



UMB Financial Corporation (UMBF)

Updated July 30th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$91	5 Year CAGR Estimate:	5.1%	Market Cap:	\$4.4 B
Fair Value Price:	\$103	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	09/09/22 ¹
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.5%	Dividend Payment Date:	10/03/22
Dividend Yield:	1.6%	5 Year Price Target	\$108	Years Of Dividend Growth:	30
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Hold

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 \$4.4 billion market capitalization and produces over \$1.4 billion in annual revenue.

UMB reported second quarter earnings on July 26th, 2022, and results were much better than expected on both revenue and earnings. Earnings-per-share came to \$2.83, which was 93 cents better than estimated. Revenue soared 21% year-over-year to \$401 million, \$53 million better than expectations.

Operating pre-tax, pre-provision income was \$187 million, up 57% year-over-year.

Average loan balances were up \$1.5 billion, or 9%, from the year-ago period. Excluding Paycheck Protection Program balances, average loans would have increased 23.3% on a linked quarter, annualized basis. Average deposits were up 14% from the year-ago period.

Net interest margin was 2.60%, up 25bps from the linked quarter, which was almost entirely due to a 23bps gain in average loan yields. The cost of funds is rising as well, but UMB has managed to boost loan yields commensurately so far.

Noninterest income was up 34%, which was 44% of total revenue. Net interest income was \$225 million, up \$14 million, or 7%, from the linked quarter. Average loans were up \$957 million. We now see \$8.60 in earnings-per-share for this year, following a very strong Q2.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.04	\$3.20	\$2.65	\$2.44	\$3.22	\$3.67	\$3.94	\$4.96	\$6.12	\$7.27	\$8.60	\$9.04
DPS	\$0.83	\$0.87	\$0.91	\$0.95	\$0.99	\$1.04	\$1.17	\$1.21	\$1.25	\$1.38	\$1.48	\$1.72
Shares²	40	45	46	49	50	50	49	49	48	48	48	48

UMB's adjusted earnings-per-share have compounded at about 9% 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 TFCF, most of which has since been unwound. We now forecast 1% annual growth from 2022 earnings, which is primarily because of yield curve and lending spread concerns, as well as the very high base of earnings. 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,

¹ Estimated date.

² Share count in millions.

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2020, and indeed 2021. 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, in addition to that high base of earnings we mentioned.

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 2027. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.0	17.0	22.3	21.4	17.7	20.2	18.5	13.3	9.2	12.8	10.6	12.0
Avg. Yld.	1.8%	1.6%	1.5%	1.8%	1.7%	1.4%	1.6%	1.8%	2.2%	1.5%	1.6%	1.6%

UMB has traded in a wide range in the past decade, encompassing 9 times earnings to 22 times. We see the banks as facing interest rate and economic headwinds, so we assess UMB's fair value at 12 times earnings. The stock now trades at 10.6 times earnings estimates for this year, so we see it as undervalued at the moment. We expect the dividend yield to remain below 2% in the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27%	27%	34%	39%	31%	28%	30%	24%	20%	19%	17%	19%

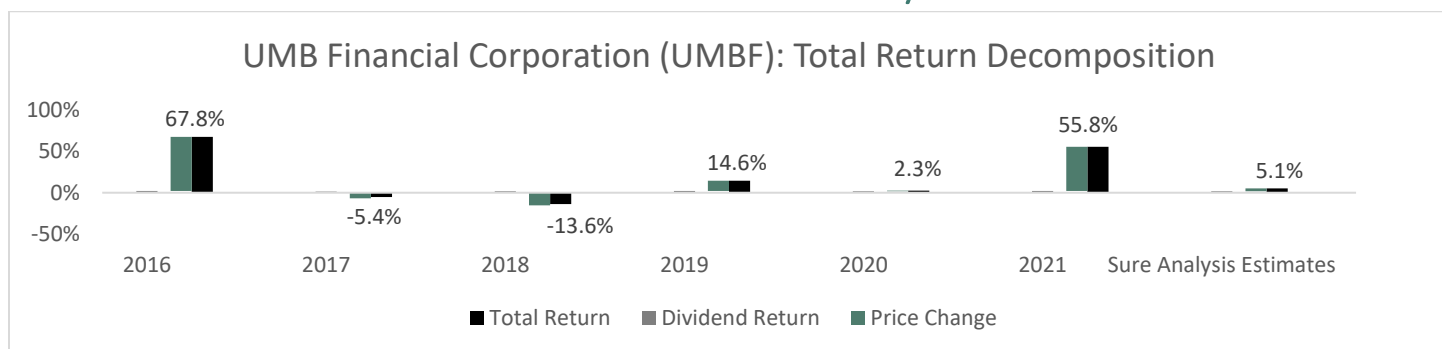
UMB's payout ratio is just one-sixth of earnings, and the bank boasts a 30-year dividend increase streak following its last payout increase. Given these factors, we see the dividend as safe with lots of room to grow in the future. We don't forecast a lot of upside to the payout ratio, so the dividend 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, and 2021 showed record earnings.

Final Thoughts & Recommendation

We see the stock as trading slightly under fair value, but given low growth expectations of just 1%, a low yield of 1.6%, and the 2.5% tailwind from the valuation, we expect just 5.1% total annual returns going forward. As such, we place UMBF at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	709	749	773	726	841	921	948	1,028	1,218	1,196
SG&A Exp.	375	392	414	420	444	468	472	518	536	550
D&A Exp.	41	44	46	53	55	55	53	56	63	56
Net Profit	123	134	121	116	159	247	196	244	287	353
Net Margin	17.3%	17.9%	15.6%	16.0%	18.9%	26.8%	20.6%	23.7%	23.5%	29.5%
Free Cash Flow	180	257	201	158	246	290	238	268	313	500
Income Tax	48	50	45	32	45	53	27	42	52	76

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	14,927	16,912	17,501	19,094	20,683	21,772	23,351	26,561	33,128	42,693
Cash & Equivalents	1,388	2,614	1,984	981	1,138	1,744	1,693	1,698	3,541	9,256
Goodwill & Int.	279	265	254	275	207	201	196	208	202	189
Total Liabilities	13,648	15,406	15,857	17,201	18,720	19,590	21,123	23,955	30,111	39,548
Long-Term Debt	6	5	9	91	77	79	83	70	270	272
Total Equity	1,279	1,506	1,644	1,894	1,962	2,182	2,228	2,606	3,017	3,145
LTD/E Ratio	0.00	0.00	0.01	0.05	0.04	0.04	0.04	0.03	0.09	0.09

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	0.8%	0.7%	0.6%	0.8%	1.2%	0.9%	1.0%	1.0%	0.9%
Return on Equity	9.9%	9.6%	7.7%	6.6%	8.2%	11.9%	8.9%	10.1%	10.2%	11.5%
ROIC	9.8%	9.6%	7.6%	6.4%	7.9%	11.5%	8.6%	9.8%	9.6%	10.5%
Shares Out.	40	45	46	49	50	50	49	49	48	48
Revenue/Share	17.53	17.90	17.01	15.26	17.07	18.47	19.04	20.94	25.20	24.54
FCF/Share	4.44	6.14	4.42	3.32	4.98	5.82	4.78	5.45	6.48	10.27

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

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