UMB Financial Corporation (UMBF)

Updated November 9th, 2018 by Josh Arnold

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	7.8%	**Volatility Percentile:**	67.8%
Fair Value Price:	$63	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	32.3%
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Growth Percentile:**	62.5%
Dividend Yield:	1.8%	**5 Year Price Target**	$88	**Valuation Percentile:**	46.5%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	43.0%

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. It trades with a $3.3 billion market capitalization and produces $1 billion in annual revenue.

UMB reported Q3 earnings on 10/24/18 and results were very strong. Net interest income rose 6.8% as the bank benefited not only from higher rates, but much higher loan balances as well. Average loan balances rose 7.4% against the year-ago quarter and up 9.6% on an annualized basis from this year's Q2. UMB continues to pursue the expansion of its loan book and results thus far have been quite good. Average deposits were up more than 5% as well, meaning that UMB's loan-to-deposit ratio increased slightly, but at only 71%, UMB is nowhere close to being in the danger zone in terms of risk. Noninterest income actually declined about 3% year-over-year as the bank struggled with all of the components of its other revenue streams. The biggest decliners were trust and securities processing, as well as gains on sales of securities. These items, however, tend to move around a lot for most banks and as a result, it has not negatively impacted our outlook given the strength in lending income. The share of noninterest income to total revenue fell year-over-year, from 42% to 40%. UMB's efficiency ratio also remains quite high near 70%, but was essentially flat in Q3.

Net interest margin came in at 3.18% against 3.24% in Q2 and 3.16% in the year-ago quarter. This is a strong number but given that rates are rising, and that the bank's share of interest-bearing deposits fell from 37% to 34% year-over-year, we would have expected NIM to rise. This was not the case in Q3, but earnings-per-share came in 18% higher than the year-ago quarter, attributable to the strength in the lending business as well as a lower tax rate. Given that the bank has already earned $3.47 per share this year, we are raising our estimate for 2018 to $4.50 in earnings-per-share.

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	***$4.50***	***$6.30***
DPS	$0.71	$0.75	$0.79	$0.83	$0.87	$0.91	$0.95	$0.99	$1.04	***$1.20***	***$1.70***
Shares	41	40	40	40	45	46	49	50	50	***50***	***50***

UMB'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 bank moving forward, particularly given the tailwind of rising interest rates and the company's low dividend payout ratio (which allows for more internal reinvestment).

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	***14.7***	***14.0***
Avg. Yld.	1.7%	2.0%	2.0%	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	***1.8%***	***1.9%***

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Increased earnings estimates and a much lower share price have brought the valuation down significantly since our last report. UMB now trades at just 14.7 times this year's earnings against our estimate of fair value at 14. That implies a diminutive 1% headwind to total returns and is the most favorable valuation the stock has seen in several years. We expect the yield and share price to grow roughly congruently, meaning the yield should remain in the high-1% range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
ROA	0.86%	0.73%	0.82%	0.82%	0.79%	0.69%	0.61%	0.77%	0.84%	***1.05%***	***1.08%***
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%	***26.7%***	***27.0%***
Std. Dev.	49.5%	26.0%	40.9%	22.3%	19.9%	24.1%	25.1%	26.2%	24.2%	***25.0%***	***25.0%***

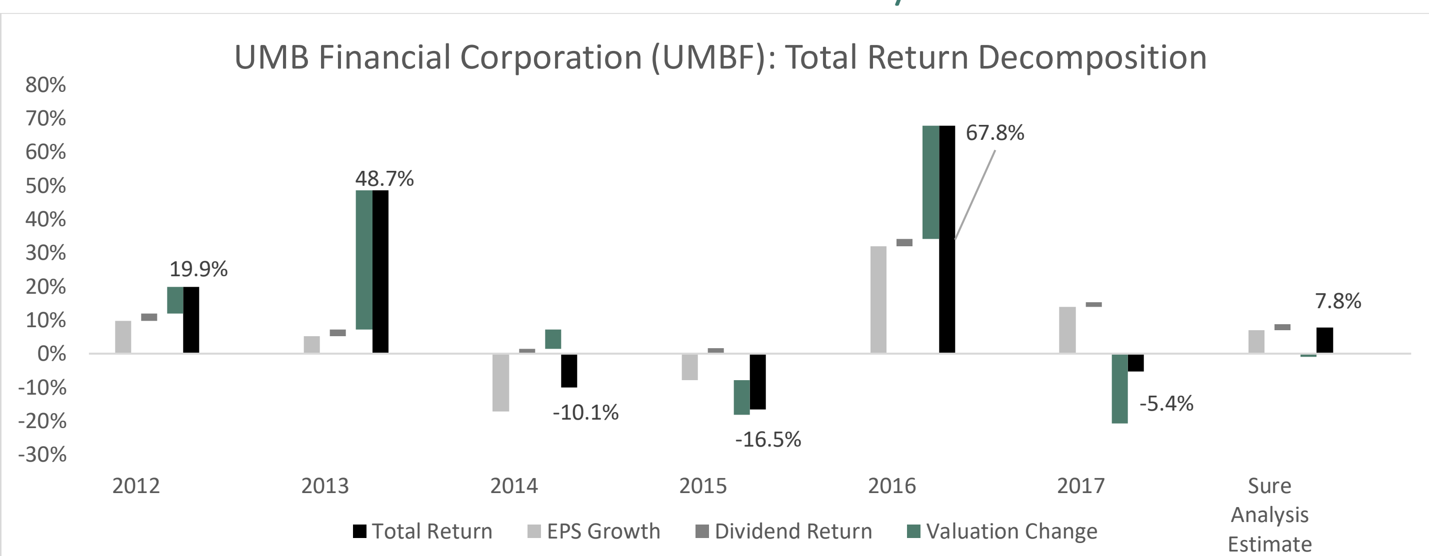
Like all financial institutions, UMB Financial Corporations' balance sheet is primarily composed of debt in the form of customer deposits. As mentioned, its loan-to-deposit ratio is more than acceptable and indeed, could be raised meaningfully without undue stress on the balance sheet. UMB's return on assets continues to improve in a years-long trend that we think is near its plateau. With rates already rising as much as they have in addition to a lower tax rate already being baked into results, we think the long run ROA rate for UMB is about 1.10%, which is a good result.

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 would not be interested in pursuing.

Final Thoughts & Recommendation

UBM Financial's valuation has improved immensely since our last report as it continues to post strong results while the share price languishes. We see 7.8% total annual returns in the coming years, consisting of the current 1.8% yield, 7% earnings-per-share growth and a 1% headwind from the valuation. This has created a situation where investors can own UMB, which is a high-performing financial institution, at a reasonable price. We are therefore upgrading our recommendation to hold given the outlook for growth and the share price's current proximity to our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	588	613	595	655	699	740	763	714	827	905
SG&A Exp.	272	277	304	337	366	383	403	408	430	452
D&A Exp.	38	38	39	43	41	44	46	53	55	55
Net Profit	98	89	91	106	123	134	121	116	159	247
Net Margin	16.7%	14.6%	15.3%	16.2%	17.5%	18.1%	15.8%	16.3%	19.2%	27.3%
Free Cash Flow	113	123	147	177	180	257	201	158	246	290
Income Tax	42	31	36	40	48	50	45	32	45	53

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	10977	11663	12405	13541	14927	16912	17501	19094	20683	21772
Cash & Equivalents	999	1515	1205	1611	1388	2614	1984	981	1138	1744
Goodwill & Int.	123	179	303	295	279	265	254	275	207	201
Total Liabilities	10002	10648	11344	12350	13648	15406	15857	17201	18720	19590
Long-Term Debt	52	55	44	19	6	5	9	91	77	79
Total Equity	975	1016	1061	1191	1279	1506	1644	1894	1962	2182
D/E Ratio	0.05	0.05	0.04	0.02	0.00	0.00	0.01	0.05	0.04	0.04

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	1.0%	0.8%	0.8%	0.8%	0.9%	0.8%	0.7%	0.6%	0.8%	1.2%
Return on Equity	10.5%	9.0%	8.8%	9.5%	9.9%	9.6%	7.7%	6.6%	8.2%	11.9%
ROIC	9.9%	8.5%	8.4%	9.2%	9.8%	9.6%	7.6%	6.4%	7.9%	11.5%
Shares Out.	N/A	41	40	40	40	45	46	49	50	50
Revenue/Share	14.27	15.07	14.77	16.25	17.30	17.68	16.78	15.01	16.78	18.16
FCF/Share	2.75	3.03	3.66	4.40	4.44	6.14	4.42	3.32	4.98	5.82

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