UMB Financial Corporation (UMBF)

Updated May 2nd, 2020 by Josh Arnold

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$2.4B
Fair Value Price:	$67	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	06/09/20
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.4%	**Dividend Payment Date:**	07/01/20
Dividend Yield:	2.5%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	28
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	3.3%

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 28 consecutive years. It trades with a $2.4 billion market capitalization and produces about $1.1 billion in annual revenue.

UMB reported first quarter earnings on April 28th, with results coming in quite weak, as expected. Net loss was reported at -$3.4 million, or -$0.07 per share, compared to a profit of $57.7 million, or $1.18 per share in the year-ago period. These results include massive expenses related to the implementation of industry standards for loss provision accounting, as well as forecasted economic weakness from COVID-19-related shutdowns.

Pre-tax, pre-provision earnings, which is a form of operating earnings for banks, came to $83.7 million in Q1, up from $80.6 million in last year's Q1. Average loan balances rose $385 million, or 11.6%, while deposits were up $439 million. Book value per share is up to $55.33, a gain of 15.5% year-over-year, while tangible book value is now $51.04 per share.

UMBF's efficiency ratio is still quite elevated at 69%, but is down from 70% a year ago. The bank says credit quality remains strong for the time being.

We have slashed earnings-per-share down to $2.40 for this year, off from nearly double that level pre-pandemic.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.26	$2.77	$3.04	$3.20	$2.65	$2.44	$3.22	$3.67	$3.94	$4.96	***$2.40***	***$5.08***
DPS	$0.75	$0.79	$0.83	$0.87	$0.91	$0.95	$0.99	$1.04	$1.17	$1.21	***$1.24***	***$1.44***
Shares[1]	40	40	40	45	46	49	50	50	49	49	***49***	***49***

UMB's adjusted earnings-per-share have compounded at about 7% per year since 2009. However, short-term headwinds exist in the form of the inverted yield curve, which is crimping lending margins. Thus, we've revised our estimate from 5% to 2% growth. 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 by the sizable increase in net interest income again in 2019, and a modest boost in fee income. If rates remain unfavorable, it should 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 in 2019. We think this growth will be difficult to replicate as the current economic cycle matures.

The dividend could continue to grow at roughly the rate of earnings in the coming years, rising from $1.24 this year to $1.44 or so in 2025. 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. UMB raised its payout by 3.3% at the end of October 2019.

[1] 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	16.9	14.1	15.0	17.0	22.3	21.4	17.7	20.2	18.5	13.3	***10.6***	***14.5***
Avg. Yld.	2.0%	2.0%	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	1.6%	1.8%	***2.5%***	***2.0%***

We're using a normalized earnings power value of $4.60 to compute fair value and valuation metrics rather than the temporarily depressed earnings for 2020. UMB now trades at 10.6 times earnings power, against our estimate of fair value at 14.5. We see upside in the valuation given this, which could provide a strong tailwind to total returns. We expect the dividend to remain above 2% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	33%	29%	27%	27%	34%	39%	31%	28%	30%	24%	***52%***	***28%***

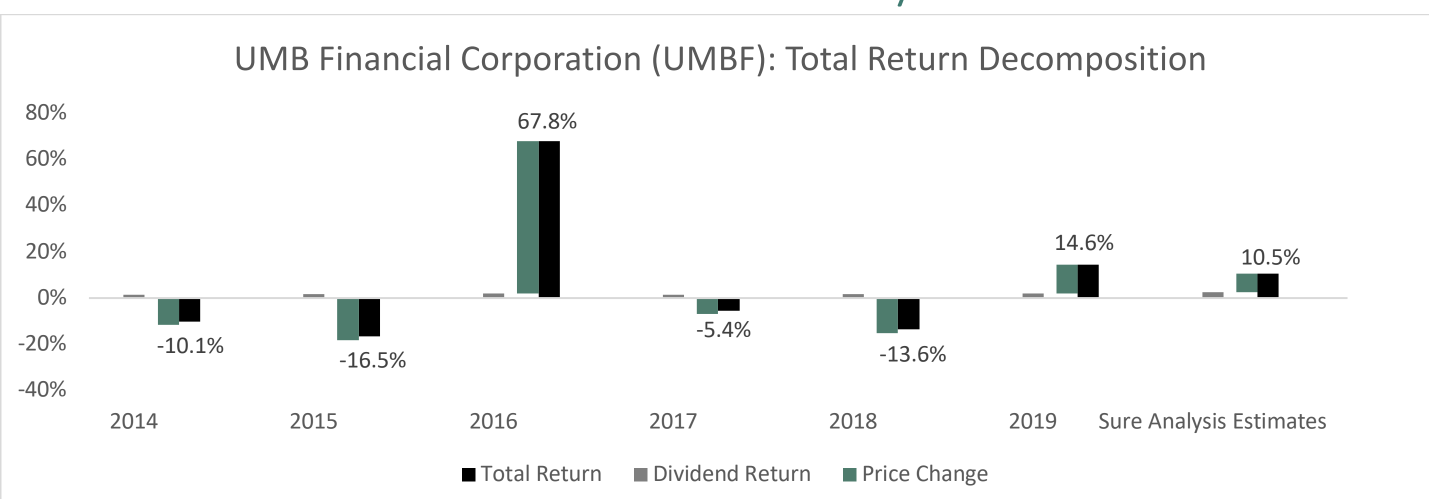
UMB's payout ratio is just one-quarter of normalized earnings, and the bank boasts a 28-year dividend increase streak following its recent payout boost. Given these factors, we see the dividend as safe with lots of room to grow in the future. As mentioned, we don't see a lot of upside to the payout ratio, 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, as we are forecasting for 2020.

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 10.5% total annual returns in the coming years, consisting of the current 2.5% yield, modest earnings-per-share growth, and a sizable tailwind from the valuation. We are upgrading UMBF to buy from hold despite near-term growth challenges.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	609	666	709	749	773	726	841	921	948	1,028
SG&A Exp.	318	347	375	392	414	420	444	468	472	518
D&A Exp.	39	43	41	44	46	53	55	55	53	56
Net Profit	91	106	123	134	121	116	159	247	196	244
Net Margin	14.9%	16.0%	17.3%	17.9%	15.6%	16.0%	18.9%	26.8%	20.6%	23.7%
Free Cash Flow	147	177	180	257	201	158	246	290	239	269
Income Tax	36	40	48	50	45	32	45	53	27	42

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	12,405	13,541	14,927	16,912	17,501	19,094	20,683	21,772	23,351	26,561
Cash & Equivalents	1,205	1,611	1,388	2,614	1,984	981	1,138	1,744	1,693	1,698
Goodwill & Int.	303	295	279	265	254	275	207	201	196	208
Total Liabilities	11,344	12,350	13,648	15,406	15,857	17,201	18,720	19,590	21,123	23,955
Long-Term Debt	44	19	6	5	9	91	77	79	83	97
Total Equity	1,061	1,191	1,279	1,506	1,644	1,894	1,962	2,182	2,228	2,606
D/E Ratio	0.04	0.02	0.00	0.00	0.01	0.05	0.04	0.04	0.04	0.04

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.8%	0.8%	0.9%	0.8%	0.7%	0.6%	0.8%	1.2%	0.9%	1.0%
Return on Equity	8.8%	9.5%	9.9%	9.6%	7.7%	6.6%	8.2%	11.9%	8.9%	10.1%
ROIC	8.4%	9.2%	9.8%	9.6%	7.6%	6.4%	7.9%	11.5%	8.6%	9.7%
Shares Out.	40	40	40	45	46	49	50	50	49	49
Revenue/Share	15.10	16.51	17.53	17.90	17.01	15.26	17.07	18.47	19.04	20.94
FCF/Share	3.66	4.40	4.44	6.14	4.42	3.32	4.98	5.82	4.81	5.48

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