



# United Bankshares, Inc. (UBSI)

Updated April 29<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	3.9%	<b>Market Cap:</b>	\$4.5 B
<b>Fair Value Price:</b>	\$32	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	06/10/23 <sup>1</sup>
<b>% Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.4%	<b>Dividend Payment Date:</b>	07/07/23
<b>Dividend Yield:</b>	4.4%	<b>5 Year Price Target</b>	\$32	<b>Years Of Dividend Growth:</b>	48
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## 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 \$4.5 billion market capitalization, about \$27 billion in total assets, and annual revenue of about a billion dollars. The company has a long dividend history, with a very impressive 48 consecutive years of dividend increases.

United posted first quarter earnings on April 26<sup>th</sup>, 2023, and results were worse than expected on both the top and bottom lines. Revenue was up 12.4% year-over-year to \$267 million, but missed estimates by nearly \$8 million. Earnings-per-share came to 73 cents, which missed estimates by a penny. Earnings were 74 cents per share in the fourth quarter, but in the first quarter of last year, were just 60 cents.

Net interest income fell \$15.1 million, or 6%, from the fourth quarter of 2022. This was due to higher interest expense driven by deposit rate repricing, and higher after balances in long-term borrowings. This was partially offset by higher interest income on earning assets driven by higher market interest rates, and a change in the asset mix to higher earning assets. Interest rate spread was down 47 basis points from the fourth quarter to 2.93%, which was due to an 80 basis point increase in average cost of funds, partially offset by a 33 basis point increase in the yield on earning assets.

Provisions for credit losses came to \$6.9 million for the first quarter, down from \$16.4 million in Q4. Noninterest income was \$1.9 million higher, or 6%, due to an increase in mortgage banking income.

We now see \$2.70 in earnings-per-share for this year after Q1 results.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.70	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$2.80	\$2.97	\$2.80	<b>\$2.70</b>	<b>\$2.70</b>
<b>DPS</b>	\$1.25	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	\$1.41	\$1.44	<b>\$1.44</b>	<b>\$1.59</b>
<b>Shares<sup>2</sup></b>	50	68	70	74	98	102	102	129	129	129	<b>129</b>	<b>129</b>

Earnings-per-share have been flat for a few years now, as the company has struggled with translating asset and loan growth into profits. We continue to forecast 0% annual earnings growth. We note the relatively high base in earnings for 2023 as making future growth more challenging.

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, and moved sharply higher in 2022. Assuming rates remain elevated, 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. This was evidenced in Q1 results as lending margins deteriorated significantly on higher cost of funds.

<sup>1</sup> Estimated date

<sup>2</sup> 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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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	16.4	16.6	19.4	19.3	23.6	14.7	14.6	10.0	12.5	14.5	<b>12.2</b>	<b>12.0</b>
<b>Avg. Yld.</b>	4.5%	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	5.0%	3.8%	3.6%	<b>4.4%</b>	<b>4.9%</b>

We see fair value at 12 times earnings, given where peer valuations are at present. 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. Shares are fractionally overvalued at the moment. The yield on the stock is now 4.4%, 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Payout</b>	73%	64%	64%	66%	87%	56%	54%	50%	47%	51%	<b>53%</b>	<b>59%</b>

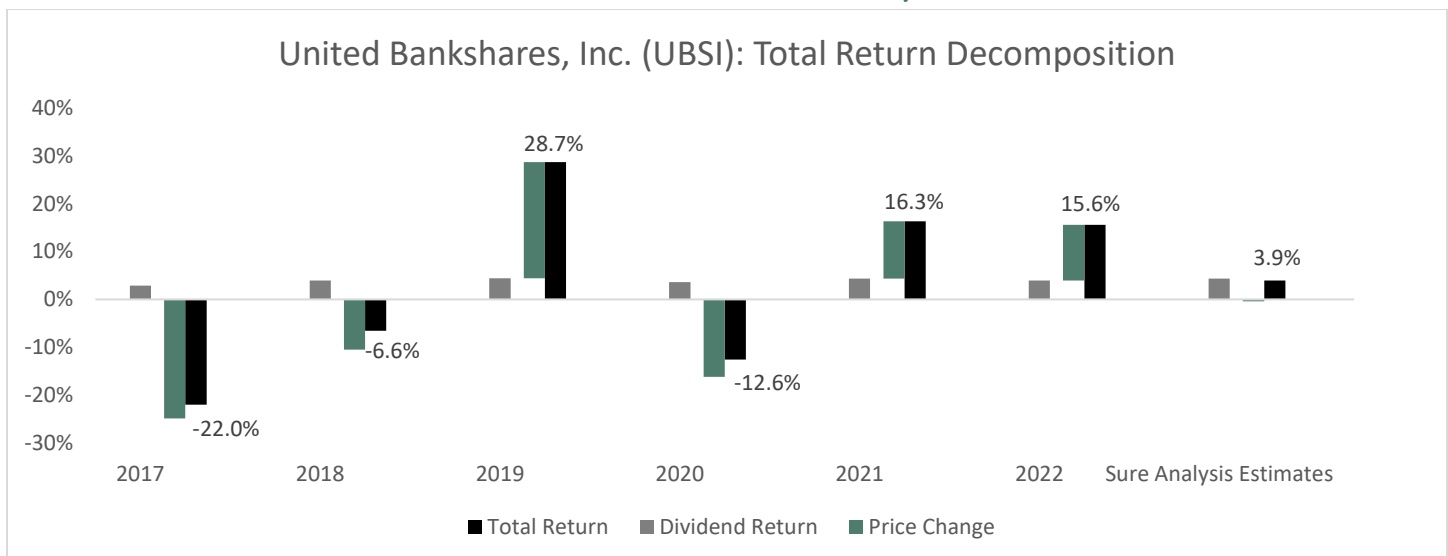
United's dividend payout ratio is now 53% of earnings, and we expect it will move higher. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised its payout for nearly 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 3.9% annual returns in the coming years, as we forecast no growth, and see the stock as slightly overvalued, driving a 0.4% headwind. The yield is attractive at 4.4% and should remain safe for years to come, so United could be worth a look for pure income investors. Shares earn a hold rating as we see the road ahead being very tough from a growth perspective for a variety of reasons, but the stock is now fairly valued.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	335	446	456	494	679	713	727	1037	1007	1032
<b>SG&amp;A Exp.</b>	109	133	138	146	229	236	240	369	374	300
<b>D&amp;A Exp.</b>	12	2	1	(9)	(22)	(21)	(21)	(16)	8	24
<b>Net Profit</b>	86	130	138	147	151	256	260	289	368	380
<b>Net Margin</b>	25.6%	29.1%	30.2%	29.8%	22.2%	36.0%	35.8%	27.9%	36.5%	36.8%
<b>Free Cash Flow</b>	136	144	170	163	240	287	137	121	594	744
<b>Income Tax</b>	39	65	66	76	134	71	64	71	95	101

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	8735	12329	12578	14509	19059	19250	19662	26184	29328	29489
<b>Cash &amp; Equivalents</b>	416	752	857	1434	1665	1020	837	2209	3757	1177
<b>Accounts Receivable</b>	27	32	36	39	53	61	58	67	65	95
<b>Goodwill &amp; Int. Ass.</b>	376	710	710	864	1478	1478	1478	1845	1910	1929
<b>Total Liabilities</b>	7694	10673	10865	12273	15818	15999	16298	21887	24610	24973
<b>Long-Term Debt</b>	791	1053	1074	1122	1514	1674	2088	1007	817	2358
<b>Shareholder's Equity</b>	1042	1656	1713	2236	3241	3252	3364	4298	4719	4516
<b>LTD/E Ratio</b>	0.76	0.64	0.63	0.50	0.47	0.51	0.62	0.23	0.17	0.52

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	1.0%	1.2%	1.1%	1.1%	0.9%	1.3%	1.3%	1.3%	1.3%	1.3%
<b>Return on Equity</b>	8.4%	9.6%	8.2%	7.5%	5.5%	7.9%	7.9%	7.5%	8.2%	8.2%
<b>ROIC</b>	5.3%	5.7%	5.0%	4.8%	3.7%	5.3%	5.0%	5.4%	6.9%	6.1%
<b>Shares Out.</b>	50	68	70	74	98	102	102	129	130	135
<b>Revenue/Share</b>	6.54	6.50	6.52	6.62	6.89	6.82	7.13	8.63	7.77	7.63
<b>FCF/Share</b>	2.70	2.12	2.44	2.21	2.45	2.75	1.34	1.01	4.59	5.51

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

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