



# United Bankshares (UBSI)

Updated July 27<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$38	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Volatility Percentile:</b>	70.5%
<b>Fair Value Price:</b>	\$36	<b>5 Year Growth Estimate:</b>	6.0%	<b>Momentum Percentile:</b>	47.7%
<b>% Fair Value:</b>	106%	<b>5 Year Valuation Multiple Estimate:</b>	-1.2%	<b>Growth Percentile:</b>	52.0%
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target</b>	\$48	<b>Valuation Percentile:</b>	50.7%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	52.2%

## 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 second quarter earnings on 7/25/19 and results slightly beat expectations. Net interest income was \$151 million, essentially flat to last year's Q2. The slight increase was due to meaningfully higher interest income that was virtually all offset by higher interest expense. As with other banks, United is grappling with higher deposit funding costs that are offsetting hard-earned gains in interest income. Average earnings assets rose 5% year-over-year due to a 3% gain in average net loans, a 14% gain in investment security balances and a 19% increase in short-term investments.

The average yield on United's earning assets increased 30bps due to higher market rates, but cost of funds rose 61bps. In total, these factors combined to see net interest margin decline 14bps to 3.53% year-over-year. Investors should note this is still an outstanding NIM value, but it is declining modestly.

Noninterest income for Q2 increased 11% year-over-year to \$39.8 million due to stronger mortgage banking activities, as well as higher brokerage service fees.

Noninterest expense rose 7%, but most of the increase was due to prepayment of long-term Federal Home Loan Bank advances. Operationally, noninterest expense was up less than 2%. This cramped margins as noninterest expense rose more quickly than revenue.

Earnings-per-share came in at 66 cents versus 63 cents in the year-ago period. Q2 earnings were a record for United as it continues to grow profitably following some recent acquisitions. We've left our estimate for earnings-per-share unchanged at \$2.55 for this year.

## Growth on a Per-Share Basis

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

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 can 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 with rising market rates have allowed United to boost its margins, although this did not play out in Q2's results. Investors should keep in mind United funds acquisitions with stock, so the share count will likely continue to rise moving forward.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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## 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	<b>14.9</b>	<b>14.0</b>
Avg. Yld.	6.0%	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	<b>3.6%</b>	<b>3.9%</b>

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 relatively weak performance of the company's net interest margin in the past few quarters, and we think investors will pay slightly less for the stock as a result. The yield on the stock is still 3.6%, so it is a strong choice for income investors, and we think the dividend will rise at mid-single-digit rates over the intermediate-term.

## 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%	<b>53%</b>	<b>55%</b>

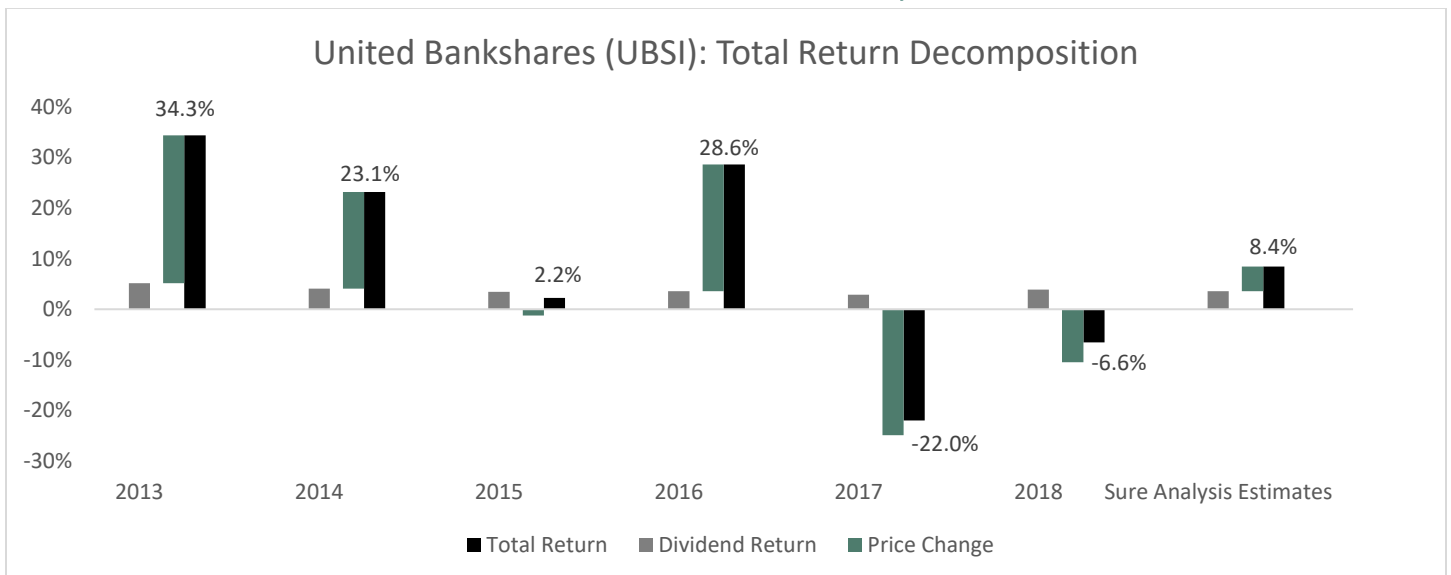
United's dividend payout ratio is around half of earnings, and we expect it will remain there for the foreseeable future. We see United's dividend as quite safe and able to weather an economic downturn, as it did during the Great Recession.

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 8.4% going forward, consisting of the current 3.6% yield, 6% earnings-per-share growth and a 1.2% 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 our view of fair value. United offers a high current yield and decent growth, but weak margin performance has us reiterating our hold rating. Investors would do well to closely monitor United's interest spread performance in the coming quarters.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	314	289	305	334	330	440	454	490	675	711
<b>SG&amp;A Exp.</b>	101	101	103	112	110	135	140	148	231	238
<b>D&amp;A Exp.</b>	7	7	7	10	12	2	1	9	22	21
<b>Net Profit</b>	67	72	76	83	86	130	138	147	151	256
<b>Net Margin</b>	21.4%	24.9%	24.8%	24.7%	26.0%	29.5%	30.4%	30.0%	22.3%	36.0%
<b>Free Cash Flow</b>	49	98	111	124	136	144	170	163	240	287
<b>Income Tax</b>	11	32	35	39	39	65	66	76	134	71

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	7805	7156	8451	8420	8735	12329	12578	14509	19059	19250
<b>Cash &amp; Equivalents</b>	449	461	635	431	416	752	857	1434	1665	1020
<b>Accounts Receivable</b>	27	24	26	26	27	32	36	39	53	61
<b>Goodwill &amp; Int. Ass.</b>	312	312	376	376	376	710	710	864	1478	1478
<b>Total Liabilities</b>	7044	6363	7483	7428	7694	10673	10865	12273	15818	15999
<b>Long-Term Debt</b>	775	388	345	385	791	1053	1074	1122	1514	1674
<b>Shareholder's Equity</b>	762	793	969	992	1042	1656	1713	2236	3241	3252
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	0.8%	1.0%	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%
<b>Return on Equity</b>	9.0%	9.3%	8.6%	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%
<b>ROIC</b>	4.0%	5.3%	6.1%	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%
<b>Shares Out.</b>	43	44	47	50	50	68	70	74	98	102
<b>Revenue/Share</b>	7.24	6.63	6.50	6.64	6.54	6.50	6.52	6.62	6.89	6.82
<b>FCF/Share</b>	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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