



United Bankshares, Inc. (UBSI)

Updated February 5th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	2.8%	Market Cap:	\$4.8 B
Fair Value Price:	\$32	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/10/24 ¹
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	04/07/24
Dividend Yield:	4.1%	5 Year Price Target	\$33	Years Of Dividend Growth:	50
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 \$4.8 billion market capitalization, about \$29 billion in total assets, and annual revenue of just over a billion dollars. The company has a long dividend history, with a very impressive 50 consecutive years of dividend increases.

United posted fourth quarter and full-year earnings on January 26th, 2024, and results were weaker than expected. Fourth quarter earnings came to 59 cents per share, which missed estimates by seven cents. The bank noted the fourth quarter included about \$12 million in noninterest expense for the FDIC's special assessment on banks to recover losses in the Deposit Insurance Fund.

Net interest income for the quarter was up \$1.2 million, or 1%, from Q3. The gain was attributable to organic loan growth and a higher yield on net loans, partially reduced by the impact of deposit rate repricing. Average net loans and loans held for sale rose \$314 million, or 6% on an annualized basis, from Q3. The yield on loans rose 15 basis points to 6.07% for Q4. Net interest margin was 3.55% for Q4, essentially flat to Q3.

Credit loss provisions were \$6.9 million for Q4, up from \$5.9 million in Q3. This was due to estimates of higher losses due to forecast macroeconomic conditions and loan growth.

We start 2024 with an estimate of \$2.65 in earnings-per-share, which would be a slight reduction on 2023's \$2.71. We believe this year could mark an intermediate bottom in earnings from which it can grow.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.92	\$1.98	\$1.99	\$1.54	\$2.45	\$2.55	\$2.80	\$2.97	\$2.80	\$2.71	\$2.65	\$2.79
DPS	\$1.28	\$1.29	\$1.32	\$1.33	\$1.36	\$1.37	\$1.40	\$1.41	\$1.44	\$1.45	\$1.48	\$1.63
Shares²	68	70	74	98	102	102	129	129	129	135	132	125

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 now see 1% annual earnings 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, 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. We note that Q4 margins were equal to the prior quarter, which means we may have seen stabilization in lending margins for United. If that turns out to be the case, it should be a positive for earnings going forward.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.6	19.4	19.3	23.6	14.7	14.6	10.0	12.5	14.5	13.9	13.6	12.0
Avg. Yld.	4.0%	3.4%	3.4%	3.8%	3.8%	3.7%	5.0%	3.8%	3.6%	3.9%	4.1%	4.9%

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 overvalued at the moment. The yield on the stock is now 4.1%, so it is a good 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 50-year dividend increase streak, United is an exemplary dividend stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	64%	64%	66%	87%	56%	54%	50%	47%	51%	54%	56%	59%

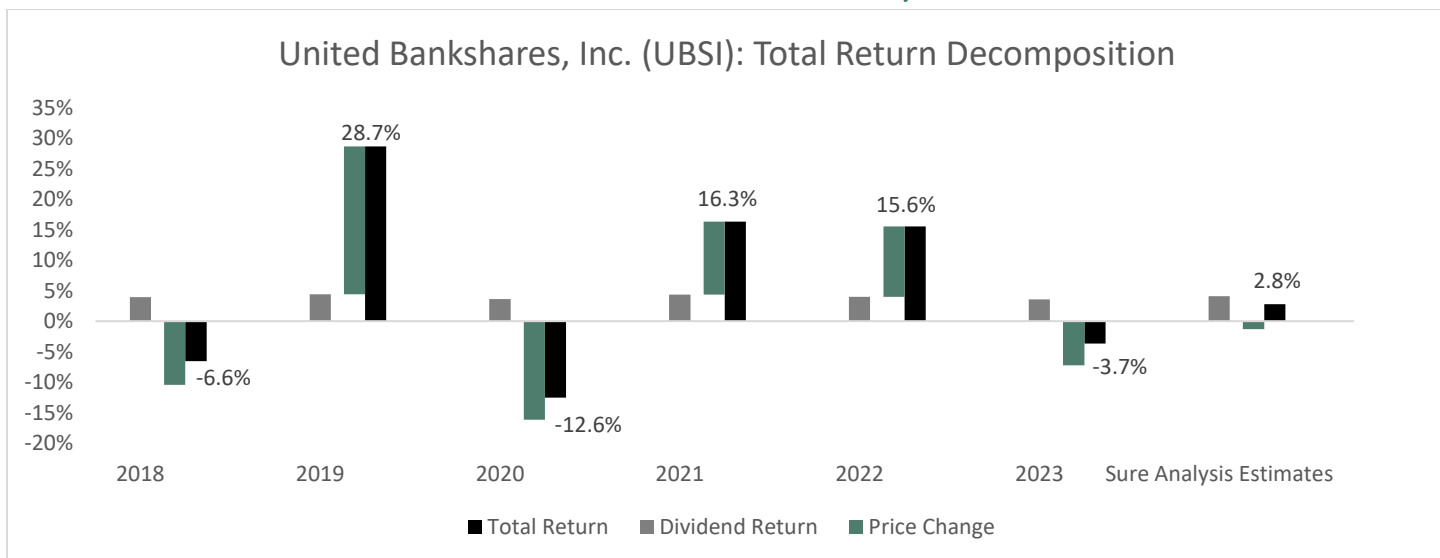
United's dividend payout ratio is now 56% of earnings, and we expect it will move higher. We see United's dividend as safe and able to weather an economic downturn, as it did during the Great Recession. The higher share count makes the dividend more costly, but United has raised its payout for nearly 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 just 2.8% annual returns in the coming years, as we forecast 1% growth, and see the stock as overvalued, driving a 2.5% 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. Shares earn a sell rating as we see the road ahead being very tough from a growth perspective for a variety of reasons, and with the yield having fallen along with a higher valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	446	456	494	679	713	727	1037	1007	1032	1055
SG&A Exp.	133	138	146	229	236	240	369	374	300	310
D&A Exp.	2	1	(9)	(22)	(21)	(21)	(16)	8	24	---
Net Profit	130	138	147	151	256	260	289	368	380	366
Net Margin	29.1%	30.2%	29.8%	22.2%	36.0%	35.8%	27.9%	36.5%	36.8%	34.7%
Free Cash Flow	144	170	163	240	287	137	121	594	744	---
Income Tax	65	66	76	134	71	64	71	95	101	102

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	12329	12578	14509	19059	19250	19662	26184	29328	29489	29926
Cash & Equivalents	752	857	1434	1665	1020	837	2209	3757	1177	1599
Accounts Receivable	32	36	39	53	61	58	67	65	95	---
Goodwill & Int. Ass.	710	710	864	1478	1478	1478	1845	1910	1929	1906
Total Liabilities	10673	10865	12273	15818	15999	16298	21887	24610	24973	25155
Long-Term Debt	1053	1074	1122	1514	1674	2088	1007	817	2358	1985
Shareholder's Equity	1656	1713	2236	3241	3252	3364	4298	4719	4516	4771
LTD/E Ratio	0.64	0.63	0.50	0.47	0.51	0.62	0.23	0.17	0.52	0.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.2%	1.1%	1.1%	0.9%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%
Return on Equity	9.6%	8.2%	7.5%	5.5%	7.9%	7.9%	7.5%	8.2%	8.2%	7.9%
ROIC	5.7%	5.0%	4.8%	3.7%	5.3%	5.0%	5.4%	6.9%	6.1%	5.4%
Shares Out.	68	70	74	98	102	102	129	130	135	135
Revenue/Share	6.50	6.52	6.62	6.89	6.82	7.13	8.63	7.77	7.63	7.83
FCF/Share	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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