



United Bankshares, Inc. (UBSI)

Updated February 8th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	5.6%	Market Cap:	\$3.5B
Fair Value Price:	\$30	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/06/20 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	04/01/20 ²
Dividend Yield:	4.1%	5 Year Price Target	\$36	Years Of Dividend Growth:	46
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.9%

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 \$3.5 billion market capitalization and annual revenue of \$850 million.

United reported Q4 and full-year earnings on January 29th and results beat expectations narrowly on both the top and bottom lines. Net interest income for 2019 was \$578 million, a decline of -2% from 2018. The bank cited cost of funds as the culprit, increasing 45bps from 2018 due to prevailing interest rate structures, as well as mix shifts. The average yield on earning assets increased 11bps, but due to higher cost of funds, net interest margin declined from 3.58% to 3.39%.

Noninterest income was \$151 million, up 17% year-over-year. The company saw higher fees from trust services, but most of the gain was due to higher mortgage banking activities and a realized gain from sale margin by George Mason, the bank's mortgage division.

Noninterest expense came to \$383 million, up 4% year-over-year. The main driver was higher compensation expenses due to higher salaries and commissions. In total, earnings-per-share rose from \$2.45 to \$2.55 year-over-year, with the latter being a new record.

The bank still intends to acquire Carolina Financial, a deal that was announced originally in November of 2019. The deal will see United issue ~27 million new shares to fund the purchase, and it is expected to close in the second quarter. We see the deal as reasonably priced at ~13 times earnings, but note that acquisition costs should keep a lid on earnings growth for 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019	2024
EPS	\$1.65	\$1.61	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$2.50	\$3.04
DPS	\$1.20	\$1.21	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	\$1.94
Shares³	44	47	50	50	68	70	74	98	102	102	130	140

Earnings-per-share have 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 4% 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 2019's results. We note that inverted yield curves generally don't last

¹ Estimated date

² Estimated date

³ Share count in millions

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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very long, so we still see interest margins as a long-term tailwind, even if short-term results are weaker. Investors should also keep in mind United funds acquisitions with stock, so the share count will likely continue to rise moving forward.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.7	15.5	15.9	16.4	16.6	19.4	19.3	23.6	14.7	14.6	13.7	12.0
Avg. Yld.	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	4.1%	5.3%

Given some concerns over peer valuations, United's interest margins as well as the lateness of the current economic cycle, we are moving our estimate of fair value to 12 times earnings from 13. 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 4.1%, 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	73%	72%	75%	73%	64%	64%	66%	87%	56%	54%	56%	64%

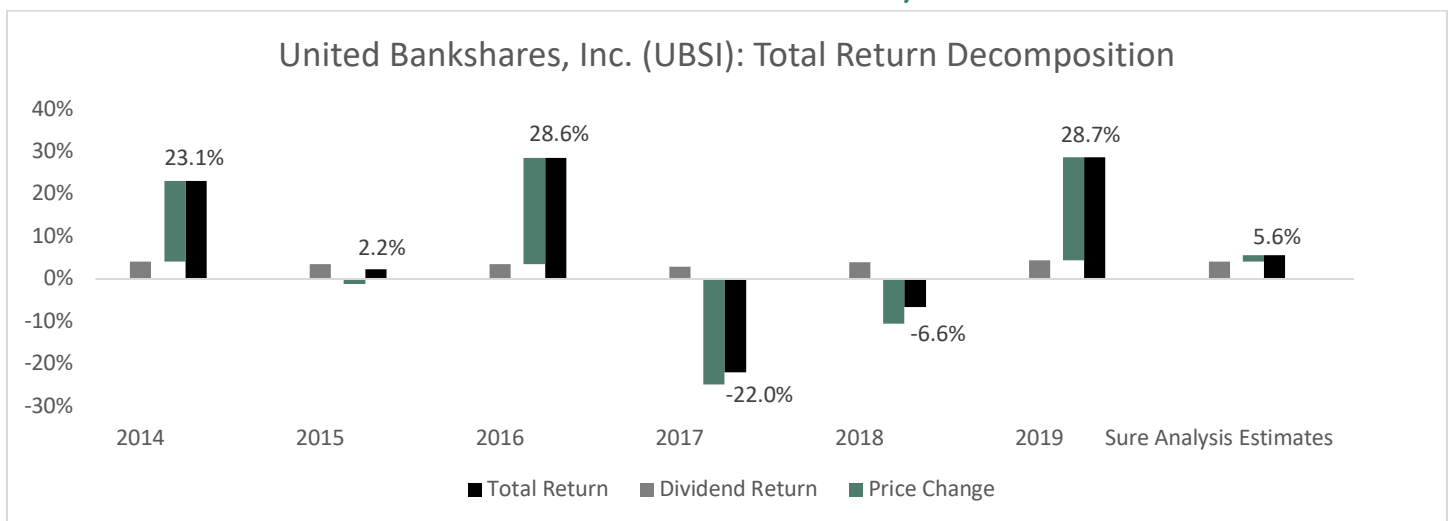
United's dividend payout ratio is just over half of earnings, and we expect it will remain there for the foreseeable future. We see United's dividend as quite safe and able to weather an economic downturn, as it did during the Great Recession.

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 selloff in the stock has increased the attractiveness of it from our perspective. We see total annual returns of 5.6% going forward, consisting of the current 4.1% yield, 4% earnings-per-share growth and a headwind from the valuation moving down over time. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	289	305	334	330	440	454	490	675	711	732
SG&A Exp.	101	103	112	110	135	140	148	231	238	240
D&A Exp.	7	7	10	12	2	1	9	22	21	
Net Profit	72	76	83	86	130	138	147	151	256	
Net Margin	24.9%	24.8%	24.7%	26.0%	29.5%	30.4%	30.0%	22.3%	36.0%	260
Free Cash Flow	98	111	124	136	144	170	163	240	287	
Income Tax	32	35	39	39	65	66	76	134	71	68

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	7156	8451	8420	8735	12329	12578	14509	19059	19250	19662
Cash & Equivalents	461	635	431	416	752	857	1434	1665	1020	837
Accounts Receivable	24	26	26	27	32	36	39	53	61	
Goodwill & Int. Ass.	312	376	376	376	710	710	864	1478	1478	1508
Total Liabilities	6363	7483	7428	7694	10673	10865	12273	15818	15999	16298
Long-Term Debt	388	345	385	791	1053	1074	1122	1514	1674	2213
Shareholder's Equity	793	969	992	1042	1656	1713	2236	3241	3252	3364
D/E Ratio	0.49	0.36	0.39	0.76	0.64	0.63	0.50	0.47	0.51	0.66

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.0%	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%	1.3%
Return on Equity	9.3%	8.6%	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%	7.9%
ROIC	5.3%	6.1%	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%	5.0%
Shares Out.	44	47	50	50	68	70	74	98	102	102
Revenue/Share	6.63	6.50	6.64	6.54	6.50	6.52	6.62	6.89	6.82	7.19
FCF/Share	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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