



United Bankshares, Inc. (UBSI)

Updated November 23rd, 2020 by Josh Arnold

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	2.6%	Market Cap:	\$3.8 B
Fair Value Price:	\$29	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	12/10/20
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	01/04/21
Dividend Yield:	4.8%	5 Year Price Target	\$26	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 \$3.8 billion market capitalization, more than \$26 billion in total assets, and annual revenue of about a billion dollars.

United reported third quarter earnings on October 23rd, and results were better than expected on the top and bottom lines. Net interest income was \$186 million in Q3, up \$44 million, or 31%, from the same period a year ago. The company's average earning assets were substantially higher due to lapping the Carolina Financial acquisition in 2019. Average earning assets in Q3 were up \$6.1 billion, or 35% year-over-year. Average net loans and loans held for sale were up \$4.6 billion, or 33% year-over-year, while investment capital more than doubled.

Net interest spread was up 19bps year-over-year due to a 98bps decrease in the average cost of funds, as the decline in interest rates was partially offset by a 79bps decrease in the average yield on earning assets. Like many other banks, United participated in the Paycheck Protection Program, which offered very low-rate loans to small businesses. This boosted the loan book, but at below average yields. Net interest margin was 3.18% in Q3, down 9bps year-over-year. Earnings-per-share came to \$0.80 in Q3, handily beating estimates of \$0.51. We've boosted our estimate of earnings-per-share for this year from \$2.10 to \$2.40 on better-than-expected Q3 results, but we believe the bank will have a harder time growing from this higher base in the coming years.

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	\$2.40	\$2.17
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
Shares¹	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 given that the Carolina acquisition has now been lapped, as well as what we see as one-time gains in 2020 from the PPP, as well as gains on interest spread from rapid changes in the yield curve, we are moving our growth estimate to -2% annually.

United has always grown through acquisition, and we do not believe that will change. However, its net interest margin is going to be at risk in the coming quarters as the rapid decline in rates in 2020 produced a huge decline in the cost of funds. Assuming rates normalize at some point, United will be subject to potentially much higher funding costs, which will see its NIM deteriorate. This year looks to be a strong year relative to expectations, but we believe United will struggle to grow in the coming years.

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.



United Bankshares, Inc. (UBSI)

Updated November 23rd, 2020 by Josh Arnold

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	12.2	12.0
Avg. Yld.	4.6%	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	4.8%	5.9%

Given some concerns over peer valuations, as well as the current crisis, we reiterate our estimate of fair value of 12 times earnings. We see increased risk for United given the relatively weak performance of the company's net interest margin in the past few quarters – excluding Q3 – and we think investors will pay slightly less for the stock as a result. The yield on the stock is still 4.8%, 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. We believe the yield will be higher in the coming years as the stock is fully valued, but we see small earnings declines, which could produce a lower share price with a higher payout.

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%	58%	71%

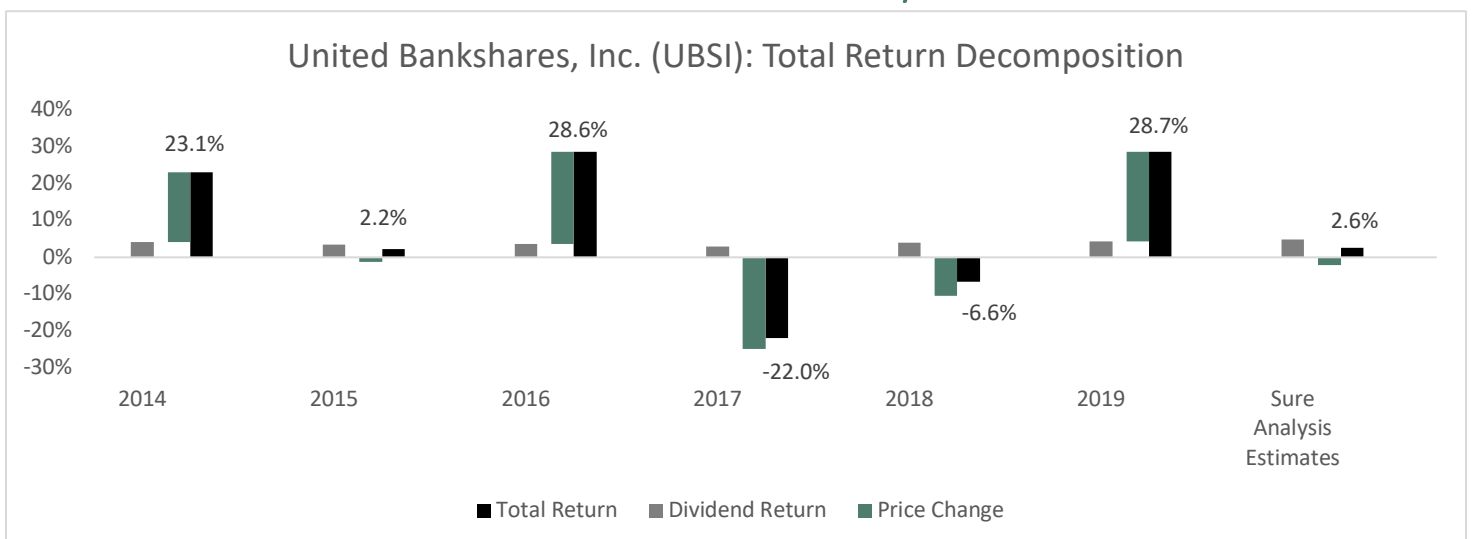
United's dividend payout ratio is now 58% of earnings, and we expect it will move higher for the foreseeable future. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised its payout for nearly five decades.

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, and it is holding up very well in challenging conditions in 2020.

Final Thoughts & Recommendation

United is now expected to produce just 2.6% annual returns in the coming years, as we've lowered our growth expectations significantly. The yield is attractive and should remain safe for years to come, so United could be worth a look for pure income investors. However, shares earn a sell rating as we see the road ahead being very tough from a growth perspective, and the stock is fully valued in our view.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



United Bankshares, Inc. (UBSI)

Updated November 23rd, 2020 by Josh Arnold

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.