



# United Bankshares, Inc. (UBSI)

Updated July 30<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$39	<b>5 Year CAGR Estimate:</b>	-0.7%	<b>Market Cap:</b>	\$5.2 B
<b>Fair Value Price:</b>	\$29	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	09/10/22 <sup>1</sup>
<b>% Fair Value:</b>	136%	<b>5 Year Valuation Multiple Estimate:</b>	-6.0%	<b>Dividend Payment Date:</b>	10/07/22
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$30	<b>Years Of Dividend Growth:</b>	48
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$5.2 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 48<sup>th</sup> consecutive year of dividend increases.

United reported second quarter earnings on July 28<sup>th</sup>, 2022, and results were much better than expected on both the top and bottom lines. Earnings-per-share came to 71 cents, which was nine cents ahead of estimates. Revenue was \$259 million, beating estimates by more than nine million dollars.

Earnings grew due to loan growth, net interest margin expansion, and strong credit quality. On a dollar basis, earnings were up from \$82 million to \$96 million.

Annualized loan growth was 15% year-over-year, excluding the Paycheck Protection Program. Net interest margin was 3.38%, up 39bps against Q1. Non-performing loans as a percentage of loans and leases, net of unearned income was just 0.37%.

Net interest income was up \$23 million, or 12%, quarter-over-quarter. The increase was due to higher interest income on earning assets, driven by rising market rates, as well as a change in the asset mix.

Provisions for credit losses came to a benefit of \$1.8 million, compared to a benefit of \$3.4 million. This continued strong performance in the loan portfolio, slightly offset by loan growth.

We reiterate our forecast of \$2.60 in earnings-per-share for this year following Q2 results.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.64	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$2.80	\$2.97	<b>\$2.60</b>	<b>\$2.73</b>
<b>DPS</b>	\$1.24	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	\$1.41	<b>\$1.44</b>	<b>\$1.59</b>
<b>Shares<sup>2</sup></b>	50	50	68	70	74	98	102	102	129	129	<b>129</b>	<b>129</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 are 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

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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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. Net interest margin is turning higher as prevailing interest rates are moving up, starting in Q2.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	15.9	16.4	16.6	19.4	19.3	23.6	14.7	14.6	10.0	12.5	<b>15.0</b>	<b>11.0</b>
<b>Avg. Yld.</b>	4.8%	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	5.0%	3.8%	<b>3.7%</b>	<b>5.3%</b>

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 3.7%, 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 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
<b>Payout</b>	75%	73%	64%	64%	66%	87%	56%	54%	50%	47%	<b>55%</b>	<b>58%</b>

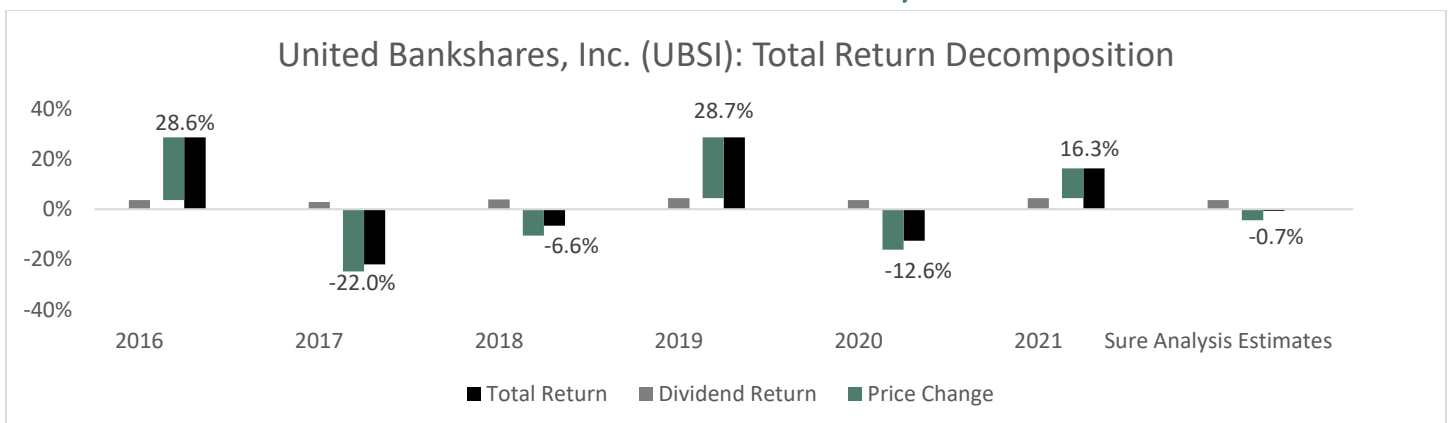
United's dividend payout ratio is now 55% of earnings, and we expect it will move higher. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised its payout for nearly 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 -0.7% annual returns in the coming years, as we forecast little growth (1%), and see the stock as overvalued, driving a 6% headwind. The yield is attractive at 3.7% 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
<b>Revenue</b>	341	335	446	456	494	679	713	727	1,037	1,007
<b>SG&amp;A Exp.</b>	111	109	133	138	146	229	236	240	369	374
<b>D&amp;A Exp.</b>	10	12	2	1	(9)	(22)	(21)	(21)	(16)	8
<b>Net Profit</b>	83	86	130	138	147	151	256	260	289	368
<b>Net Margin</b>	24.2%	25.6%	29.1%	30.2%	29.8%	22.2%	36.0%	35.8%	27.9%	36.5%
<b>Free Cash Flow</b>	124	136	144	170	163	240	287	137	121	594
<b>Income Tax</b>	39	39	65	66	76	134	71	64	71	95

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	8420	8735	12329	12578	14509	19059	19250	19662	26184	29328
<b>Cash &amp; Equivalents</b>	431	416	752	857	1434	1665	1020	837	2209	3757
<b>Accounts Receivable</b>	26	27	32	36	39	53	61	58	67	65
<b>Goodwill &amp; Int. Ass.</b>	376	376	710	710	864	1478	1478	1478	1845	1910
<b>Total Liabilities</b>	7428	7694	10673	10865	12273	15818	15999	16298	21887	24610
<b>Long-Term Debt</b>	385	791	1053	1074	1122	1514	1674	2088	1007	817
<b>Shareholder's Equity</b>	992	1042	1656	1713	2236	3241	3252	3364	4298	4719
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	1.0%	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%	1.3%	1.3%	1.3%
<b>Return on Equity</b>	8.4%	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%	7.9%	7.5%	8.2%
<b>ROIC</b>	6.1%	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%	5.0%	5.4%	6.9%
<b>Shares Out.</b>	50	50	68	70	74	98	102	102	129	130
<b>Revenue/Share</b>	6.64	6.54	6.50	6.52	6.62	6.89	6.82	7.13	8.63	7.77
<b>FCF/Share</b>	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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