Atlantic Union Bankshares Corporation (AUB)

Updated October 28th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$3.50 B
Fair Value Price:	$33	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	11/08/24
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.4%	**Dividend Payment Date:**	11/22/24
Dividend Yield:	3.6%	**5 Year Price Target**	$40	**Years Of Dividend Growth:**	14
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Founded in 1902, Atlantic Union Bank provides a range of banking services to individuals, businesses, and communities across Virginia, Maryland, and North Carolina. The company has a long history of serving its customers and communities. With a focus on personalized service and community involvement, the bank has grown to become a significant regional player in the financial sector. Its well-established suite of financial products and services includes personal and business banking, mortgages, wealth management, and insurance. The company generates about $950 million in interest income per year and is headquartered in Glen Allen, Virginia.

On April 1st, 2024, Atlantic Union Bank completed its merger with American National. At the time of the merger, each outstanding share of American National common stock was converted into 1.35 shares of the company's common stock. With the acquisition of American National, Atlantic Union Bank acquired 26 branches, expanding its presence in Central, Western, and Southern Virginia and providing entry into North Carolina's Piedmont Triad region and Raleigh.

On October 21st, 2024, Atlantic Union posted its Q3 report, for the period ending September 30th, 2024. For the quarter, net interest income came in at $182.9 million, down 1% sequentially. This was primarily due to higher interest expense due to the $111.3 million increase in average interest bearing liabilities and lower net accretion income and investment securities interest income, partially offset by increased interest income due to the $165.4 million increase in average loans held for investment.

In the quarter, the net interest margin fell by 8 basis points to 3.31%, and the fully taxable equivalent net interest margin fell by 8 basis points to 3.38%, mainly due to higher cost of funds and lower yields on earning assets. Earning asset yields for the quarter fell by 2 basis points to 5.94%, while the cost of funds increased by 6 basis points to 2.56%, due primarily to average deposit growth in higher yielding deposit products, partially offset by lower borrowing costs.

For the quarter earnings-per-share (EPS) came in at $0.83. We expect EPS of $3.00 per share for FY2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.13	$1.49	$1.77	$1.67	$2.22	$2.41	$1.93	$3.26	$2.97	$2.53	***$3.00***	***$3.65***
DPS	$0.58	$0.68	$0.77	$0.81	$0.88	$0.96	$1.00	$1.09	$1.16	$1.22	***$1.36***	***$1.74***
Shares[2]	46	45	44	44	66	80	79	77	75	75	***90***	***100***

Throughout its history, Atlantic Union has demonstrated resilience and adaptability in navigating economic cycles and industry changes. In recent years, the company has strategically expanded its footprint through acquisitions and organic growth initiatives. For instance, in 2017, the company entered the North Carolina market through the acquisition of Bank of America branches in the region. This move allowed the bank to establish a foothold in a new market with strong growth potential and expand its customer base. Then, its acquisition of Access National Corporation in 2019 significantly expanded its presence in the Washington, D.C. metropolitan area, also enhancing its market share and customer base. These efforts have resulted in earnings-per-share growth of 9.4% over the past decade. Moving forward, we can see the company sustaining a modest growth pace, though we have utilized a modest pace of 4% in our estimates, to account for headwinds related to increased competition and an uncertain interest rates outlook.

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Regarding its dividend, Atlantic Union was forced to cut its dividend during the Great Financial Crisis, as was the case with most banks at the time. Still, the company has established a noteworthy dividend growth track record, marking 14 years of consecutive annual dividend increases.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.8	12.0	11.6	15.9	13.6	12.7	13.4	9.4	10.2	12.3	***12.4***	***11.0***
Avg. Yld.	3.2%	3.8%	3.7%	3.1%	2.9%	3.1%	3.9%	0.4%	3.8%	3.9%	***3.6%***	***4.3%***

Atlantic Union has historically traded at rather stable valuation levels, with its P/E average close to 13X EPS over the past 10 years. The company is now trading at 12.4 times our expected earnings for the year. This multiple, below its historical average, likely overvalued the stock. We believe investors should price in a higher risk premium give the current interest rates environment. Today, the 3.6% yield is not negligible, yet not much of an attraction either.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	51%	46%	44%	49%	40%	40%	52%	33%	39%	48%	***45%***	***48%***

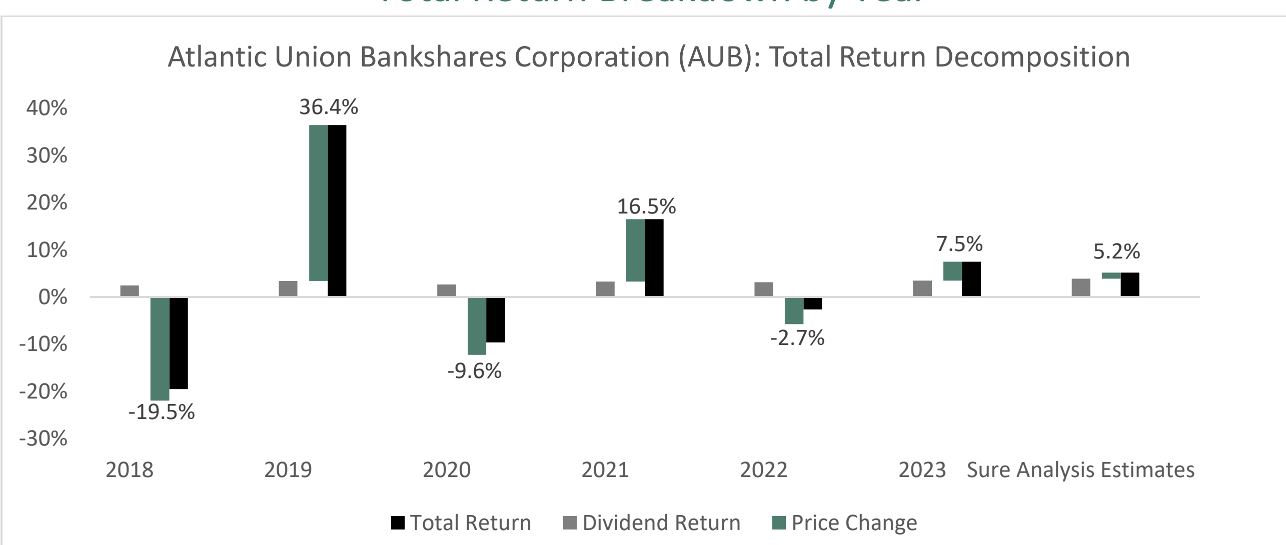
As is the case with all banks, a recession could pose challenges to Atlantic Union's results. The company's profitability is very much likely to be threatened as economic downturns often coincide with reduced consumer spending, increased loan defaults, and declining asset values. Moreover, heightened market volatility could impede investment returns and disrupt fee-based revenue streams. At the same time, the regional banking can be quite competitive, with smaller banks lacking the moat some of their larger peers enjoy.

Nevertheless, the company maintains a healthy balance sheet, with its leverage standing just over 9.3%. Its book value per share also stands at $33.85, with the share price being supported by tangible assets.

Final Thoughts & Recommendation

Atlantic Union features a noteworthy track record of earnings-per-share and dividend-per-share growth. Its acquisition-based and organic growth strategy is likely to keep producing growing financials moving forward. We project annualized returns 5.2% over the medium-term, as the company's growth and 3.6% dividend yield could be offset by a 2.4% annual valuation headwind. Accordingly, we rate Atlantic Union a sell.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	316	317	324	341	511	671	687	670	696	696
SG&A Exp.	146	144	150	153	194	237	227	234	248	267
D&A Exp.	27	26	24	25	26	40	43	51	45	41
Net Profit	52	67	77	73	146	194	158	264	235	202
Net Margin	16.5%	21.2%	23.9%	21.4%	28.6%	28.9%	23.0%	39.4%	33.7%	29.0%
Free Cash Flow	120	107	88	101	217	179	202	328	401	259
Income Tax	18	23	26	33	30	38	28	55	45	38

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,359	7,693	8,427	9,315	13,766	17,563	19,628	20,065	20,461	21,166
Cash & Equivalents	132	141	179	199	261	398	491	800	318	364
Goodwill & Int. Ass.	325	317	319	313	776	1,009	993	979	952	944
Total Liabilities	6,381	6,698	7,426	8,269	11,841	15,050	16,920	17,355	18,088	18,610
Long-Term Debt	643	595	931	1,170	1,717	1,448	590	389	1,406	1,111
Shareholder's Equity	977	995	1,001	1,046	1,925	2,513	2,708	2,710	2,373	2,556
LTD/E Ratio	0.66	0.60	0.93	1.12	0.89	0.58	0.22	0.14	0.59	0.43

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	0.9%	1.0%	0.8%	1.3%	1.2%	0.9%	1.3%	1.2%	1.0%
Return on Equity	7.4%	6.8%	7.8%	7.1%	9.8%	8.7%	6.1%	9.7%	9.2%	8.2%
ROIC	4.2%	4.2%	4.4%	3.5%	5.0%	5.1%	4.4%	8.3%	6.8%	5.4%
Shares Out.	46	45	44	44	66	80	79	77	75	75
Revenue/Share	6.86	7.02	7.38	7.80	7.75	8.36	8.71	8.66	9.29	9.29
FCF/Share	2.60	2.37	1.99	2.31	3.29	2.23	2.57	4.24	5.35	3.45

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