



United Bankshares, Inc. (UBSI)

Updated May 5th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	3.6%	Market Cap:	\$3.7B
Fair Value Price:	\$24	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	06/12/20 ¹
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date:	07/01/20 ²
Dividend Yield:	4.9%	5 Year Price Target	\$26	Years Of Dividend Growth:	46
Dividend Risk Score:	B	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 \$3.7 billion market capitalization, more than \$25 billion in total assets, and annual revenue of nearly a billion dollars.

United reported first quarter earnings on April 30th and results slightly beat revenue estimates, while earnings were slightly lower than expected. Net interest income declined -2% year-over-year to \$141.5 million as the bank's yield on earning assets declined 33bps from the year-ago period. Average earning assets rose 2% year-over-year to help offset some of this, but lower rates have hurt United's ability to generate income. Net interest margin was off 16bps year-over-year as yields on earning assets fell more quickly than funding costs.

Noninterest income came to \$37 million, up 18% year-over-year on strong mortgage production as consumers look to refinance amid a low rate environment.

Provisions for credit losses quintupled to \$27 million in the first quarter as the bank took significant loss provisions against expected COVID-19-related weakness.

Noninterest expense was up 13% year-over-year, which crimped margins further. As a result, earnings-per-share declined from \$0.62 in the year-ago period to \$0.40 in this year's first quarter. Given this, we've cut our earnings-per-share estimate to \$2.00 for 2020, representing a significant decline against last year's results.

United also closed on its acquisition of Carolina Financial on May 1st, the parent of CresCom Bank, having \$4.8 billion in assets prior to being acquired.

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	\$2.00	\$2.21
DPS	\$1.20	\$1.21	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	\$1.55
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 2% 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, including the recent purchase of Carolina Financial. In addition, continued low funding

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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costs with rising market rates have allowed United to boost its margins, although this did not play out in 2019's results, nor at the beginning of 2020. We note that inverted yield curves generally don't last 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	14.2	12.0
Avg. Yld.	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	4.9%	5.8%

Given some concerns over peer valuations, United's interest margins as well as the lateness of the current economic cycle, we moved 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 4.9%, so it is a strong choice for income investors, and we think the dividend will rise at low 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%	70%	70%

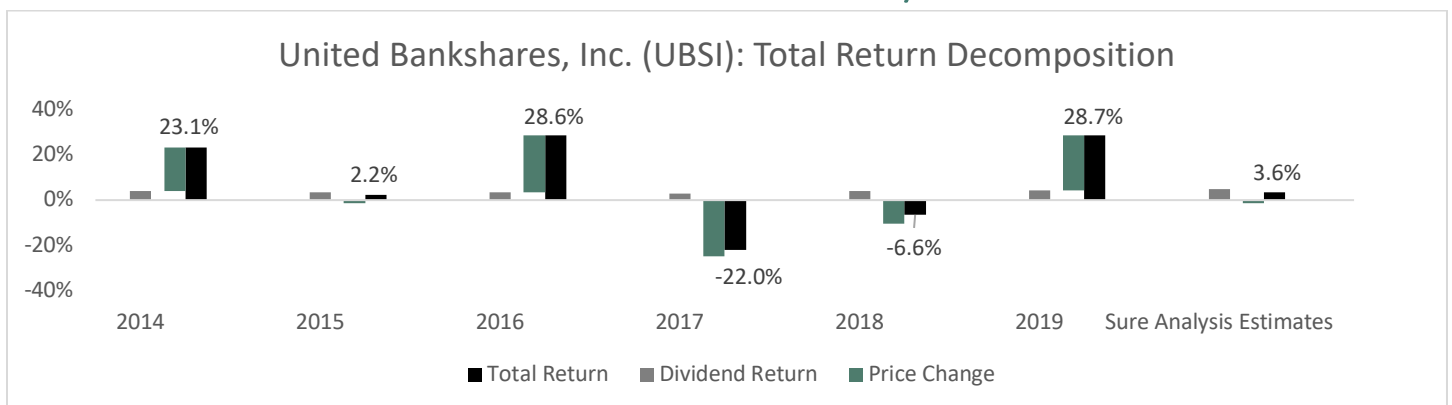
United's dividend payout ratio is now up to 70% of earnings, and we expect it will remain there for the foreseeable future. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised its payout for nearly three decades with similar payout ratios.

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 3.6% going forward, consisting of the current 4.9% yield, 2% earnings-per-share growth and a headwind from the valuation moving down over time. However, declining earnings for this year have us downgrading United from hold to sell as the share count rises and it works to integrate Carolina Financial.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	297	311	341	335	446	456	494	679	713	727
SG&A Exp.	98	102	111	109	133	138	146	229	236	240
D&A Exp.	7	7	10	12	2	1	9	22	21	21
Net Profit	72	76	83	86	130	138	147	151	256	260
Net Margin	24.2%	24.3%	24.2%	25.6%	29.1%	30.2%	29.8%	22.2%	36.0%	35.8%
Free Cash Flow	98	111	124	136	144	170	163	240	287	137
Income Tax	32	35	39	39	65	66	76	134	71	64

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	58
Goodwill & Int. Ass.	312	376	376	376	710	710	864	1478	1478	1478
Total Liabilities	6363	7483	7428	7694	10673	10865	12273	15818	15999	16298
Long-Term Debt	388	345	385	791	1053	1074	1122	1514	1674	2088
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	0.62

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	7.13
FCF/Share	2.24	2.36	2.47	2.70	2.12	2.44	2.21	2.45	2.75	1.34

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

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