

UMB Financial (UMBF)

\$46.99 (As of 05/05/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: D

Summary

UMB Financial's consistently rising expenses 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. Growing competition from fintechs and online service providers remains concerning for the company. In the first-quarter 2020, significant rise in provisions and lower margins resulted in quarterly loss. However, shares of UMB Financial have outperformed the industry over the past three months. Also, it displays a decent earnings surprise history, having beaten the Zacks Consensus Estimate in two of the trailing four quarters. It remains committed to driving operating efficiency through several initiatives. Nevertheless, the company faces credit risk in case of any economic downturn.

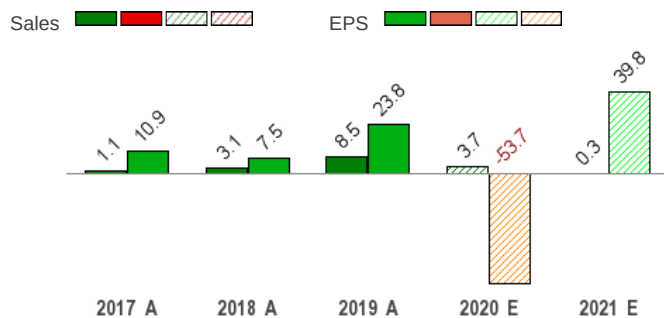
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.97 - \$39.47
20 Day Average Volume (sh)	321,265
Market Cap	\$2.3 B
YTD Price Change	-31.5%
Beta	1.02
Dividend / Div Yld	\$1.24 / 2.6%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 7% (236 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-104.5%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-26.2%
Expected Report Date	08/04/2020
Earnings ESP	3.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	281 E	274 E	275 E	278 E	1,142 E
2020	272 A	283 E	295 E	283 E	1,139 E
2019	270 A	272 A	272 A	283 A	1,098 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.94 E	\$0.83 E	\$0.85 E	\$0.78 E	\$3.23 E
2020	-\$0.04 A	\$0.42 E	\$0.93 E	\$0.76 E	\$2.31 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.

P/E TTM	12.5
P/E F1	20.3
PEG F1	2.7
P/S TTM	1.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

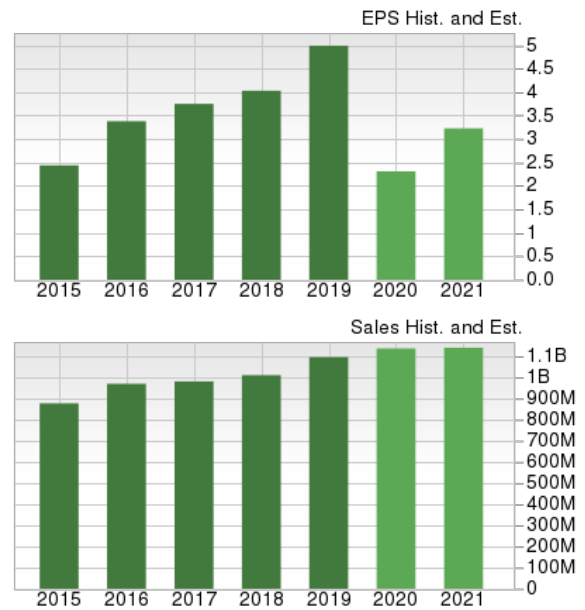
Overview

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 reports through following four segments:

- **Commercial Banking** (contributed 45% of total revenues in 2019) serve 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** (25%) 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** (22%) 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.
- **Healthcare Services** (8%) provides healthcare payment solutions including custodial services for health savings accounts (HSAs) and private label, multipurpose debit cards to insurance carriers, third-party administrators, software companies, employers and financial institutions.

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 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). Though costs declined slightly in first-quarter 2020, the same 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.
- ▼ As of Mar 31, 2020, the company held long-term debt worth \$121.6 million. The debt level has witnessed a rise over the past few quarters and also its debt-capital ratio, currently 0.44, has been witnessing an uptrend. Further, the company's time-interest-earned ratio has decreased in the past few quarters and is currently at 6.9. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe UMB Financial carries credit risk and higher likelihood of default of interest and debt repayments if the economic situation worsens.
- ▼ 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 80% as of Mar 31, 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.
- ▼ Shares of UMB Financial have outperformed the industry in the past three months. Despite the favorable trend, the company's current-year earnings estimates have declined 31% over the past 30 days. The stock seems overvalued when compared with the broader industry. Its current price-to-book and price-to-earnings (F1) ratios are above the respective industry averages. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

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

Risks

- In the last 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 first-quarter 2020 on a lower 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. Though fee income declined in the first three months of 2020, the growing popularity of HSAs is likely to 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 first-quarter 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 Mar 31, 2020, the total risk-based capital ratio was 13.12%. 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.
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Last Earnings Report

UMB Financial Reports Q1 Loss on Higher Provisions

Impacted by higher provisions, UMB Financial reported first-quarter 2020 net operating loss of 4 cents per share as against the Zacks Consensus Estimate of earnings of 89 cents. The reported figure also compares unfavorably with the prior-year quarter's earnings of \$1.19.

Higher provisions on the heightening coronavirus scare and implementation of CECL was a major drag. Further, reduction in net interest margin was an undermining factor. However, higher revenues, aided by rising loans and deposit balances, and prudent expense management supported the company's results.

Including certain non-recurring items, the company reported a net loss of \$3.4 million or 7 cents per share for the first quarter, down from the net income of \$57.7 million or \$1.18 per share recorded in the prior-year quarter.

Increase in Revenues, Loans & Deposits Balance, Costs Down

Total revenues for the January-March quarter came in at \$272.4 million, marginally up year over year. The revenue figure, however, lagged the Zacks Consensus Estimate of \$275.9 million.

Net interest income came in at \$173.9 million, reflecting an increase of 6.1% from the year-ago quarter. Growth in average loans and investment securities mainly led to this upside, partly offset by reduced loan yields due to low interest rates. Net Interest Margin (NIM) contracted 23 basis points (bps) to 2.97% from the prior-year quarter reported tally.

Non-interest income totaled \$98.4 million, down 8.4% year over year. This decline mainly resulted from lower trading and investment banking income, bankcard fees and other income, partly muted by higher service charges on deposit accounts, trust and securities processing and brokerage fees.

Non-interest expenses (GAAP basis) came in at \$188.6 million, down 1.1% from the year-ago tally, mainly due to lower salaries and employee benefits and other expenses, partly negated by higher equipment and processing costs along with elevated amortization of other intangible assets.

Efficiency ratio (GAAP basis) decreased to 68.93% from the prior-year quarter's 70%. Adjusted efficiency ratio was 68.19%, down from the year-earlier quarter's 69.78%. A fall in efficiency ratio indicates rise in profitability.

As of Mar 31, 2020, average loans and leases were \$13.6 billion, up 3% sequentially. Additionally, average deposits climbed 2% from the prior-quarter end to \$20.8 billion.

Credit Quality: A Mixed Bag

Total non-accrual and restructured loans came in at \$97 million, up 53.2% year over year. Further, provision for loan losses came in at \$88 million, significantly up from the year-earlier quarter on rising coronavirus concerns and due to the implementation of CECL. Yet, the ratio of net charge-offs to average loans was 0.23% in the reported quarter, down 18 bps from the year-ago quarter.

Strong Capital & Profitability Ratios

As of Mar 31, 2020, Tier 1 risk-based capital ratio was 11.90% compared with 12.70% as of Mar 31, 2019. Also, total risk-based capital ratio was 13.12% compared with 13.72% at the end of the prior-year quarter. The Tier 1 leverage ratio was 8.81% compared with 9.65% as of Mar 31, 2019.

Adjusted return on average assets at the quarter's end was negative 0.03%, down from the year-ago quarter's 1.03%. Additionally, return on average equity was a negative 0.28% compared with the 10.56% witnessed in the prior-year quarter.

Quarter Ending **03/2020**

Report Date	Apr 28, 2020
Sales Surprise	-1.29%
EPS Surprise	-104.49%
Quarterly EPS	-0.04
Annual EPS (TTM)	3.76

Recent News

UMB Financial's Subsidiary Inks Deal to Expand in Missouri – Nov 21, 2019

UMB Financial Corporation's subsidiary, UMB Bank, entered into an agreement to acquire the corporate trust business of Commerce Trust Company, a division of Commerce Bank, to expand its presence in Missouri.

The deal is backed by UMB Financial's motive to enhance its corporate trust portfolio in Kansas and become an integral part of the Missouri's corporate trust market. Post closure, UMB Financial will become a key provider of trustee and paying agent services in Missouri.

Per the deal terms, Bill Ekey, manager of Commerce Trust Company, and his team of corporate trust associates will continue to manage existing relationships. Further, the entire team will be supporting UMB Financial to expand its footprint in new businesses. However, the financial terms of the deal remain undisclosed.

Notably, Commerce Trust Company is among the largest bank-owned trust companies in the United States with a rank 19 and more than \$52 billion worth client assets.

Jim Cornelius, president of UMB Financial's Institutional Banking noted, "It also complements our other efforts, which include expansion in our national products of escrow, default, aviation and asset-backed securities sectors as well as growth in key geographic areas."

According to John Handy, president and CEO of Commerce Trust Company, selling the bond administration portion of the business is a strategic decision to focus resources on the company's the core areas of growth.

Dividend Update

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

Valuation

UMB Financial's shares are down 31.6% in the year-to-date period and 34.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.7% and 26.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 30.8% and 22.5%, respectively.

The S&P 500 Index is down 10.9% in the year-to-date period and 2.4% in the past year.

The stock is currently trading at 17.88X forward 12 months earnings, which compares to 13.27X for the Zacks sub-industry, 14.86X for the Zacks sector and 20.63X 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 16.48X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$40 price target reflects 15.2X 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	17.88	13.27	14.86	20.63
	5-Year High	24.46	16.92	16.18	20.63
	5-Year Low	9.86	9.02	11.24	15.19
	5-Year Median	16.48	13.58	13.94	17.44
P/TB TTM	Current	0.93	1.96	2.41	10.83
	5-Year High	2.38	3.94	4	12.78
	5-Year Low	0.84	1.66	1.99	6.02
	5-Year Median	1.65	2.95	3.47	9.19
P/S F12M	Current	1.98	3.39	4.98	3.23
	5-Year High	3.96	6.05	6.7	3.44
	5-Year Low	1.88	3.17	4.98	2.54
	5-Year Median	2.99	4.83	6.06	3.01

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (236 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Peoples United Financial, Inc. (PBCT)	Neutral	3
Bank of Hawaii Corporation (BOH)	Underperform	3
BancorpSouth Bank (BXS)	Underperform	4
Cullen/Frost Bankers, Inc. (CFR)	Underperform	5
East West Bancorp, Inc. (EWBC)	Underperform	4
First Horizon National Corporation (FHN)	Underperform	5
TCF Financial Corporation (TCF)	Underperform	4
Webster Financial Corporation (WBS)	Underperform	4

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	UMBF	X Industry	S&P 500	BOH	FHN	TCF
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	3	5	4
VGM Score	F	-	-	F	F	D
Market Cap	2.26 B	304.76 M	19.65 B	2.45 B	2.68 B	4.03 B
# of Analysts	4	4	14	3	8	8
Dividend Yield	2.64%	3.52%	2.18%	4.37%	6.99%	5.29%
Value Score	F	-	-	D	F	B
Cash/Price	0.98	0.27	0.06	0.22	1.36	0.42
EV/EBITDA	0.21	5.98	11.77	5.46	-0.15	6.83
PEG Ratio	2.69	3.95	2.49	1.93	1.49	NA
Price/Book (P/B)	0.85	0.83	2.64	1.85	0.54	0.73
Price/Cash Flow (P/CF)	6.86	6.70	10.48	8.91	4.49	5.27
P/E (F1)	20.34	11.88	19.10	15.45	10.40	11.85
Price/Sales (P/S)	1.77	1.83	2.00	3.17	1.17	1.91
Earnings Yield	4.92%	8.41%	4.99%	6.48%	9.56%	8.42%
Debt/Equity	0.05	0.39	0.74	0.05	0.16	0.47
Cash Flow (\$/share)	6.85	2.79	7.01	6.88	1.91	5.02
Growth Score	F	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	13.80%	14.01%	10.87%	9.39%	15.95%	13.51%
Proj. EPS Growth (F1/F0)	-53.66%	-30.95%	-9.07%	-28.66%	-50.30%	-44.57%
Curr. Cash Flow Growth	12.97%	14.44%	5.88%	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	0.69	0.91	1.24	0.70	0.93	0.96
Debt/Capital	4.37%	28.17%	44.07%	4.36%	13.56%	31.50%
Net Margin	14.24%	21.25%	11.00%	26.13%	15.46%	12.11%
Return on Equity	7.17%	10.18%	16.39%	15.55%	8.87%	9.34%
Sales/Assets	0.05	0.05	0.55	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	3.82%	0.00%	-2.17%	2.03%	33.36%	49.56%
Momentum Score	D	-	-	B	B	F
Daily Price Chg	-3.17%	-2.30%	0.74%	-3.65%	-1.04%	-0.30%
1 Week Price Chg	8.02%	6.53%	0.53%	4.86%	8.49%	15.62%
4 Week Price Chg	6.43%	1.28%	6.47%	8.12%	6.06%	7.34%
12 Week Price Chg	-31.17%	-32.05%	-20.68%	-32.36%	-48.38%	-39.26%
52 Week Price Chg	-34.17%	-29.60%	-10.95%	-25.95%	-42.11%	-38.95%
20 Day Average Volume	321,265	50,547	2,492,530	269,115	5,892,165	1,035,091
(F1) EPS Est 1 week change	-26.19%	-0.21%	0.00%	0.00%	0.00%	-13.08%
(F1) EPS Est 4 week change	-26.19%	-12.60%	-7.39%	-13.53%	-41.95%	-32.84%
(F1) EPS Est 12 week change	-46.23%	-30.66%	-14.21%	-27.72%	-49.77%	-45.94%
(Q1) EPS Est Mthly Chg	-34.23%	-18.01%	-13.52%	-19.84%	-90.30%	-45.41%

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	F
Growth Score	F
Momentum Score	D
VGM Score	F

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.

Disclosures

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