UMB Financial Corporation (UMBF)

Updated November 2nd, 2024, by Josh Arnold

Key Metrics

Current Price:	$108	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$5.3 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/10/24
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Dividend Payment Date:**	01/02/25
Dividend Yield:	1.5%	**5 Year Price Target**	$125	**Years Of Dividend Growth:**	33
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 33 consecutive years. It trades with a $5.3 billion market capitalization and produces about $1.6 billion in annual revenue.

UMB posted third quarter earnings on October 29th, 2024, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to $2.25, which was a nickel ahead of estimates. Revenue soared 14.2% higher year-on-year to $406 million, which was more than $7 million ahead of estimates.

On a year-on-year basis, net interest income was up $25 million, or 11.3%, which was driven by a $1.6 billion, or 7.2%, increase in average loans. This was partially offset by higher interest costs, which was due to unfavorable mix shift in the composition of liabilities, and higher short-term interest rates.

Average earning assets were up $3.7 billion, or 9.8%, which was driven by an increase of $2 billion in interest-bearing due from banks and the increase in average loans.

Average deposits were up 12.6% year-over-year. Average borrowed funds were down $280 million from Q2, and down $1.1 billion year-over-year. This was driven by short-term borrowings with the Federal Home Loan Bank and the Federal Reserve.

UMB boosted its dividend by 2.6% to a new payout of $1.60 annually, its 33rd consecutive annual dividend increase. We now see $8.90 in adjusted earnings-per-share for this year with one quarter to go.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.65	$2.44	$3.22	$3.67	$3.94	$4.96	$6.12	$7.27	$8.88	$8.14	***$8.90***	***$11.36***
DPS	$0.91	$0.95	$0.99	$1.04	$1.17	$1.21	$1.25	$1.38	$1.49	$1.53	***$1.60***	***$1.85***
Shares[1]	46	49	50	50	49	49	48	48	48	49	***49***	***49***

UMB's adjusted earnings-per-share have compounded at about 10% 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. We now forecast 5% annual growth from 2024 earnings, which is primarily from a lack of meaningful lending spread growth. 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 unfavorably in recent months for the bank's earnings. 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, 2020, and indeed 2021. We think this growth will be difficult to replicate as the current economic cycle matures, so we have

[1] 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.

become more cautious on the bank's projected growth, in addition to that high base of earnings. UMBF's net interest margin remains a big headwind.

The dividend could continue to grow at 3% annually in the coming years, rising from $1.60 this year to $1.85 or so in 2029. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.3	21.4	17.7	20.2	18.5	13.3	9.2	12.8	9.4	10.3	***12.1***	***11.0***
Avg. Yld.	1.5%	1.8%	1.7%	1.4%	1.6%	1.8%	2.2%	1.5%	1.8%	1.8%	***1.5%***	***1.5%***

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 11 times earnings. The stock now trades at 12.1 times earnings estimates for this year, so we see it as overvalued at the moment. We expect the dividend yield to remain around 1.5% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	39%	31%	28%	30%	24%	20%	19%	17%	19%	***18%***	***16%***

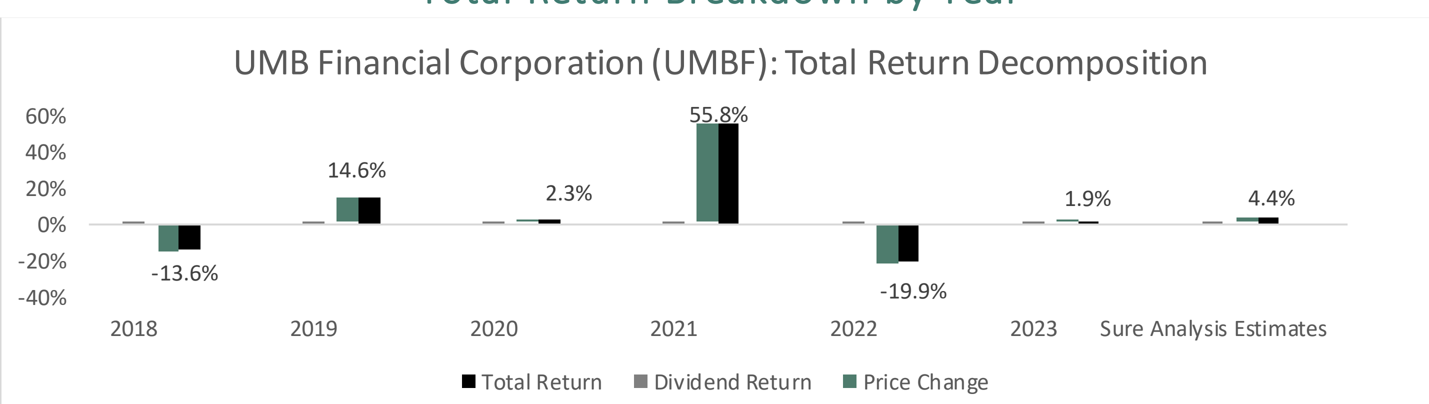
UMB's payout ratio is just one-fifth of earnings, and the bank boasts a 33-year dividend increase streak following its last payout increase. Given these factors, we see the dividend as safe with lots of room to grow in the future. We don't forecast a lot of upside to the payout ratio, so the dividend should grow modestly, keeping the payout ratio under 20% 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 ahead of fair value, but given 5% growth expectations, a decent yield of 1.5%, and a modest negative impact from the valuation, we expect 4.4% total annual returns going forward. As such, we reiterate UMBF at a hold rating, noting the bank's outstanding credit quality is being offset by low margins.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	773	726	841	921	948	1,028	1,218	1,196	1,359	1,326
SG&A Exp.	414	420	444	468	472	518	536	550	579	579
D&A Exp.	46	53	55	55	53	56	63	56	54	59
Net Profit	121	116	159	247	196	244	287	353	432	350
Net Margin	15.6%	16.0%	18.9%	26.8%	20.6%	23.7%	23.5%	29.5%	31.8%	26.4%
Free Cash Flow	201	158	246	290	238	268	313	500	718	446
Income Tax	45	32	45	53	27	42	52	76	100	72

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17,501	19,094	20,683	21,772	23,351	26,561	33,128	42,693	38,512	44,012
Cash & Equivalents	1,984	981	1,138	1,744	1,693	1,698	3,541	9,256	1,680	5,607
Goodwill & Int.	254	275	207	201	196	208	202	189	286	278
Total Liabilities	15,857	17,201	18,720	19,590	21,123	23,955	30,111	39,548	35,845	40,911
Long-Term Debt	9	91	77	79	83	70	270	272	381	2,183
Total Equity	1,644	1,894	1,962	2,182	2,228	2,606	3,017	3,145	2,667	3,100
LTD/E Ratio	0.01	0.05	0.04	0.04	0.04	0.03	0.09	0.09	0.14	0.70

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.6%	0.8%	1.2%	0.9%	1.0%	1.0%	0.9%	1.1%	0.8%
Return on Equity	7.7%	6.6%	8.2%	11.9%	8.9%	10.1%	10.2%	11.5%	14.9%	12.1%
ROIC	7.6%	6.4%	7.9%	11.5%	8.6%	9.8%	9.6%	10.5%	13.4%	8.4%
Shares Out.	46	49	50	50	49	49	48	48	49	49
Revenue/Share	17.01	15.26	17.07	18.47	19.04	20.94	25.20	24.54	27.89	27.19
FCF/Share	4.42	3.32	4.98	5.82	4.78	5.45	6.48	10.27	14.73	9.14

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