



United Bankshares (UBSI)

Updated February 4th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	9.7%	Volatility Percentile:	65.4%
Fair Value Price:	\$36	5 Year Growth Estimate:	6.0%	Momentum Percentile:	60.0%
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Growth Percentile:	50.9%
Dividend Yield:	3.8%	5 Year Price Target	\$48	Valuation Percentile:	46.3%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	51.5%

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 \$3.7 billion market capitalization and annual revenue of \$735 million.

United reported Q4 earnings on 1/29/19 and results were largely in line with expectations. Earnings-per-share came in at 62 cents in Q4, up from 17 cents per share in the year-ago period. However, Q4 2017 contained a 37 cent-per-share charge related to tax reform that makes comparisons difficult.

Net interest income actually declined 5% in Q4 as a modest increase in interest income was more than offset by a larger increase in interest expense. United experienced something that is a bit unusual these days for banks; it was not able to capitalize on more advantageous interest rates. Indeed, United's average cost of funds rose a staggering 66bps in Q4. Net interest margin, thanks to these factors, declined a whopping 27bps to 3.50% in Q4. While that is still a very strong net interest margin number, we did not foresee United losing so much in the way of margin spread in Q4. Given how other banks are performing in this rate environment, it has introduced a new concern for investors in our view.

Average earning assets rose 1% in Q4 thanks to higher securities balances, which rose 27% year-over-year. Average loan balances rose 2%, but given the decline in profitability from lower margin spreads, it was not enough to keep net interest income from declining during the quarter.

Noninterest expense fell 5% year-over-year, which is how United was able to post a nice boost in adjusted earnings-per-share despite the weak top line performance. The bank saw a decline in health insurance costs as well as merger-related expenses from its early-2017 purchase of Cardinal, which was still being integrated in Q4 2018.

United's capital metrics and credit quality continue to be fine in our view as no major changes took place in Q4. Certainly, it has more than enough capital to weather a downturn and continue to return excess cash to shareholders. In addition, there are no signs of any sort of meaningful deterioration in its loan quality, so we are not concerned.

We're out with an initial estimate of \$2.55 in earnings-per-share for 2019 reflecting a slightly higher share count, a small measure of loan growth and securities income, and flat or potentially slightly lower interest margins.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.55	\$1.65	\$1.61	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$3.41
DPS	\$1.17	\$1.20	\$1.21	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.36	\$1.88
Shares	43	44	47	50	50	68	70	74	98	102	105	120

Earnings-per-share has been pretty steadily moving higher in recent years with the exception of 2017, 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, and we expect that to be a primary source of growth moving forward. It grows organically but the main source of its success has been acquisitions, something it has proven willing

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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 Q4's results, to our surprise. Investors should keep in mind United funds acquisitions with stock, so the share count will likely continue to rise moving forward.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.7	15.7	15.5	15.9	16.4	16.6	19.4	19.3	23.6	14.7	14.0	14.0
Avg. Yld.	6.0%	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.8%	3.9%

Given some concerns over United's interest margins as well as the lateness of the current economic cycle, we are moving our estimate of fair value to 14 times earnings from 15. We see increased risk for United given the odd performance of net interest margins in Q4 and we think investors will pay slightly less for the stock as a result. The yield on the stock is near 4%, so it is a strong choice for income investors, and we think the dividend will rise at mid-single digit rates for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	75%	73%	72%	75%	73%	64%	64%	66%	87%	56%	53%	55%

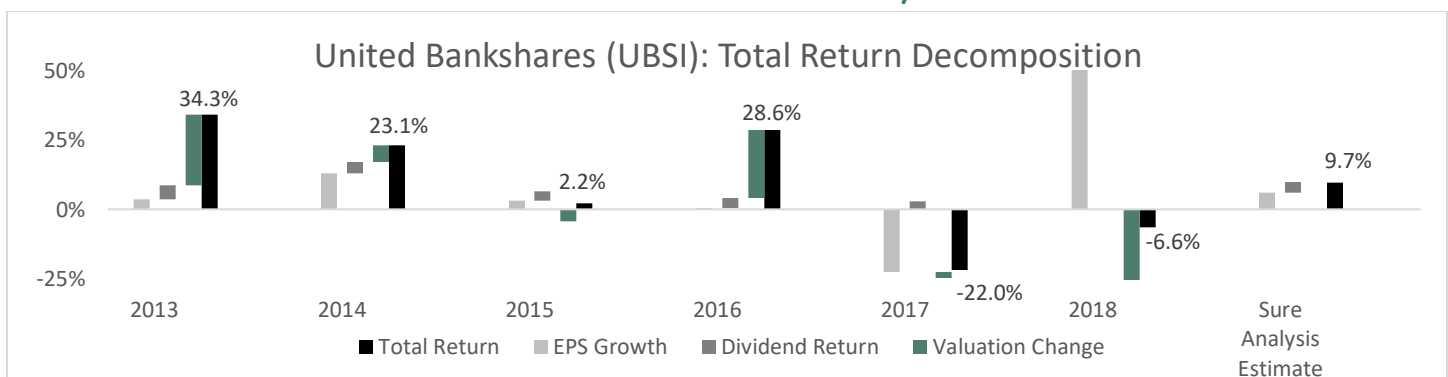
United's quality metrics have steadily improved over the past decade, the product of strong growth that is financed prudently, as well as enhanced fundamentals in the banking sector. We expect return on assets will drift higher as a result of leverage on noninterest expense, like in Q4. Impressively, 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.

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.

Final Thoughts & Recommendation

Overall, United looks compelling despite the downgrade in fair value. We see total annual returns of 9.7% going forward, consisting of the current 3.8% yield, 6% earnings-per-share growth and a 0.1% headwind from the valuation. Recent relative strength in the stock and a lower-than-normal earnings growth rate for 2019 combine to make a stock that is trading at fair value. United offers a high current yield and decent growth, so we continue to rate it a buy. Investors would do well to closely monitor United's interest spread performance in the coming quarters, but it still offers strong potential total returns.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	8102	7805	7156	8451	8420	8735	12329	12578	14509	19059
Cash & Equivalents	205	449	461	635	431	416	752	857	1434	1665
Accounts Receivable	32	27	24	26	26	27	32	36	39	53
Goodwill & Int. Ass.	312	312	312	376	376	376	710	710	864	1478
Total Liabilities	7365	7044	6363	7483	7428	7694	10673	10865	12273	15818
Long-Term Debt	1068	775	388	345	385	791	1053	1074	1122	1514
Shareholder's Equity	737	762	793	969	992	1042	1656	1713	2236	3241
D/E Ratio	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
Return on Assets	1.1%	0.8%	1.0%	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%
Return on Equity	11.6%	9.0%	9.3%	8.6%	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%
ROIC	4.6%	4.0%	5.3%	6.1%	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%
Shares Out.	43	43	44	47	50	50	68	70	74	98
Revenue/Share	7.37	7.24	6.63	6.50	6.64	6.54	6.50	6.52	6.62	6.89
FCF/Share	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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