UMB Financial Corporation (UMBF)

Updated February 2nd, 2019 by Josh Arnold

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	7.4%	**Volatility Percentile:**	59.6%
Fair Value Price:	$60	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	27.5%
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Growth Percentile:**	64.8%
Dividend Yield:	1.9%	**5 Year Price Target**	$84	**Valuation Percentile:**	29.8%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	28.7%

Overview & Current Events

UMB Financial Corporation is a financial services holding company headquartered in Kansas City, Missouri. Through a number of operating subsidiaries, UMB 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 has increased its dividend for an impressive 26 consecutive years. It trades with a $3.2 billion market capitalization and produces about $1 billion in annual revenue.

UMB reported Q4 earnings on 1/29/19 and thanks to a one-time charge, results widely missed expectations. Net interest income rose 7.5% during the quarter thanks to a virtuous combination of higher loans as well as higher net interest margin. The latter was driven by higher rates, volumes and asset mix. UMB's total cost of deposits rose meaningfully during the quarter, but was more than offset by more favorable loan rates, which drove the bank's average earning asset yields moderately higher.

Noninterest income was weak, falling in the mid-single digits year-over-year, but prudent spending kept earnings moving in the right direction. Noninterest expense rose 2% in Q4 as salaries were up fractionally against the year-ago period.

Unfortunately, UMB experienced a $48.1 million loss on a single factoring relationship, which drove a huge miss for Q4 earnings as it was unanticipated. In total, earnings-per-share came in at $0.52 in Q4 against $0.95 in last year's comparable period. The loss caused UMB to miss our full-year earnings-per-share expectations as well, but management has assured investors the loss was due to the specific customer, and is not indicative of additional potential weakness.

We think UMB will get back on track in 2019 and our initial estimate is for $4.60 in earnings-per-share. That is a 17% improvement over 2018's actual, but the $48 million loss in Q4 on the factoring customer likely removed 50 to 60 cents in earnings-per-share for 2018, so on a normalized basis, it is more in-line with our longer-term expectations of UMB's growth potential. We think UMB will be fine and that Q4 was simply a bump in the road.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$2.20	$2.26	$2.77	$3.04	$3.20	$2.65	$2.44	$3.22	$3.67	$3.94	***$4.60***	***$6.45***
DPS	$0.71	$0.75	$0.79	$0.83	$0.87	$0.91	$0.95	$0.99	$1.04	$1.17	***$1.20***	***$1.80***
Shares	41	40	40	40	45	46	49	50	50	49	***49***	***49***

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 collective tailwind of rising interest rates and widening lending spreads. The factoring loss in Q4 is an obvious black mark on an otherwise strong record of earnings growth. We think continued asset base expansion is the key as UMB is working its way further away from fee generation and more towards traditional lending. If rates turn against UMB, it may see some downward pressure on earnings expansion. However, all looked well on the lending front in Q4, so we are optimistic.

The dividend should continue to grow at roughly the rate of earnings in the coming years, rising from $1.20 this year to $1.80 or so in 2024. UMB does not appear to have any interest in boosting the payout ratio and chooses instead to build its capital buffer, or increase its lending capacity.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	18.5	16.9	14.1	15.0	17.0	22.3	21.4	17.7	20.2	18.5	***14.1***	***13.0***
Avg. Yld.	1.7%	2.0%	2.0%	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	1.6%	***1.9%***	***2.1%***

Increased earnings estimates and a much lower share price have brought the valuation down significantly since 2017. UMB now trades at just 14.1 times this year's earnings against our estimate of fair value at 13. We've tweaked our estimate of fair value down from 14 to 13 given the huge and unexpected factoring loss in Q4, as well as general uncertainty about how rates will behave this late in the economic cycle; we believe a bit more caution is now warranted. That implies a 1.5% 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 around 2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	32%	33%	29%	27%	27%	34%	39%	31%	28%	30%	***26%***	***28%***

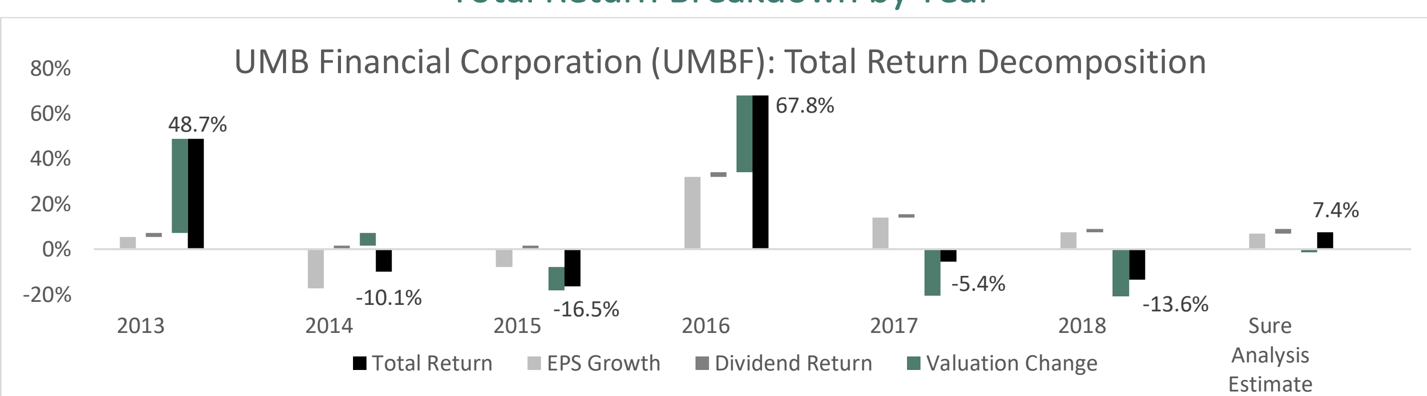
Like all financial institutions, UMB's balance sheet is primarily composed of debt in the form of customer deposits. Its loan-to-deposit ratio is more than acceptable and indeed, could be raised meaningfully without undue stress on the balance sheet. UMB's return on assets continues to improve in a years-long 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

UMB's valuation has improved immensely in recent quarters as it continues to post strong results – Q4 notwithstanding – while the share price languishes. We see 7.4% total annual returns in the coming years, consisting of the current 1.9% yield, 7% earnings-per-share growth and a 1.5% 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. We do not think the Q4 earnings miss is indicative of further weakness.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	613	595	655	699	740	763	714	827	905	935
SG&A Exp.	277	304	337	366	383	403	408	430	452	460
D&A Exp.	38	39	43	41	44	46	53	55	55	N/A
Net Profit	89	91	106	123	134	121	116	159	247	196
Net Margin	14.6%	15.3%	16.2%	17.5%	18.1%	15.8%	16.3%	19.2%	27.3%	20.9%
Free Cash Flow	123	147	177	180	257	201	158	246	290	N/A
Income Tax	31	36	40	48	50	45	32	45	53	27

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	11663	12405	13541	14927	16912	17501	19094	20683	21772	23351
Cash & Equivalents	1515	1205	1611	1388	2614	1984	981	1138	1744	1693
Goodwill & Int.	179	303	295	279	265	254	275	207	201	196
Total Liabilities	10648	11344	12350	13648	15406	15857	17201	18720	19590	21123
Long-Term Debt	55	44	19	6	5	9	91	77	79	83
Total Equity	1016	1061	1191	1279	1506	1644	1894	1962	2182	2228
D/E Ratio	0.05	0.04	0.02	0.00	0.00	0.01	0.05	0.04	0.04	0.04

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.8%	0.8%	0.8%	0.9%	0.8%	0.7%	0.6%	0.8%	1.2%	0.9%
Return on Equity	9.0%	8.8%	9.5%	9.9%	9.6%	7.7%	6.6%	8.2%	11.9%	8.9%
ROIC	8.5%	8.4%	9.2%	9.8%	9.6%	7.6%	6.4%	7.9%	11.5%	8.6%
Shares Out.	41	40	40	40	45	46	49	50	50	49
Revenue/Share	15.07	14.77	16.25	17.30	17.68	16.78	15.01	16.78	18.16	18.79
FCF/Share	3.03	3.66	4.40	4.44	6.14	4.42	3.32	4.98	5.82	N/A

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