UMB Financial Corporation (UMBF)

Updated January 29th, 2021 by Josh Arnold

Key Metrics

Current Price:	$73	**5 Year CAGR Estimate:**	1.5%	**Market Cap:**	$3.5 B
Fair Value Price:	$72	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	03/09/21
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Dividend Payment Date:**	04/01/21
Dividend Yield:	1.8%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	29
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	3.2%

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 29 consecutive years. It trades with a $3.5 billion market capitalization and produces about $1.2 billion in annual revenue.

UMB reported fourth quarter and full-year earnings on January 26th, 2021 with results coming in ahead of expectations on both the top and bottom lines. Revenue soared by 50% year-over-year to $423 million, while adjusted earnings beat estimates widely as well, coming in at $3.26.

Net interest income was up 13% year-over-year to $194 million, and fee income rose modestly year-over-year. However, UMB posted a staggering $113 million gain in investment securities in Q4, up from a fractional loss in the same period a year ago, driving the vast majority of the revenue move, as well as the earnings beat. The gain was due to UMB's position in Tattooed Chef (TTCF), which saw its share price soar at the end of 2020.

Net interest margin was 2.78% in Q4, down from 3.02% in the same period last year. The bank noted that lending yields declined more quickly than that of cost of funds, driving NIM lower.

Average deposits were up 22.5% year-over-year, while average loans were up 21.2%.

The earnings the bank produced in 2020 aren't repeatable, and our initial estimate is for $5.50 in EPS for this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.77	$3.04	$3.20	$2.65	$2.44	$3.22	$3.67	$3.94	$4.96	$6.12	***$5.50***	***$5.50***
DPS	$0.79	$0.83	$0.87	$0.91	$0.95	$0.99	$1.04	$1.17	$1.21	$1.25	***$1.28***	***$1.48***
Shares[1]	40	40	45	46	49	50	50	49	49	48	***48***	***48***

UMB's adjusted earnings-per-share have compounded at about 8% per year in the past decade. However, short-term headwinds exist in the form of the flattened yield curve, which is crimping lending margins. In addition, 2020's earnings had a huge boost from the bank's investment in TTCF. We see now see 0% annual growth from 2021 earnings, which is down from 4%, primarily because of yield curve and lending spread concerns. 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, 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 unfavorable yield curve by swiftly expanding the amount of lending it is doing, as it showed in 2019 and 2020. We think this growth will be difficult to replicate as the current economic cycle matures, so we have become more cautious on the bank's projected growth, and in particular, from its currently high base of earnings.

[1] Share count in millions

The dividend could continue to grow at 3% annually in the coming years, rising from $1.28 this year to $1.48 or so in 2026. 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 3.2% at the end of October 2020.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.1	15.0	17.0	22.3	21.4	17.7	20.2	18.5	13.3	9.2	***13.3***	***13.0***
Avg. Yld.	2.0%	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	1.6%	1.8%	2.2%	***1.8%***	***2.1%***

UMB now trades at 13.3 times earnings estimates for this year, against our estimate of fair value at 13. We see the stock as fairly valued as a result. We expect the dividend yield to remain near 2% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	29%	27%	27%	34%	39%	31%	28%	30%	24%	20%	***23%***	***27%***

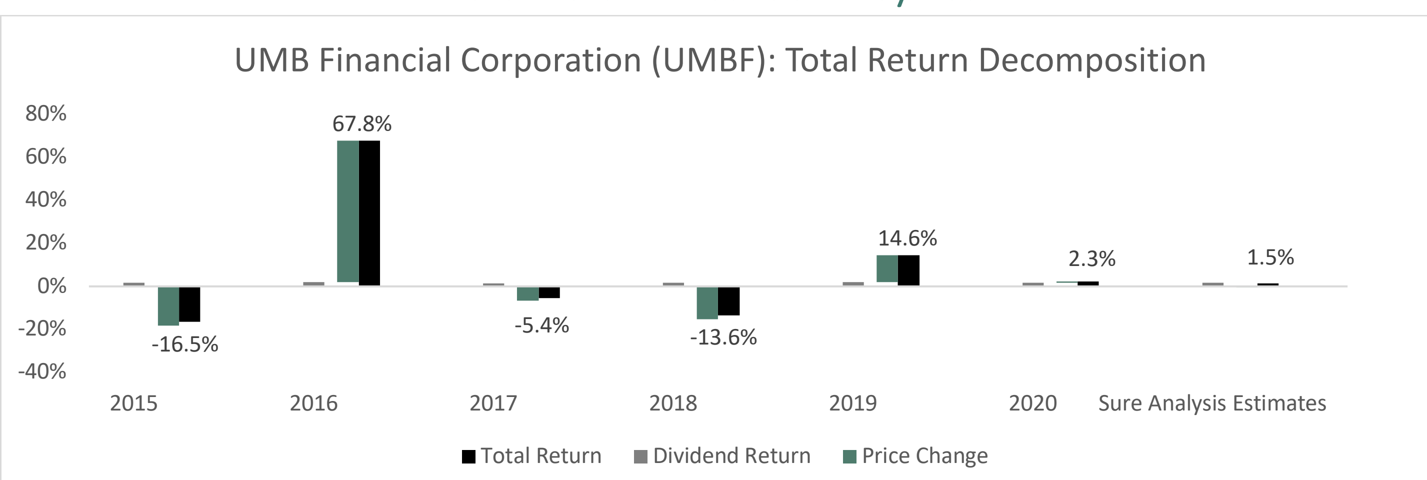
UMB's payout ratio is just one-quarter of normalized earnings, and the bank boasts a 29-year dividend increase streak following its last payout increase. Given these factors, we see the dividend as safe with lots of room to grow in the future. As mentioned, we don't see a lot of upside to the payout ratio, so the dividend should grow modestly, 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, but we note UMB weathered 2020 quite well.

Final Thoughts & Recommendation

UMB's valuation has improved since our last update, but our growth forecast has declined. We now see 1.5% total annual returns in the coming years, consisting of the current 1.8% yield, and essentially no impact from growth or the valuation. We are reiterating UMB at a sell rating given very low projected total returns, in conjunction with the risk factors discussed above.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	666	709	749	773	726	841	921	948	1028	1218
SG&A Exp.	347	375	392	414	420	444	468	472	518	536
D&A Exp.	43	41	44	46	53	55	55	53	56	---
Net Profit	106	123	134	121	116	159	247	196	244	287
Net Margin	16.0%	17.3%	17.9%	15.6%	16.0%	18.9%	26.8%	20.6%	23.7%	23.5%
Free Cash Flow	177	180	257	201	158	246	290	239	269	---
Income Tax	40	48	50	45	32	45	53	27	42	52

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13,541	14,927	16,912	17,501	19,094	20,683	21,772	23,351	26,561	33,128
Cash & Equivalents	1,611	1,388	2,614	1,984	981	1,138	1,744	1,693	1,698	3,541
Goodwill & Int.	295	279	265	254	275	207	201	196	208	202
Total Liabilities	12,350	13,648	15,406	15,857	17,201	18,720	19,590	21,123	23,955	30,111
Long-Term Debt	19	6	5	9	91	77	79	83	97	270
Total Equity	1,191	1,279	1,506	1,644	1,894	1,962	2,182	2,228	2,606	3,017
D/E Ratio	0.02	0.00	0.00	0.01	0.05	0.04	0.04	0.04	0.04	0.09

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.8%	0.9%	0.8%	0.7%	0.6%	0.8%	1.2%	0.9%	1.0%	1.0%
Return on Equity	9.5%	9.9%	9.6%	7.7%	6.6%	8.2%	11.9%	8.9%	10.1%	10.2%
ROIC	9.2%	9.8%	9.6%	7.6%	6.4%	7.9%	11.5%	8.6%	9.7%	9.6%
Shares Out.	40	40	45	46	49	50	50	49	49	48
Revenue/Share	16.51	17.53	17.90	17.01	15.26	17.07	18.47	19.04	20.94	25.20
FCF/Share	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.