



# United Bankshares (UBSI)

Updated October 27<sup>th</sup>, 2018 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	12.7%	<b>Volatility Percentile:</b>	66.2%
<b>Fair Value Price:</b>	\$38	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	28.3%
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.6%	<b>Growth Percentile:</b>	47.4%
<b>Dividend Yield:</b>	4.1%	<b>5 Year Price Target</b>	\$50	<b>Valuation Percentile:</b>	82.2%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	84.0%

## 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 \$3.3 billion market capitalization and annual revenue of \$730 million.

United posted Q3 earnings on 10/25/18 and results were strong against the year-ago quarter. Earnings-per-share rose from 54 cents to 62 cents year-over-year despite both net interest income and noninterest income falling. Lower loan loss provisions helped in addition to a lower tax rate and lower operating expenses. The bank struggled with weaker performance from its mortgage division, and it is certainly not alone as higher rates have softened demand. However, United continues to show it is a superior regional bank with return on assets approaching 1.4% and an efficiency ratio in the low 50% area. We reiterate our estimate of \$2.50 for 2018 with one quarter to go.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$2.00	\$1.55	\$1.65	\$1.61	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	<b>\$2.50</b>	<b>\$3.35</b>
<b>DPS</b>	\$1.16	\$1.17	\$1.20	\$1.21	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	<b>\$1.36</b>	<b>\$1.48</b>
<b>Shares</b>	43	43	44	47	50	50	68	70	74	98	<b>104</b>	<b>120</b>

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.

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, although this did not play out in Q3's results. With rates still moving higher in excess of the rate of growth in deposit costs, United looks poised to continue this growth. Keep in mind United funds acquisitions with stock, so the share count will likely continue to rise moving forward.

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 4.1%. 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
<b>Avg. P/E</b>	16.6	12.7	15.7	15.5	15.9	16.4	16.6	19.4	19.3	23.6	<b>13.2</b>	<b>15.0</b>
<b>Avg. Yld.</b>	3.5%	6.0%	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	<b>4.1%</b>	<b>3.0%</b>

Over time, we expect United to see its earnings multiple rebound to 15 from the current 13.2 implying a modest 2.6% tailwind to total returns. As a result of a higher valuation and slow dividend growth, the yield looks poised to fall in the coming years to a still-respectable 3.0%. United's current yield is strong, but this is not a dividend growth story.

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## Safety, Quality, Competitive Advantage, & Recession Resiliency

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

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 the first three quarters of 2018 showed a strong rebound 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.

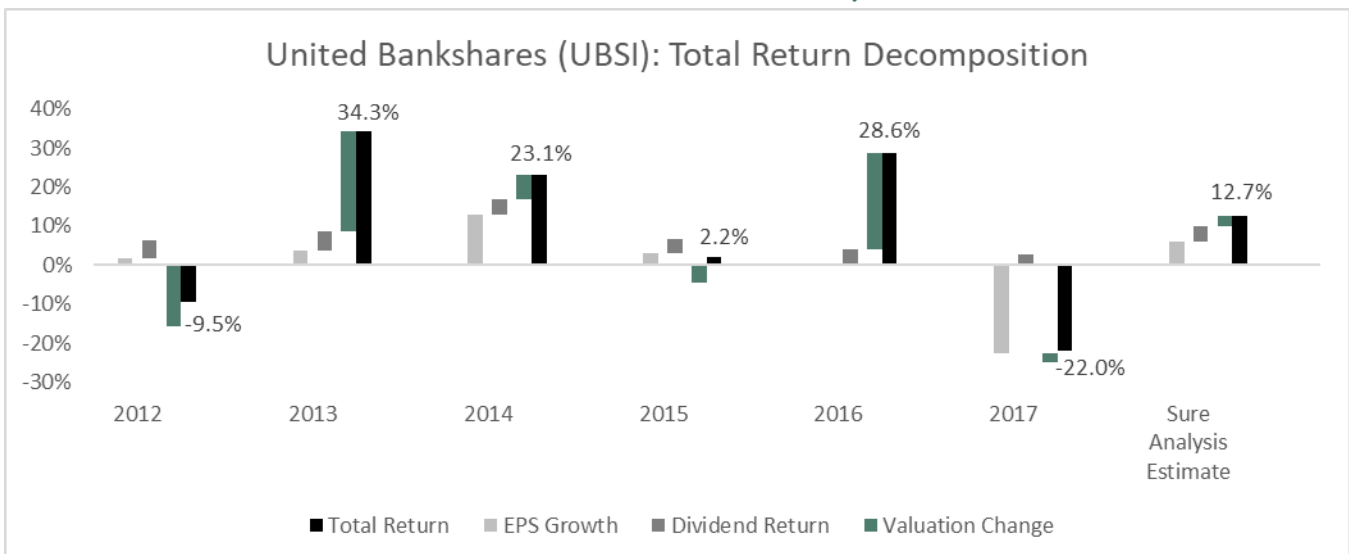
Impressively, United has managed to significantly grow its asset base without undue stress on its balance sheet as its debt financing drifts lower, also improving interest coverage. The payout ratio should move down significantly in the coming years as earnings growth outpaces growth in dividends.

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. We see total annual returns of 12.7% going forward, consisting of the current 4.1% yield, 6% earnings-per-share growth and a 2.6% 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. After the recent selloff, United also offers strong value and with its high current yield and robust growth outlook, the stock is quite attractive. We therefore rate United a buy based upon the growth outlook and current yield with the added bonus of a cheap valuation.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	320	314	289	305	334	330	440	454	490	675
<b>SG&amp;A Exp.</b>	91	101	101	103	112	110	135	140	148	231
<b>D&amp;A Exp.</b>	7	7	7	7	10	12	2	1	9	22
<b>Net Profit</b>	87	67	72	76	83	86	130	138	147	151
<b>Net Margin</b>	27.2%	21.4%	24.9%	24.8%	24.7%	26.0%	29.5%	30.4%	30.0%	22.3%
<b>Free Cash Flow</b>	112	49	98	111	124	136	144	170	163	240
<b>Income Tax</b>	37	11	32	35	39	39	65	66	76	134

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	8102	7805	7156	8451	8420	8735	12329	12578	14509	19059
<b>Cash &amp; Equivalents</b>	205	449	461	635	431	416	752	857	1434	1665
<b>Accounts Receivable</b>	32	27	24	26	26	27	32	36	39	53
<b>Goodwill &amp; Int. Ass.</b>	312	312	312	376	376	376	710	710	864	1478
<b>Total Liabilities</b>	7365	7044	6363	7483	7428	7694	10673	10865	12273	15818
<b>Long-Term Debt</b>	1068	775	388	345	385	791	1053	1074	1122	1514
<b>Shareholder's Equity</b>	737	762	793	969	992	1042	1656	1713	2236	3241
<b>D/E Ratio</b>	1.45	1.02	0.49	0.36	0.39	0.76	0.64	0.63	0.50	0.47

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	1.1%	0.8%	1.0%	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%
<b>Return on Equity</b>	11.6%	9.0%	9.3%	8.6%	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%
<b>ROIC</b>	4.6%	4.0%	5.3%	6.1%	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%
<b>Shares Out.</b>	43	43	44	47	50	50	68	70	74	98
<b>Revenue/Share</b>	7.37	7.24	6.63	6.50	6.64	6.54	6.50	6.52	6.62	6.89
<b>FCF/Share</b>	2.57	1.12	2.24	2.36	2.47	2.70	2.12	2.44	2.21	2.45

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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