

UMB Financial (UMBF)

\$49.80 (As of 07/31/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: B

Summary

Shares of UMB Financial have underperformed the industry over the past six months. The company, however, displays an impressive earnings surprise history, having beaten the Zacks Consensus Estimate in three of the trailing four quarters and missed in the other. The second-quarter 2020 results reflected higher revenues, elevated provisions and margin pressure. UMB Financial remains committed to driving operating efficiency through several initiatives. Also, rising loans and deposits balance keep the bank well poised to undertake expansions and might aid margin expansion despite low rates. Nevertheless, the company's rising costs due to investments in technology and building distribution networks might hinder bottom-line growth. Also, significant exposure to commercial loans and intense competition in business operations act as key headwinds.

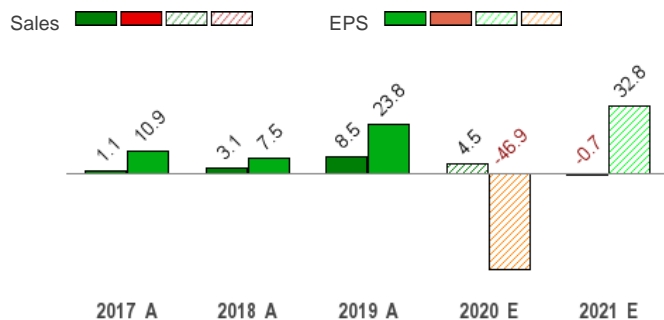
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.26 - \$39.47
20 Day Average Volume (sh)	224,103
Market Cap	\$2.4 B
YTD Price Change	-27.5%
Beta	1.04
Dividend / Div Yld	\$1.24 / 2.5%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 27% (185 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	315.6%
Last Sales Surprise	5.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	19.1%
P/E TTM	12.7
P/E F1	18.8
PEG F1	2.5
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	285 E	280 E	284 E	288 E	1,139 E
2020	272 A	299 A	289 E	297 E	1,147 E
2019	270 A	272 A	272 A	283 A	1,098 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.71 E	\$0.71 E	\$0.80 E	\$0.88 E	\$3.52 E
2020	-\$0.04 A	\$1.33 A	\$1.13 E	\$1.07 E	\$2.65 E
2019	\$1.19 A	\$1.17 A	\$1.27 A	\$1.36 A	\$4.99 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/31/2020. The reports text is as of 08/03/2020.

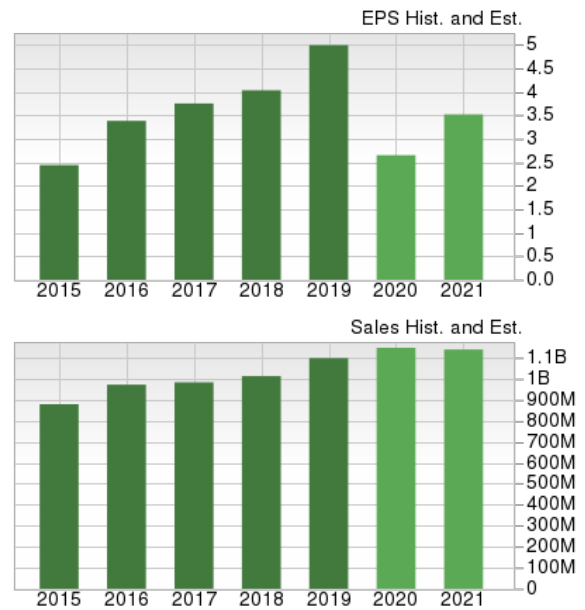
Overview

Headquartered in Kansas City, MO, UMB Financial Corporation provides banking services and asset servicing in the United States. Its banking subsidiary — UMB Bank, National Association — offers banking, asset management, trust, credit card and cash-management services to commercial, retail, government and correspondent-bank customers.

The company has strategically aligned its operations into the following three reportable segments:

- **Commercial Banking** serves the commercial lending and leasing, capital markets, and treasury management needs of midmarket businesses and governmental entities by offering various products and services.
- **Institutional Banking** is a combination of banking services, fund services and asset management services provided to institutional clients. This segment also provides mutual fund cash management, international payments, corporate trust and escrow services, as well as correspondent banking and investment banking.
- **Personal Banking** combines consumer and asset management services provided to personal clients. Products and services include retail credit cards, private banking, home equity lines of credit, residential mortgages, brokerage services and insurance services in addition to a whole range of investment advisory, trust and custody services.

In November 2017, the company completed the divestiture of the outstanding stock of Scout, its institutional investment management subsidiary, for \$172.5 million in cash.



Reasons To Buy:

- ▲ In the four years (ended 2018), UMB Financial's net interest margin (NIM) benefited largely from increase in earning assets yields. Further, the company's low-cost deposit base and relatively higher interest rates aided margins. Moreover, UMB Financial's increasing NIM has favorably impacted net interest income (NII), which recorded a compound annual growth rate (CAGR) of 13% over the last five years (ended 2019). While NIM decreased in 2019 and the first half of 2020 on a low-rate environment, an improving lending scenario is expected to benefit interest income in the quarters ahead.
- ▲ UMB Financial has been focused on diversifying operations to non-interest sources of revenues in order to reduce exposure to interest rates to balance the unprecedented risks related to rate environment. For the five-year period ended 2019, fee income witnessed a CAGR of 3.6%, with some annual volatility. The uptrend continued in the first six months of 2020. Therefore, the growing popularity of HSAs will likely help boost income for its healthcare services segment in the near term. Also, the company continues to hire experienced employees and invest in revenue producing capabilities, which are likely to support growth.
- ▲ UMB Financial has a healthy balance sheet position. The company witnessed impressive loan growth in the last five years (2015-2019), recording a CAGR of 10.9%. Also, deposits have seen a CAGR of 8.2% in the same time span. Both metrics continued to improve in the first half of 2020. With improvement in economy, we believe deposit and loan balances are poised to grow further.
- ▲ The company's capital ratios remain above the levels required to be considered well capitalized. As of Jun 30, 2020, the total risk-based capital ratio was 13.17%. We believe that a strong capital position will help it undertake opportunistic expansions in the future. Also, capital strength supports the company's plan to invest in technology which might drive operating leverage in the near term.
- ▲ We remain encouraged by UMB Financial's enhanced capital deployment activities. The company has been raising dividends on a regular basis. The latest hike of 3.3% was announced in October 2019. Also, the bank has share repurchase plan in place. In April 2020, the company announced a share repurchase authorization of up to 2 million shares. The company's capital deployment activities look sustainable, given its favorable debt/equity ratio compared with the broader industry and consistent earnings growth profile.
- ▲ Shares of UMB Financial have outperformed the industry in the past three months. With this favorable trend, the company's current-year earnings estimates have increased 32.5% over the past 30 days. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has upside potential.

UMB Financial benefits from its top-line strength aided by rising loans and deposits along with diversified fee income. Strong capital position aids steady capital deployment activities of the company.

Reasons To Sell:

- ▼ Cost escalation is the key downside for UMB Financial. The company's non-interest expenses have witnessed a CAGR of 5.1% over the last five years (2015-2019), with the rising trend continuing in the first half of 2020. Expenses are likely to remain elevated due to the company's investments in newer technologies and building distribution networks. These investments might leverage the company in the long-term, but increasing current expense level is limiting the bottom-line expansion.
- ▼ The company faces intense competition in its business operations. Growing market share of FinTech companies and online service providers remains a key threat to traditional banks like UMB Financial. Also, these new entrants are not subject to the same level of regulations and supervisions..
- ▼ Majority of UMB Financial's loan portfolio — nearly 82% as of Jun 30, 2020 — comprises total commercial loans (commercial as well as commercial real estate lending). Such high exposure to commercial loans depicts lack of diversification, which can be risky for the company amid challenging economy and competitive markets.
- ▼ Also, the stock seems overvalued when compared with the broader industry. Its current PEG and price-to-earnings (F1) ratios are above the respective industry averages.

Escalating expenses and intense competition are major concerns for UMB Financial, impacting bottom-line expansion. Additionally, significant exposure to commercial loans remains a headwind.

Last Earnings Report

UMB Financial Q2 Earnings Top Estimates, Revenues Escalate

UMB Financial reported second-quarter 2020 net operating income of \$1.33 per share, which easily surpassed the Zacks Consensus Estimate of 32 cents. The reported figure also compares favorably with the prior-year quarter's earnings of \$1.17.

Higher revenues, aided by rising loans balance along with rise in fee income, were the key positive. However, higher provisions on the coronavirus scare and contraction of net interest margin were undermining factors.

Including certain non-recurring items, the company reported a net income of \$60.5 million or \$1.26 per share for the second quarter compared with \$57 million or \$1.16 per share recorded in the prior-year quarter.

Revenues Rise, Loan & Deposit Balance Improve, Costs Up

Total revenues for the June-ended quarter were \$298.7 million, up 9.9% year over year. Also, the revenue figure surpassed the Zacks Consensus Estimate of \$295.3 million.

Net interest income came in at \$178.2 million, reflecting an increase of 7.1% from the year-ago quarter. Growth in average loans and interest-earning assets mainly led to this upside, partly offset by reduced loan yields due to low interest rates. Net Interest Margin (NIM) contracted 40 basis points (bps) to 2.79% from the prior-year quarter reported figure.

Non-interest income totaled \$120.5 million, up14.3% year over year. The upside mainly resulted from higher trading and investment banking income, trust and securities processing, and other income, partly muted by lower service charges on deposit accounts, bankcard fees and brokerage fees.

Non-interest expenses (GAAP basis) were \$208.5 million, up7.8% from the year-ago figure. Expenses for the quarter included \$4 million in non-recurring compensation and other costs tied to the COVID-19 response.

Efficiency ratio (GAAP basis) decreased to 70.2% from the prior-year quarter's 70.32%. Adjusted efficiency ratio was 68.76%, down from the year-earlier quarter's 70.19%. A fall in efficiency ratio indicates a rise in profitability.

As of Jun 30, 2020, average loans and leases were \$15.1 billion, up 10.9% sequentially. Additionally, average deposits climbed 9.3% from the prior-quarter end to \$22.8 billion.

Credit Quality: A Mixed Bag

Total non-accrual and restructured loans came in at \$82.2 million, up 54% year over year. Further, provision for loan losses was \$21.5 million, up 95.5% from the year-earlier quarter on the rising coronavirus concerns. Yet, the ratio of net charge-offs to average loans was 0.15% in the reported quarter, down 25 bps from the year-ago quarter.

Strong Capital & Profitability Ratios

As of Jun 30, 2020, Tier 1 risk-based capital ratio was 11.92% compared with 12.65% as of Jun 30, 2019. Also, total risk-based capital ratio was 13.17% compared with 13.63% at the end of the prior-year quarter. The Tier 1 leverage ratio was 8.35% compared with 9.69% as of Jun 30, 2019.

Adjusted return on average assets at the quarter's end was 0.91%, down from the year-ago quarter's 0.99%. Additionally, adjusted return on average equity was 9.44% compared with 9.51% witnessed in the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	5.68%
EPS Surprise	315.63%
Quarterly EPS	1.33
Annual EPS (TTM)	3.92

Recent News

Dividend Update

On Jul 28, UMB Financial's board of directors announced a common stock quarterly dividend of 31 cents per share. This dividend will be paid on Oct 1 to shareholders of record as of Sep 10, 2020.

Valuation

UMB Financial's shares are down 27.5% in the year-to-date period and 21.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33.9% and 18.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 24% and 9.1%, respectively.

The S&P 500 Index is up 1.7% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 15.75X forward 12 months earnings, which compared to 12.67X for the Zacks sub-industry, 16.28X for the Zacks sector and 22.64X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.46X and as low as 9.86X, with a 5-year median of 16.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 16.54X forward earnings.

The table below shows summary valuation data for UMBF

Valuation Multiples - UMBF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.75	12.67	16.28	22.64
	5-Year High	24.46	16.92	16.28	22.64
	5-Year Low	9.86	9.51	11.59	15.25
	5-Year Median	16.36	13.58	14.21	17.55
P/TB TTM	Current	0.93	1.98	3.33	14.77
	5-Year High	2.38	3.94	4	14.81
	5-Year Low	0.82	1.66	2.01	5.96
	5-Year Median	1.62	2.95	3.48	9.54
P/S F12M	Current	2.08	3.41	6.05	3.59
	5-Year High	3.96	6.05	6.66	3.59
	5-Year Low	1.8	3.15	4.97	2.53
	5-Year Median	2.99	4.83	6.06	3.04

As of 07/31/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Bank of Hawaii Corporation (BOH)	Neutral	3
BancorpSouth Bank (BXS)	Neutral	3
CullenFrost Bankers, Inc. (CFR)	Neutral	3
East West Bancorp, Inc. (EWBC)	Neutral	3
First Horizon National Corporation (FHN)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	4
TCF Financial Corporation (TCF)	Neutral	3
Webster Financial Corporation (WBS)	Neutral	3

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	UMBF	X Industry	S&P 500	BOH	FHN	TCF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	F	F	D
Market Cap	2.40 B	297.75 M	22.59 B	2.27 B	2.89 B	4.18 B
# of Analysts	3	3	14	3	6	5
Dividend Yield	2.49%	3.35%	1.83%	4.73%	6.47%	5.09%
Value Score	C	-	-	C	F	C
Cash/Price	0.98	0.45	0.07	0.24	1.75	0.40
EV/EBITDA	0.42	5.64	12.94	4.94	-0.14	4.78
PEG Ratio	2.49	2.16	3.04	1.83	NA	6.24
Price/Book (P/B)	0.86	0.83	3.17	1.68	0.58	0.76
Price/Cash Flow (P/CF)	7.27	6.72	12.51	8.23	4.85	5.48
P/E (F1)	18.86	11.00	21.87	14.61	11.66	10.87
Price/Sales (P/S)	1.88	1.77	2.44	2.95	1.27	1.72
Earnings Yield	5.32%	9.08%	4.31%	6.85%	8.63%	9.20%
Debt/Equity	0.03	0.37	0.75	0.04	0.41	0.17
Cash Flow (\$/share)	6.85	2.79	6.94	6.88	1.91	5.02
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	13.80%	13.14%	10.85%	9.39%	13.45%	13.51%
Proj. EPS Growth (F1/F0)	-46.89%	-20.03%	-7.75%	-30.28%	-52.11%	-37.22%
Curr. Cash Flow Growth	12.97%	14.44%	5.39%	3.89%	14.37%	57.50%
Hist. Cash Flow Growth (3-5 yrs)	9.00%	15.97%	8.55%	4.36%	16.55%	55.93%
Current Ratio	0.71	0.91	1.31	0.70	0.95	0.93
Debt/Capital	2.49%	27.19%	44.32%	4.28%	28.07%	14.20%
Net Margin	14.62%	21.14%	10.44%	23.91%	13.06%	8.67%
Return on Equity	7.22%	9.40%	14.73%	13.98%	7.45%	8.38%
Sales/Assets	0.05	0.05	0.52	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	4.56%	2.05%	-1.95%	-1.40%	37.00%	46.69%
Momentum Score	B	-	-	F	B	A
Daily Price Chg	0.22%	-0.94%	-0.92%	-1.90%	-3.21%	-1.00%
1 Week Price Chg	2.16%	0.70%	0.37%	3.23%	4.44%	3.61%
4 Week Price Chg	3.30%	-1.20%	3.81%	-5.16%	0.22%	-0.29%
12 Week Price Chg	10.37%	4.00%	11.93%	-7.12%	11.02%	4.72%
52 Week Price Chg	-24.97%	-27.05%	-1.92%	-31.67%	-41.59%	-33.24%
20 Day Average Volume	224,103	42,571	1,887,986	242,243	6,847,320	650,001
(F1) EPS Est 1 week change	0.00%	1.30%	0.00%	-3.33%	0.00%	5.68%
(F1) EPS Est 4 week change	0.00%	3.80%	0.38%	-2.41%	2.30%	22.46%
(F1) EPS Est 12 week change	-0.94%	5.48%	-0.07%	-2.27%	14.04%	21.93%
(Q1) EPS Est Mthly Chg	6.80%	1.73%	0.16%	5.35%	-58.65%	1.42%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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