



United Bankshares, Inc. (UBSI)

Updated May 14th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	1.5%	Market Cap:	\$4.7 B
Fair Value Price:	\$29	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	06/10/22 ¹
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-4.0%	Dividend Payment Date:	07/07/22
Dividend Yield:	4.1%	5 Year Price Target	\$30	Years Of Dividend Growth:	48
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

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 \$4.7 billion market capitalization, more than \$27 billion in total assets, and annual revenue of about a billion dollars. The company has a long dividend history, with 2021 marking the 48th consecutive year of dividend increases.

United reported first quarter earnings on April 26th, 2022, and results were somewhat worse than expected. The bank hit its earnings target, coming in with 60 cents per share in profits. On the plus side, that number was four cents better than the year-ago period. However, revenue was just \$238 million, down more than 16% year-over-year, and missing estimates by \$7 million.

The company noted the first quarter contained 11% annualized loan growth, excluding Paycheck Protection Program loans. It also noted net interest margin expansion, and the resumption of share repurchases.

Net interest income was flat year-over-year at \$192 million. NII was impacted by lower accretion on acquired loans, lower fee income from the PPP, higher average interest-bearing deposit balances, and higher earning assets. The bank's earning assets were up \$2.5 billion, or 11%, due in part to the Community Bankers Trust acquisition. Average interest-bearing deposits rose 9% year-over-year.

Net interest spread was down 28 bps from Q1 of 2021 to 2.86%, which was due to a 40 bps decline in average earning yields, partially offset by a 12 bps decline in the average cost of funds. Provisions for credit losses came to a net benefit of \$3.4 million, a sharp improvement from the expense of \$143k in the year-ago period.

We've moved our estimate of earnings-per-share to \$2.60 for this year following mixed Q1 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$2.80	\$2.97	\$2.60	\$2.73
DPS	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	\$1.41	\$1.44	\$1.59
Shares²	50	50	68	70	74	98	102	102	129	129	129	129

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 1% annual earnings growth. We note the lower base in earnings for 2022 as helping to drive future growth.

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 moved favorably for banks in 2021, but rates are still near historic lows. Assuming rates normalize at some

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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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. We note the sizable decline late in 2021 on net interest margin as evidence of this, and Q1 of 2022 saw this occur as well.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.9	16.4	16.6	19.4	19.3	23.6	14.7	14.6	10.0	12.5	13.5	11.0
Avg. Yld.	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	5.0%	3.8%	4.1%	5.3%

Given some concerns over peer valuations, we have reduced our estimate of fair value to 11 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 4.1%, 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 could be higher still in the coming years. Given the massive yield and its 48-year dividend increase streak, United is an exemplary dividend stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	75%	73%	64%	64%	66%	87%	56%	54%	50%	47%	55%	58%

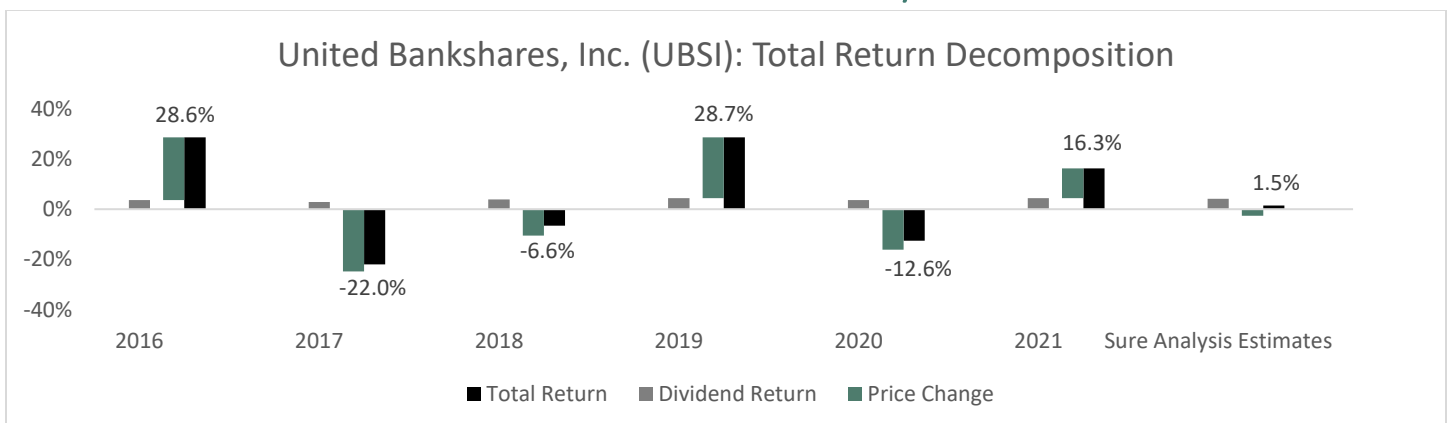
United's dividend payout ratio is now 55% of earnings, and we expect it will move higher. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised its payout for nearly 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, and thrived in 2021.

Final Thoughts & Recommendation

United is now expected to produce 1.5% annual returns in the coming years, as we forecast little growth (1%), and see the stock as overvalued, driving a 4% headwind. The yield is attractive at 4.1% 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 overvalued in our view.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	341	335	446	456	494	679	713	727	1,037	1,007
SG&A Exp.	111	109	133	138	146	229	236	240	369	374
D&A Exp.	10	12	2	1	(9)	(22)	(21)	(21)	(16)	8
Net Profit	83	86	130	138	147	151	256	260	289	368
Net Margin	24.2%	25.6%	29.1%	30.2%	29.8%	22.2%	36.0%	35.8%	27.9%	36.5%
Free Cash Flow	124	136	144	170	163	240	287	137	121	594
Income Tax	39	39	65	66	76	134	71	64	71	95

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	8420	8735	12329	12578	14509	19059	19250	19662	26184	29328
Cash & Equivalents	431	416	752	857	1434	1665	1020	837	2209	3757
Accounts Receivable	26	27	32	36	39	53	61	58	67	65
Goodwill & Int. Ass.	376	376	710	710	864	1478	1478	1478	1845	1910
Total Liabilities	7428	7694	10673	10865	12273	15818	15999	16298	21887	24610
Long-Term Debt	385	791	1053	1074	1122	1514	1674	2088	1007	817
Shareholder's Equity	992	1042	1656	1713	2236	3241	3252	3364	4298	4719
D/E Ratio	0.39	0.76	0.64	0.63	0.50	0.47	0.51	0.62	0.23	0.17

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%	1.3%	1.3%	1.3%
Return on Equity	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%	7.9%	7.5%	8.2%
ROIC	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%	5.0%	5.4%	6.9%
Shares Out.	50	50	68	70	74	98	102	102	129	130
Revenue/Share	6.64	6.54	6.50	6.52	6.62	6.89	6.82	7.13	8.63	7.77
FCF/Share	2.47	2.70	2.12	2.44	2.21	2.45	2.75	1.34	1.01	4.59

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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