UMB Financial Corporation (UMBF)

Updated August 6th, 2019 by Josh Arnold

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	9.9%	**Volatility Percentile:**	59.2%
Fair Value Price:	$67	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	30.4%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Growth Percentile:**	68.0%
Dividend Yield:	1.9%	**5 Year Price Target**	$94	**Valuation Percentile:**	57.1%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	51.5%

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 just over $1 billion in annual revenue.

UMB reported Q2 earnings on 7/30/19 and results were in line with expectations. Net interest income was up 10.7% year-over-year to $166 million, while noninterest income rose just over 5% to $105 million. Net interest margin was fractionally lower against the year-ago period, declining from 3.24% to 3.19% as UMB, along with many of its peers, is grappling with an inverted yield curve. However, earning assets rose 12.9% year-over-year, which is how UMB was able to boost its net interest income so strongly despite slightly weaker margins.

Noninterest expense was up 9.1% year-over-year, primarily attributable to higher salary and benefits expense. UMB's adjusted efficiency ratio came to 70.2% in Q2, up slightly from the 69.9% in the year-ago period. This is a very high efficiency ratio and continues to crimp earnings growth. Well-run regional banks are generally in the 55% to 60% range in terms of efficiency ratio; UMB is nowhere near as efficient as its peers.

In total, earnings-per-share rose modestly year-over-year from $1.11 to $1.16 in Q2. Following the Q2 report, we're reiterating our estimate of $4.60 in earnings-per-share for this year.

UMB's capital position remains strong despite a year-over-year decrease in its common equity tier 1 ratio from 13.6% to 12.7%. We have no capital or liquidity concerns for UMB given its very strong balance sheet.

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, although short-term headwinds exist in the form of the inverted yield curve, which is crimping lending margins. 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, as evidenced again by the sizable increase in net interest income again in Q2, and a modest boost in fee income. If rates remain unfavorable, it may see some downward pressure on earnings expansion. However, the bank has thus far been able to overcome an inverted yield curve by swiftly expanding the amount of lending it is doing, as it showed again in Q2.

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.

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	18.5	16.9	14.1	15.0	17.0	22.3	21.4	17.7	20.2	18.5	***13.8***	***14.5***
Avg. Yld.	1.7%	2.0%	2.0%	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	1.6%	***1.9%***	***1.9%***

Increased earnings estimates and a much lower share price have brought the valuation down significantly since 2017. UMB now trades at 13.8 times this year's earnings against our estimate of fair value at 14.5. We see upside in the valuation as somewhat limited from here given that we are near the end of the economic cycle, coupled with general uncertainty about how rates will behave in the near-term. That implies a 1% tailwind to total returns. 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%***

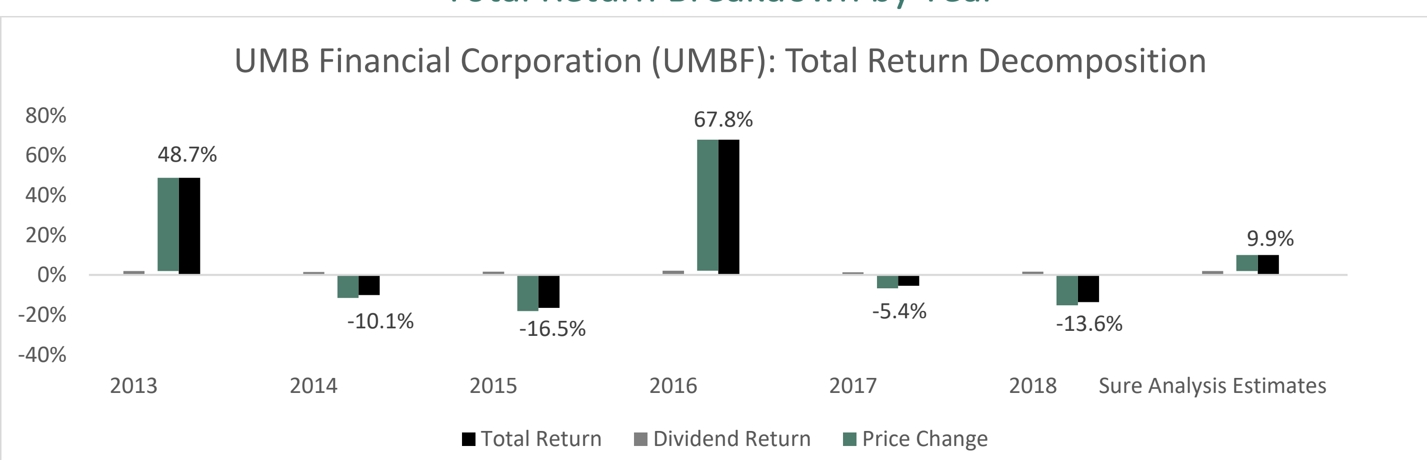
UMB's payout ratio is just one-quarter of earnings, and the bank boasts a 26-year dividend increase streak. Given these factors, we see the dividend as very safe and with lots of room to grow in the future. As mentioned, we don't see a lot of upside to the payout ratio, so the dividend should grow about in line with earnings, keeping the payout ratio under 30% for the foreseeable future.

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. Of course, recessions aren't kind to banks of any size, and UMB's earnings will likely suffer during the next downturn.

Final Thoughts & Recommendation

UMB's valuation has improved in recent quarters as it continues to post strong results while the share price languishes. We see 9.9% total annual returns in the coming years, consisting of the current 1.9% yield, 7% earnings-per-share growth and a 1% tailwind 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 reiterating our recommendation of 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	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.