



United Bankshares, Inc. (UBSI)

Updated May 6th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	-2.5%	Market Cap:	\$5.2 B
Fair Value Price:	\$32	5 Year Growth Estimate:	-3.0%	Ex-Dividend Date:	06/10/21 ¹
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.1%	Dividend Payment Date:	07/04/21
Dividend Yield:	3.5%	5 Year Price Target	\$28	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 \$5.2 billion market capitalization, more than \$26 billion in total assets, and annual revenue of about a billion dollars.

United posted first quarter results on April 23rd, 2021, with results coming in ahead of expectations for both the top and bottom lines. Net interest income was \$191 million, up 35% year-over-year, which was primarily attributable to an increase in earning assets. The Carolina Financial acquisition and Paycheck Protection Program loan additions boosted earning assets year-over-year. Net interest spread was up 30bps as well, due to a 95bps decrease in the average cost of funds, which was partially offset by a 65bps decline in average yield on earning assets. Net interest margin was flat from the year-ago period at 3.30%.

Noninterest income was \$93 million, up 152% from the year-ago period. This was driven almost entirely by \$48 million in additional mortgage banking income from higher originations and secondary market sales. Provisions for credit losses were -\$143,000 against \$27.1 million a year ago, which was due to the release of prior loan loss reserves that never came to fruition.

Earnings were \$107 million, or 83 cents per share, both of which are records for United. They were also both over double the \$40 million and 40 cents, respectively, produced in last year's Q1. We've boosted our estimate of earnings-per-share to \$2.70 for this year following the loan loss reserve release but note that reproducing this level of earnings in the coming years will prove quite difficult.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.61	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$2.80	\$2.70	\$2.32
DPS	\$1.21	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	\$1.40	\$1.55
Shares²	47	50	50	68	70	74	98	102	102	129	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 saw as one-time gains in 2020 from the PPP and Carolina, as well as gains on interest spread from rapid changes in the yield curve, we are reiterating our growth estimate at -3% annually. The huge release of loan loss reserves in Q1 supports this as well.

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. Rates have moved favorably for banks in early-2021, but rates are still near historic lows. Assuming rates

¹ Estimated date

² 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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normalize at some point, United will be subject to potentially much higher funding costs, which will see its NIM deteriorate if it cannot produce commensurate gains in lending yields.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.5	15.9	16.4	16.6	19.4	19.3	23.6	14.7	14.6	10.0	14.8	12.0
Avg. Yld.	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	5.0%	3.5%	5.6%

Given some concerns over peer valuations, we reiterate our estimate of fair value of 12 times earnings. We see increased risk for United given the relatively weak performance historically of the company's net interest margin and we think investors will pay slightly less for the stock as a result. The yield on the stock is now down to 3.5%, so it is a strong choice for income investors, but the yield is well off its recent highs, and we think the dividend will rise at low single-digit rates over the intermediate-term. We believe the yield could be higher in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	72%	75%	73%	64%	64%	66%	87%	56%	54%	50%	52%	67%

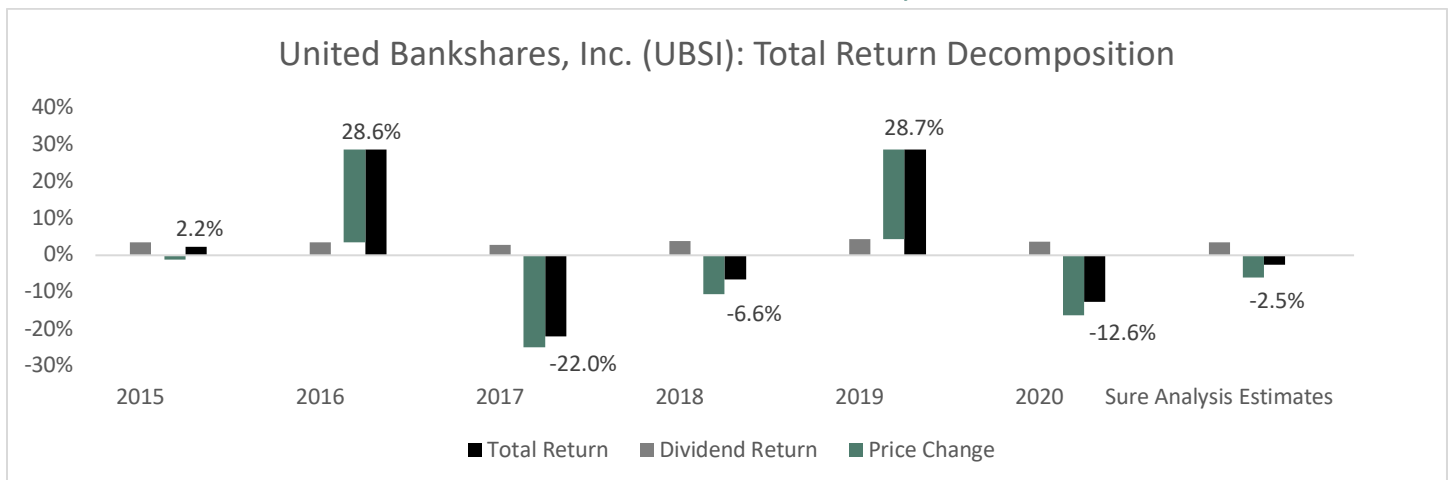
United's dividend payout ratio is now 52% of earnings, and we expect it will move higher for the foreseeable future. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised 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 -2.5% annual returns in the coming years, as we forecast negative growth, and see the stock as overvalued. 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 for a variety of reasons, and the stock is quite overvalued in our view.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	311	341	335	446	456	494	679	713	727	1,037
SG&A Exp.	102	111	109	133	138	146	229	236	240	369
D&A Exp.	7	10	12	2	1	(9)	(22)	(21)	(21)	---
Net Profit	76	83	86	130	138	147	151	256	260	289
Net Margin	24.3%	24.2%	25.6%	29.1%	30.2%	29.8%	22.2%	36.0%	35.8%	27.9%
Free Cash Flow	111	124	136	144	170	163	240	287	137	---
Income Tax	35	39	39	65	66	76	134	71	64	75

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	8451	8420	8735	12329	12578	14509	19059	19250	19662	26184
Cash & Equivalents	635	431	416	752	857	1434	1665	1020	837	2209
Accounts Receivable	26	26	27	32	36	39	53	61	58	---
Goodwill & Int. Ass.	376	376	376	710	710	864	1478	1478	1478	1845
Total Liabilities	7483	7428	7694	10673	10865	12273	15818	15999	16298	21887
Long-Term Debt	345	385	791	1053	1074	1122	1514	1674	2088	1007
Shareholder's Equity	969	992	1042	1656	1713	2236	3241	3252	3364	4298
D/E Ratio	0.36	0.39	0.76	0.64	0.63	0.50	0.47	0.51	0.62	0.23

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%	1.3%	1.3%
Return on Equity	8.6%	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%	7.9%	7.5%
ROIC	6.1%	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%	5.0%	5.4%
Shares Out.	47	50	50	68	70	74	98	102	102	129
Revenue/Share	6.50	6.64	6.54	6.50	6.52	6.62	6.89	6.82	7.13	8.63
FCF/Share	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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