



# United Bankshares, Inc. (UBSI)

Updated November 1<sup>st</sup>, 2021, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$38	<b>5 Year CAGR Estimate:</b>	0.2%	<b>Market Cap:</b>	\$4.8 B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	-2.0%	<b>Ex-Dividend Date:</b>	12/10/21 <sup>1</sup>
<b>% Fair Value:</b>	111%	<b>5 Year Valuation Multiple Estimate:</b>	-2.1%	<b>Dividend Payment Date:</b>	01/04/22
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$31	<b>Years Of Dividend Growth:</b>	46
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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 \$4.8 billion market capitalization, more than \$27 billion in total assets, and annual revenue of about a billion dollars.

United Bankshares reported third quarter earnings on October 26<sup>th</sup>, 2021, and results were better than expected on both the top and bottom lines. Total revenue was \$250 million, which beat expectations by about \$8 million, but was off -22% from the year-ago period. Net interest income was \$182 million, down -\$4 million from the year-ago period. The decline was due to a mix in interest earning assets and lower loan accretion on acquired loans from the Paycheck Protection Program. Average earning assets were \$937 million higher, but net interest margin declined year-over-year by 20bps to 2.98%.

Noninterest income was \$69 million, down -49% year-over-year as a decline from mortgage banking activities produced lower fee revenue, as well as a negative impact from mark-to-market activity. The provision for credit losses was a benefit of \$7.8 million, up sharply from a loss of \$16.8 million in the year-ago period.

Earnings came to \$92 million, or 71 cents per share, down from \$104 million, or 80 cents in the year-ago period. Following Q3 results we've boosted our estimate for earnings-per-share slightly for this year to \$2.85.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.61	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$2.80	<b>\$2.85</b>	<b>\$2.58</b>
<b>DPS</b>	\$1.21	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	<b>\$1.40</b>	<b>\$1.55</b>
<b>Shares<sup>2</sup></b>	47	50	50	68	70	74	98	102	102	129	<b>130</b>	<b>140</b>

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. 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, we now forecasting -2% annual earnings movement, up from -3% prior.

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 2021, but rates are still near historic lows. Assuming rates 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. United has also announced intentions to acquire Community Bankers Trust for \$303M in stock, which would add ~\$2 billion in additional assets to United.

<sup>1</sup> Estimated date

<sup>2</sup> 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	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	<b>13.3</b>	<b>12.0</b>
Avg. Yld.	4.8%	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	5.0%	<b>3.7%</b>	<b>5.0%</b>

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 3.7%, so it is a strong choice for income investors, but the yield is still 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%	<b>49%</b>	<b>60%</b>

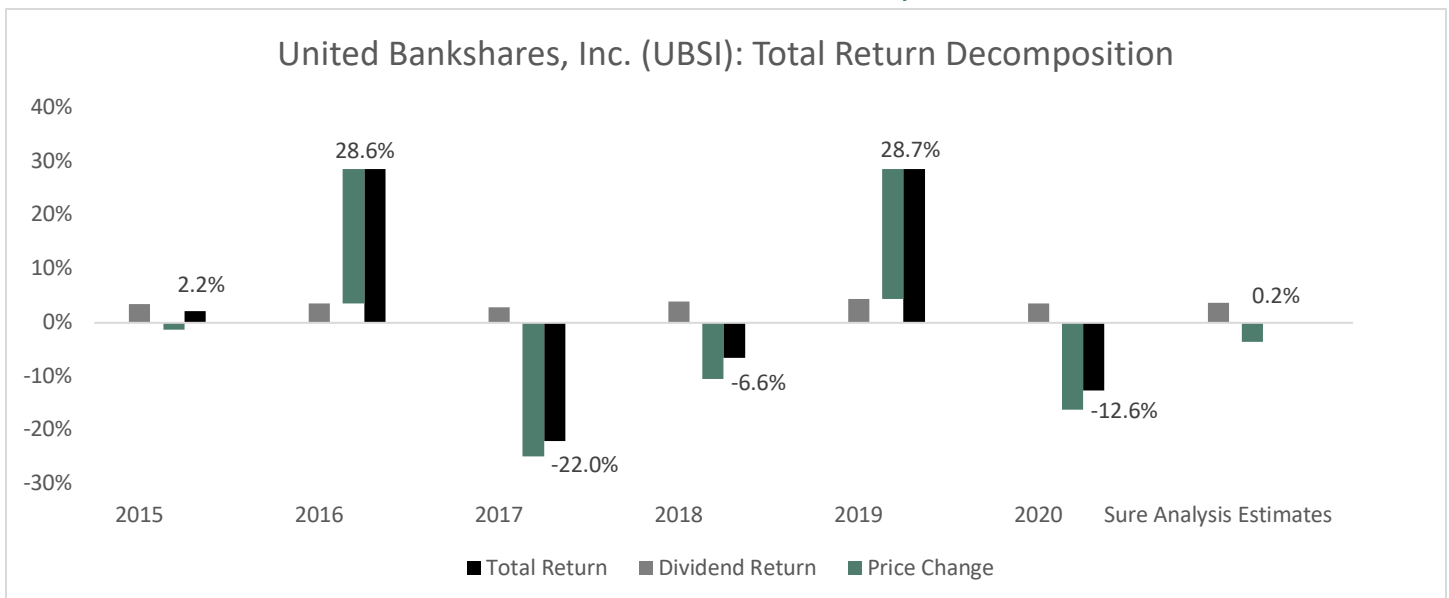
United's dividend payout ratio is now 49% of earnings, and we expect it will move higher. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised its payout for nearly 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 held up in very challenging conditions in 2020.

## Final Thoughts & Recommendation

United is now expected to produce 0.2% 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 still somewhat 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
<b>Revenue</b>	311	341	335	446	456	494	679	713	727	1,037
<b>SG&amp;A Exp.</b>	102	111	109	133	138	146	229	236	240	369
<b>D&amp;A Exp.</b>	7	10	12	2	1	(9)	(22)	(21)	(21)	---
<b>Net Profit</b>	76	83	86	130	138	147	151	256	260	289
<b>Net Margin</b>	24.3%	24.2%	25.6%	29.1%	30.2%	29.8%	22.2%	36.0%	35.8%	27.9%
<b>Free Cash Flow</b>	111	124	136	144	170	163	240	287	137	---
<b>Income Tax</b>	35	39	39	65	66	76	134	71	64	75

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	8451	8420	8735	12329	12578	14509	19059	19250	19662	26184
<b>Cash &amp; Equivalents</b>	635	431	416	752	857	1434	1665	1020	837	2209
<b>Accounts Receivable</b>	26	26	27	32	36	39	53	61	58	---
<b>Goodwill &amp; Int. Ass.</b>	376	376	376	710	710	864	1478	1478	1478	1845
<b>Total Liabilities</b>	7483	7428	7694	10673	10865	12273	15818	15999	16298	21887
<b>Long-Term Debt</b>	345	385	791	1053	1074	1122	1514	1674	2088	1007
<b>Shareholder's Equity</b>	969	992	1042	1656	1713	2236	3241	3252	3364	4298
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	1.0%	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%	1.3%	1.3%
<b>Return on Equity</b>	8.6%	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%	7.9%	7.5%
<b>ROIC</b>	6.1%	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%	5.0%	5.4%
<b>Shares Out.</b>	47	50	50	68	70	74	98	102	102	129
<b>Revenue/Share</b>	6.50	6.64	6.54	6.50	6.52	6.62	6.89	6.82	7.13	8.63
<b>FCF/Share</b>	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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