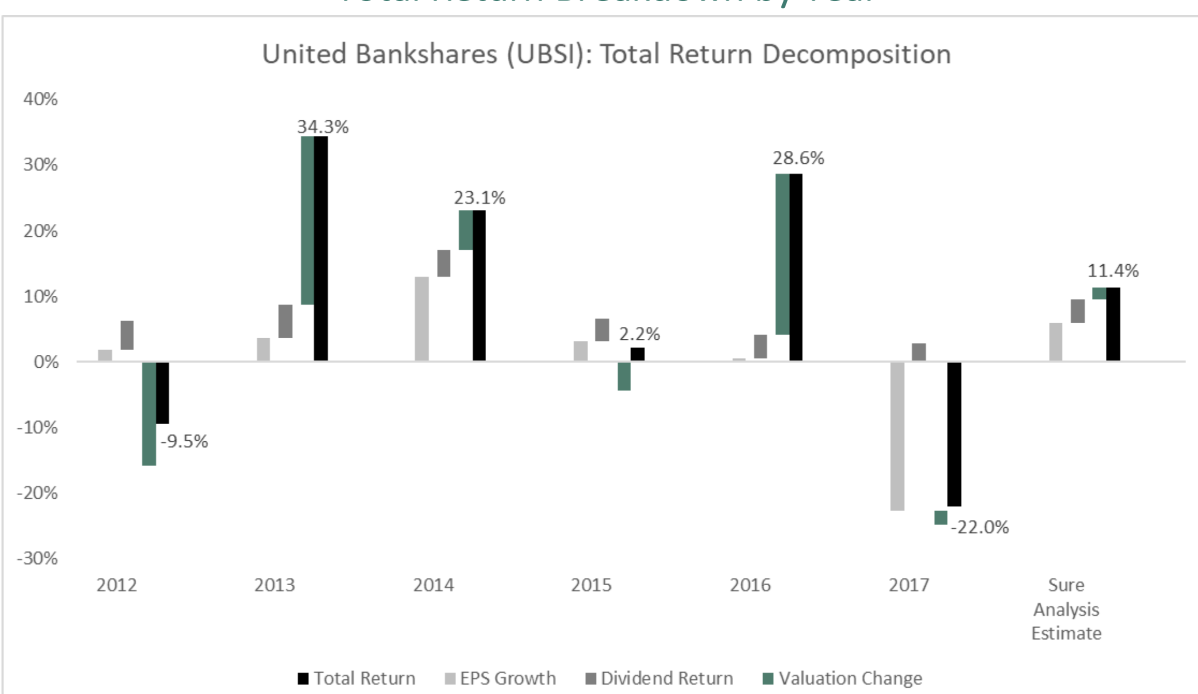
United's quality metrics have steadily improved over the past decade, the product of strong growth that is financed prudently, as well as enhanced fundamentals in the banking sector. Return on assets dipped last year but Q1 and Q2 results showed a strong rebound for this year as a result of higher rates and improving margins. We expect ROA will continue to drift higher as a result of leverage on noninterest expense as well as rising net interest margins. Impressively, United has managed to significantly grow its asset base without undue stress on its balance sheet as its debt financing drifts lower, also improving interest coverage. The payout ratio should move down significantly in the coming years as earnings growth outpaces growth in dividends.

United's competitive advantage is in its strong market position in the areas it serves. It is headquartered in West Virginia where competition is relatively light, and it is expanding into more densely populated areas like northern Virginia. That does not make it immune from recessions but its performance in 2008 and 2009 was exemplary given that many banks in the US struggled enormously or went out of business entirely.

Final Thoughts & Recommendation

Overall, United looks compelling here. We see total annual returns of 11.4% going forward, consisting of the current 3.6% yield, 6% earnings-per-share growth and a 1.8% tailwind from the valuation. United's big down year in 2017 combined with a strong earnings growth outlook have created a stock that is still trading under fair value with an attractive yield and bright outlook. United does not offer value following the recent rally, but its high current yield and robust growth outlook are attractive. We therefore rate United a buy based upon the growth outlook and current yield.

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.