UMB Financial Corporation (UMBF)

Updated November 11th, 2021, by Josh Arnold

Key Metrics

Current Price:	$106	**5 Year CAGR Estimate:**	-1.6%	**Market Cap:**	$5.1 B
Fair Value Price:	$97	**5 Year Growth Estimate:**	-1.5%	**Ex-Dividend Date:**	12/09/21
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Dividend Payment Date:**	01/03/21
Dividend Yield:	1.4%	**5 Year Price Target**	$90	**Years Of Dividend Growth:**	30
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	15.6%

Overview & Current Events

UMB Financial Corporation is a financial services holding company headquartered in Kansas City, Missouri. Through several 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 30 consecutive years. It trades with a $5.1 billion market capitalization and produces about $1.3 billion in annual revenue.

UMB reported third quarter earnings on October 26th, 2021, and results missed expectations on the top line, but adjusted profits were better than expected. Total revenue gained 7% year-over-year to $318 million. Net interest income was $210 million, an increase of $9 million from the second quarter of this year. The bank's earning assets balance grew but was partially offset by reduced income from Paycheck Protection Program loans. Average earning assets rose 4.7% to $1.5 billion, driven by an increase in liquidity and investment securities. Interest-bearing liabilities rose $799 million, or 4%.

Net interest margin was 2.52% for the third quarter, a decline of four basis points from the linked quarter, which was driven by an unfavorable earning asset mix shift. Noninterest income was down $24 million, or 18%, on a linked quarter basis. Most of the decline was due to a decline of $19 million in investment security gains, driven by a mark-to-market decline in the company's stake in Tattooed Chef (TTCF).

We've moved our estimate of earnings-per-share to $7.45 following Q3 results.

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	***$7.45***	***$6.91***
DPS	$0.79	$0.83	$0.87	$0.91	$0.95	$0.99	$1.04	$1.17	$1.21	$1.25	***$1.48***	***$1.72***
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 low absolute interest rates, which is crimping lending margins. In addition, 2020's earnings had a huge boost from the bank's investment in TTCF, most of which has since been unwound. We now forecast -1.5% annual growth from 2021 earnings, which is primarily because of yield curve and lending spread concerns. In addition, the bank is seeing loan loss reserves reverse from the COVID crisis, which is transitory. We think continued asset base expansion is the key as UMB is working 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.

[1] Share count in millions

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The dividend could continue to grow at 3% annually in the coming years, rising from $1.48 this year to $1.72 or so in 2026. UMB's 2021 dividend increase was massive by its historical standards, but we'll wait and see if larger dividend increases become a new policy.

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	***14.2***	***13.0***
Avg. Yld.	2.0%	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	1.6%	1.8%	2.2%	***1.4%***	***1.9%***

UMB now trades at 14.2 times earnings estimates for this year, against our estimate of fair value at 13. We see the stock as overvalued as a result. We expect the dividend yield to move near 2% in the foreseeable future, the result of a lower valuation and weak earnings growth potential.

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%	***20%***	***25%***

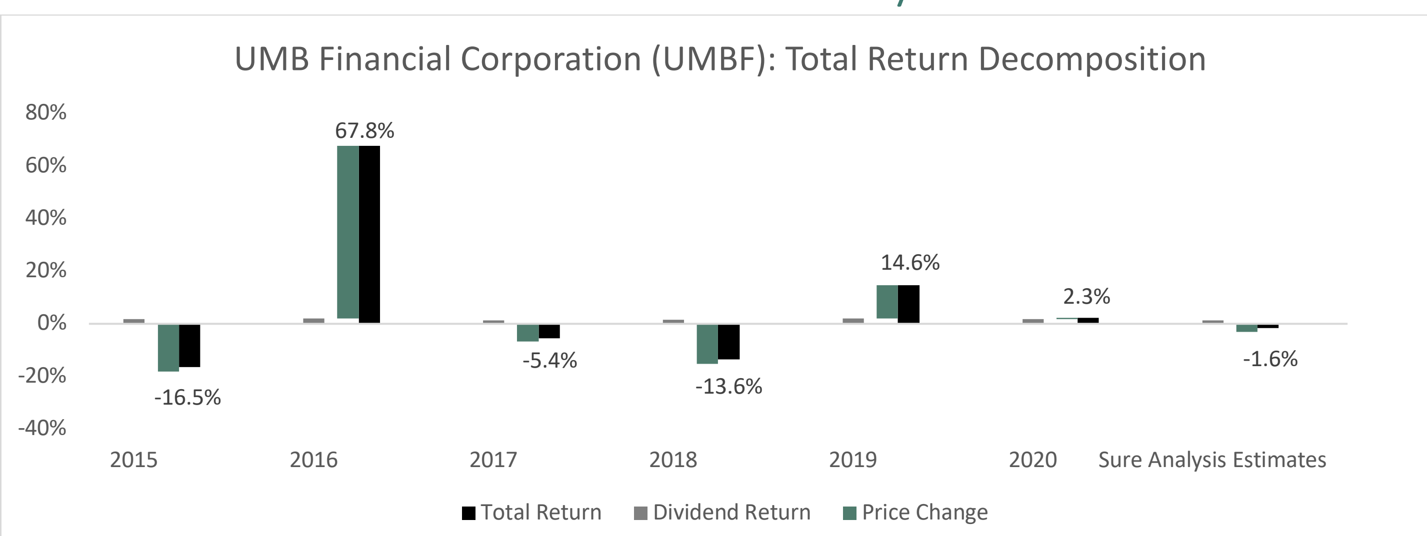
UMB's payout ratio is just one-fifth of earnings, and the bank boasts a 30-year dividend increase streak following its last payout increase. Given these factors, we see the dividend as safe with lots of room to grow in the future. We don't see a lot of upside to the payout ratio, so the dividend should grow modestly, keeping the payout ratio well under 30% for the foreseeable future. However, we note that the 2021 increase was much larger than normal.

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 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

With the stock already well in excess of our 2026 price target, we see projected annual returns at -1.6% moving forward. As such, we continue to rate UMB a sell due to a poor total return outlook.

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.