



United Bankshares (UBSI)

Updated April 26th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	7.8%	Volatility Percentile:	70.3%
Fair Value Price:	\$36	5 Year Growth Estimate:	6.0%	Momentum Percentile:	64.5%
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Growth Percentile:	53.2%
Dividend Yield:	3.5%	5 Year Price Target	\$48	Valuation Percentile:	39.7%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	44.0%

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 \$4 billion market capitalization and annual revenue of \$725 million.

United posted Q1 results on 4/25/19 and results were largely in line with expectations. Net interest income was essentially flat year-over-year as a gain in average earning assets was offset by an increase in the cost of funds. Indeed, average loans were up 4% and investment securities rose 17%, leading to the consolidated 4% gain in average earning assets. Despite this, net interest income was flat as the cost of funds rose significantly for United. The yield on average earning assets was up 35bps quarter-over-quarter, offset by a 73bps increase in the cost of funding, crimping margins. To that end, net interest margin fell 15bps quarter-over-quarter to 3.46%. Against last year's Q1, net interest margin fell 4bps from 3.50%.

Noninterest income was also roughly flat against the prior year quarter as benefits from company-owned life insurance offset a loss of mortgage income.

Noninterest expense decreased fractionally year-over-year thanks to lower employee compensation driven by lower mortgage production. Net occupancy costs declined slightly as well, which were partially offset by an increase in FDIC insurance expense. United's asset base growth caused it to be pushed into a higher tier for FDIC insurance in Q1.

Credit quality improved in Q1 as nonperforming loans fell from 1.06% to 1.00% against the December quarter. Also against the December quarter, allowances for loan losses were flat at 0.57% of loans.

Book value rose 1% year-over-year and sits today at \$32.19. United's balance sheet is very strong as its common equity tier 1 capital ratio is 12%, which is in line with other large banking institutions, and well in excess of required minimums.

We reiterate our estimate for earnings-per-share of \$2.55 after a Q1 report that was in line with our expectations for minimal growth in 2019.

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 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 and able to do on a large scale. In addition, continued low funding costs but rising market rates have allowed United to

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boost its margins, although this did not play out in Q1's results. 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	15.3	14.0
Avg. Yld.	6.0%	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.5%	3.9%

Given some concerns over United's interest margins as well as the lateness of the current economic cycle, we recently moved 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 again in Q1, and we think investors will pay slightly less for the stock as a result. The yield on the stock is still 3.5%, 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%

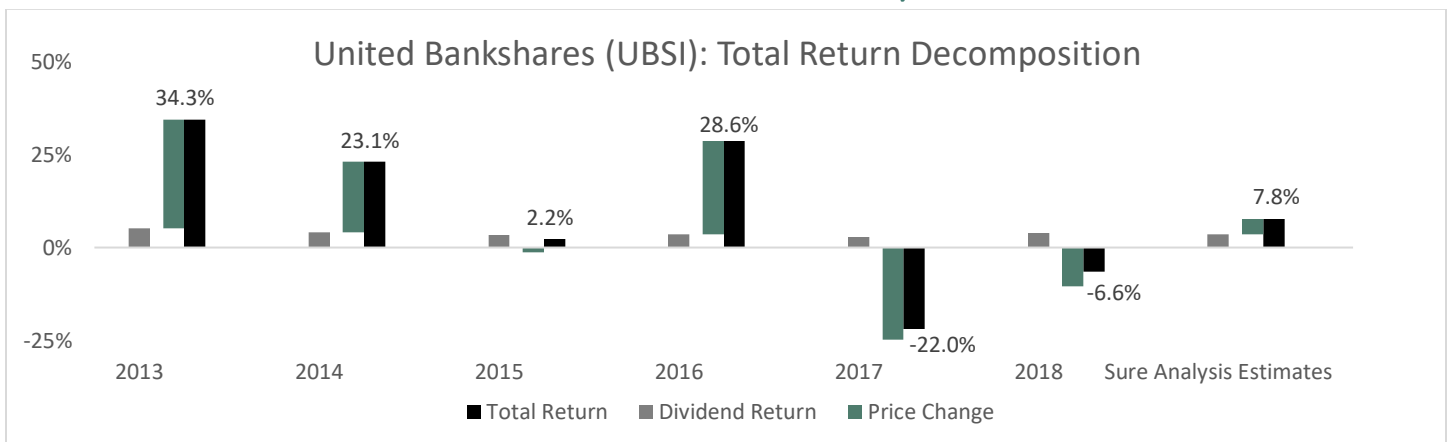
United's dividend payout ratio is around half of earnings, and we expect it will remain there for the foreseeable future. We see United's dividend as quite safe and able to weather an economic downturn, as it did during the Great Recession.

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

The recent rally in the stock has reduced the attractiveness of it from our perspective. We see total annual returns of 7.8% going forward, consisting of the current 3.5% yield, 6% earnings-per-share growth and a 1.7% 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 above fair value. United offers a high current yield and decent growth, but two quarters of disappointing margins and a higher valuation have us moving our rating down to hold from 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	314	289	305	334	330	440	454	490	675	711
SG&A Exp.	101	101	103	112	110	135	140	148	231	238
D&A Exp.	7	7	7	10	12	2	1	9	22	21
Net Profit	67	72	76	83	86	130	138	147	151	256
Net Margin	21.4%	24.9%	24.8%	24.7%	26.0%	29.5%	30.4%	30.0%	22.3%	36.0%
Free Cash Flow	49	98	111	124	136	144	170	163	240	287
Income Tax	11	32	35	39	39	65	66	76	134	71

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	7805	7156	8451	8420	8735	12329	12578	14509	19059	19250
Cash & Equivalents	449	461	635	431	416	752	857	1434	1665	1020
Accounts Receivable	27	24	26	26	27	32	36	39	53	61
Goodwill & Int. Ass.	312	312	376	376	376	710	710	864	1478	1478
Total Liabilities	7044	6363	7483	7428	7694	10673	10865	12273	15818	15999
Long-Term Debt	775	388	345	385	791	1053	1074	1122	1514	1674
Shareholder's Equity	762	793	969	992	1042	1656	1713	2236	3241	3252
D/E Ratio	1.02	0.49	0.36	0.39	0.76	0.64	0.63	0.50	0.47	0.51

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.8%	1.0%	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%
Return on Equity	9.0%	9.3%	8.6%	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%
ROIC	4.0%	5.3%	6.1%	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%
Shares Out.	43	44	47	50	50	68	70	74	98	102
Revenue/Share	7.24	6.63	6.50	6.64	6.54	6.50	6.52	6.62	6.89	6.82
FCF/Share	1.12	2.24	2.36	2.47	2.70	2.12	2.44	2.21	2.45	2.75

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

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