UMB Financial Corporation (UMBF)

Updated July 30th, 2020 by Josh Arnold

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$2.4 B
Fair Value Price:	$47	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/09/20
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	10/01/20
Dividend Yield:	2.5%	**5 Year Price Target**	$63	**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 $1.2 billion in annual revenue.

UMB reported second quarter earnings on July 28th, with both revenue and profits coming in ahead of expectations. Total earnings came to $64 million, or $1.33 on a per-share basis. Total revenue was up 10% from Q1 to $299 million as UMB saw average loans rise more than 8%. That strength was due primarily to Paycheck Protection Program balances, which were the result of unprecedented stimulus from the US government earlier this year. Thus, this is not expected to be recurring.

Deposits added $2 billion during the quarter to settle at $22.8 billion, while book value was up 15% to $57.84 per share. Net charge offs were 0.15% of total loans, which is right in line with where UMB typically is on this important credit metric. That would suggest the bank is being spared the worst of the crisis thus far.

Net interest income rose only 2.5% during the quarter due to net interest margin declining 18bps to 2.79%. This decline was primarily attributable to lower yields from PPP loans.

We've boosted our earnings-per-share estimate for this year to $3.25 on better-than-feared Q2 results, and the strong credit metrics the bank provided during the earnings release.

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	***$3.25***	***$4.35***
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. We see 6% annual growth coming from the currently low base of 2020 earnings. 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.

[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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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.

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	***15.4***	***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%***	***2.3%***

UMB now trades at 15.4 times earnings estimates for this year, against our estimate of fair value at 14.5. We see slight downside in the valuation given this, which could provide a headwind to total returns. We expect the dividend yield 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%	***38%***	***33%***

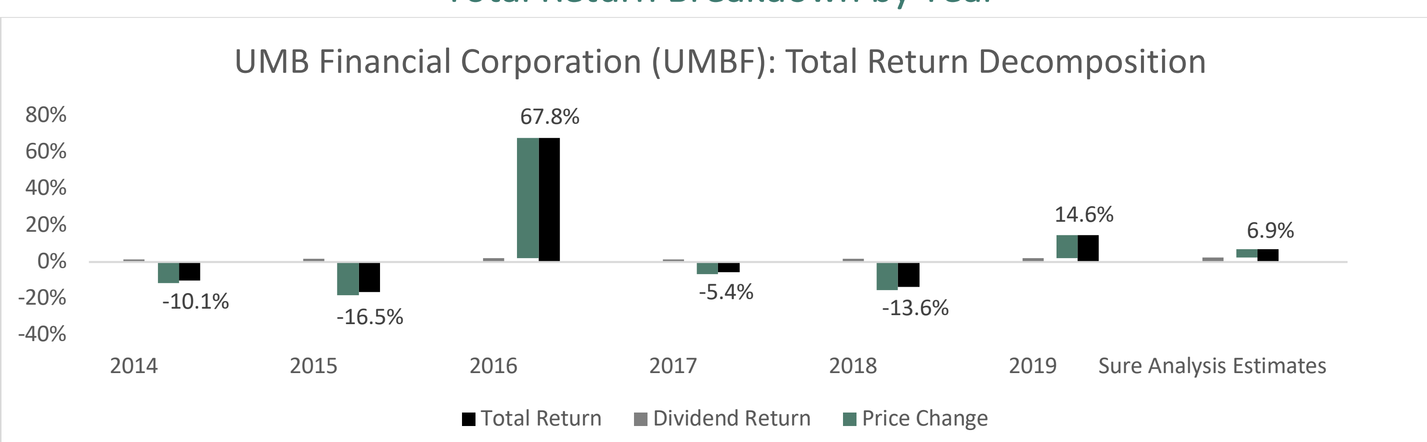
UMB's payout ratio is just one-third of normalized earnings, and the bank boasts a 28-year dividend increase streak following its recent payout increase. Given these factors, we see the dividend as safe with lots of room to grow in the future. As mentioned, we don't see a lot of upside to the payout ratio, so the dividend should grow about in line with earnings, keeping the payout ratio around 35% 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 this downturn, as we are forecasting for 2020.

Final Thoughts & Recommendation

UMB's valuation has deteriorated somewhat since our last update. We now see 6.9% total annual returns in the coming years, consisting of the current 2.5% yield, modest earnings-per-share growth, and a headwind from the valuation. We are moving UMB back to hold from buy as we see the road to earnings recovery as being long.

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.