UMB Financial Corporation (UMBF)

Updated April 28th, 2023, by Josh Arnold

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$3.1 B
Fair Value Price:	$85	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	06/09/23[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.1%	**Dividend Payment Date:**	07/03/23
Dividend Yield:	2.4 %	**5 Year Price Target**	$89	**Years Of Dividend Growth:**	31
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**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 31 consecutive years. It trades with a $3.1 billion market capitalization and produces over $1.5 billion in annual revenue.

UMBF posted first quarter earnings on April 25th, 2023, and results were largely in line with expectations. Earnings-per-share were $1.90, while revenue was up 11% year-over-year to $372 million.

Average loans were up 19.3% on a linked-quarter, annualized basis, while deposits were up 2.4%. The bank noted uninsured deposits were 67% of total deposits, but that more than half of its deposits are from relationships that are at least 10 years long. UMBF also noted that no sector makes up more than 5% of commercial deposits, meaning it shouldn't be overly exposed to failures or weakness in certain sectors of the economy.

Noninterest income was up 5.3% year-over-year, or 35% of total revenue. Credit quality was outstanding again, with net charge-offs at 0.09% of total loans, and nonperforming loans at 0.07%.

Net interest income was $242 million, a decline of $3.5 million from Q4, driven by fewer days in the quarter, as well as higher interest costs. This was due to unfavorable mix shift in the composition of liabilities, partially offset by continued growth in average loans.

Net interest margin was 2.76%, a decline of seven basis points from the linked quarter, driven by higher interest-bearing liabilities costs. Total cost of funds rose 51bps to 1.92%, but average loan yields rose 53bps, completely offsetting higher cost of funds.

We now see $7.70 in earnings-per-share following Q1 results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.20	$2.65	$2.44	$3.22	$3.67	$3.94	$4.96	$6.12	$7.27	$8.88	***$7.70***	***$8.09***
DPS	$0.87	$0.91	$0.95	$0.99	$1.04	$1.17	$1.21	$1.25	$1.38	$1.49	***$1.52***	***$1.76***
Shares[2]	45	46	49	50	50	49	49	48	48	48	***48***	***47***

UMB's adjusted earnings-per-share have compounded at about 9% per year in the past decade. Interest rates moved sharply higher in 2022 and into 2023, which has helped create better lending margins in the sector. We note 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% annual growth from 2023 earnings, which is primarily from a lack of meaningful lending spread growth, 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. Rates have moved favorably in recent months for the bank's earnings. However, the bank has thus far been able to overcome an unfavorable yield

[1] Estimated date

[2] Share count in millions.

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curve by swiftly expanding the amount of lending it is doing, as it showed in 2019, 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 $1.52 this year to $1.76 or so in 2028. 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. The increase for 2022 was much smaller at less than 3%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.0	22.3	21.4	17.7	20.2	18.5	13.3	9.2	12.8	9.4	***8.2***	***11.0***
Avg. Yld.	1.6%	1.5%	1.8%	1.7%	1.4%	1.6%	1.8%	2.2%	1.5%	1.8%	***2.4%***	***2.0%***

UMB has traded in a wide range in the past decade, encompassing 9 times earnings to 22 times. We see the banks as facing economic headwinds, so we assess UMB's fair value at 12 times earnings. The stock now trades at 8.2 times earnings estimates for this year, so we see it as undervalued at the moment. We expect the dividend yield to remain around 2% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27%	34%	39%	31%	28%	30%	24%	20%	19%	17%	***20%***	***22%***

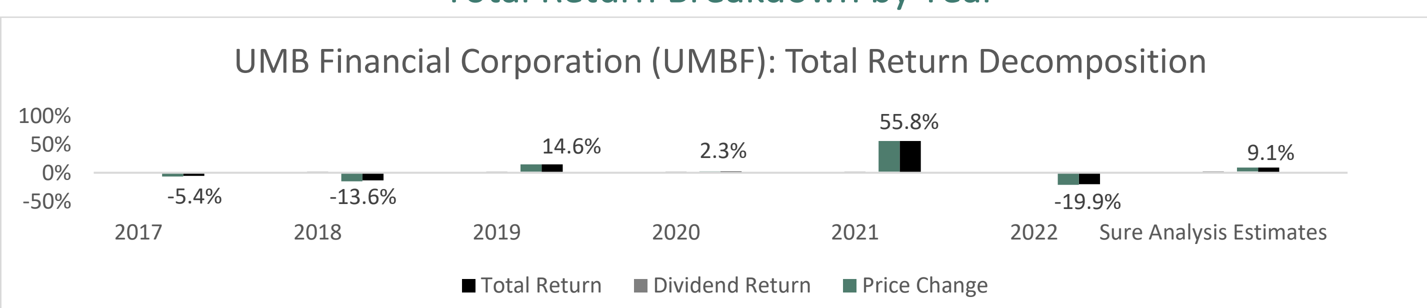
UMB's payout ratio is just one-fifth of earnings, and the bank boasts a 31-year dividend increase streak following its last payout increase. Given these factors, we see the dividend as safe with lots of room to grow in the future. We don't forecast a lot of upside to the payout ratio, so the dividend should grow modestly, keeping the payout ratio under 25% for the foreseeable future.

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 under fair value, but given low growth expectations of just 1%, a decent yield of 2.4%, and the 6.1% tailwind from the valuation, we expect 9.1% total annual returns going forward. As such, we reiterate UMBF at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	749	773	726	841	921	948	1,028	1,218	1,196	1,359
SG&A Exp.	392	414	420	444	468	472	518	536	550	579
D&A Exp.	44	46	53	55	55	53	56	63	56	54
Net Profit	134	121	116	159	247	196	244	287	353	432
Net Margin	17.9%	15.6%	16.0%	18.9%	26.8%	20.6%	23.7%	23.5%	29.5%	31.8%
Free Cash Flow	257	201	158	246	290	238	268	313	500	718
Income Tax	50	45	32	45	53	27	42	52	76	100

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16,912	17,501	19,094	20,683	21,772	23,351	26,561	33,128	42,693	38,512
Cash & Equivalents	2,614	1,984	981	1,138	1,744	1,693	1,698	3,541	9,256	1,680
Goodwill & Int.	265	254	275	207	201	196	208	202	189	286
Total Liabilities	15,406	15,857	17,201	18,720	19,590	21,123	23,955	30,111	39,548	35,845
Long-Term Debt	5	9	91	77	79	83	70	270	272	381
Total Equity	1,506	1,644	1,894	1,962	2,182	2,228	2,606	3,017	3,145	2,667
LTD/E Ratio	0.00	0.01	0.05	0.04	0.04	0.04	0.03	0.09	0.09	0.14

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.8%	0.7%	0.6%	0.8%	1.2%	0.9%	1.0%	1.0%	0.9%	1.1%
Return on Equity	9.6%	7.7%	6.6%	8.2%	11.9%	8.9%	10.1%	10.2%	11.5%	14.9%
ROIC	9.6%	7.6%	6.4%	7.9%	11.5%	8.6%	9.8%	9.6%	10.5%	13.4%
Shares Out.	45	46	49	50	50	49	49	48	48	49
Revenue/Share	17.90	17.01	15.26	17.07	18.47	19.04	20.94	25.20	24.54	27.89
FCF/Share	6.14	4.42	3.32	4.98	5.82	4.78	5.45	6.48	10.27	14.73

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