

UMB Financial (UMBF)

\$46.82 (As of 04/08/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

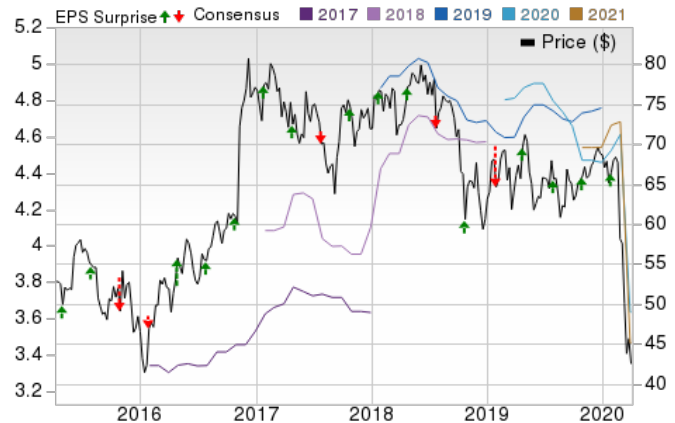
Growth: C

Momentum: C

Summary

Shares of UMB Financial have outperformed the industry over the past three months. Also, the company displays a decent earnings surprise history, having beaten the Zacks Consensus Estimate in three of the trailing four quarters. UMB Financial remains committed to driving operating efficiency through several strategic objectives, including improvement in revenues and capital management. Growth in loan and deposit balances reflects healthy balance sheet position. Moreover, strong capital position keeps it well poised to undertake opportunistic expansions. Also, rising non-interest revenue sources might help offset low interest rate environment to some extent. However, expenses are likely to increase due to investments in technology. Also, significant exposure to commercial loans and intense competition in business operations act as key headwinds.

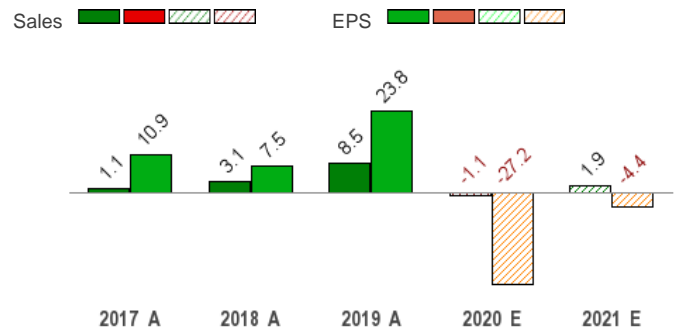
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.97 - \$39.47
20 Day Average Volume (sh)	403,654
Market Cap	\$2.3 B
YTD Price Change	-31.8%
Beta	1.06
Dividend / Div Yld	\$1.24 / 2.6%
Industry	Banks - Midwest
Zacks Industry Rank	Bottom 26% (187 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.2%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	-20.1%
Expected Report Date	04/28/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	267 E	269 E	271 E	275 E	1,107 E
2020	276 E	268 E	269 E	273 E	1,086 E
2019	270 A	272 A	272 A	283 A	1,098 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.85 E	\$0.90 E	\$0.94 E	\$3.47 E
2020	\$0.94 E	\$0.86 E	\$0.93 E	\$0.96 E	\$3.63 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	9.4
P/E F1	12.9
PEG F1	1.7
P/S TTM	1.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

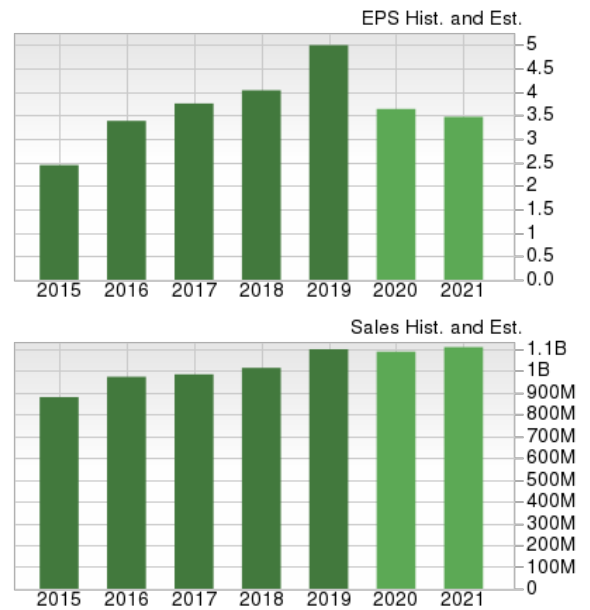
Overview

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 Buy:

- ▲ 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 on a challenging rate environment, an improving lending scenario is expected to benefit margins 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. Growing popularity of HSAs is likely to 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. With improving 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 Dec 31, 2019, the total risk-based capital ratio was 13.26%. 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, 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.
- ▲ The company's several credit metrics have been improving with the trend continuing in the last three years (ended 2019). Allowance for loan losses as a multiple of net charge-offs has dropped consistently over the past several years. While the ratio of non-performing assets as a percentage of loans & leases and Other Real Estate owned had shown improvement over the years. Going forward, the company's diversified loan portfolio will likely help keep its credit quality at normalized levels.
- ▲ The stock seems undervalued when compared with the broader industry. Its current price-to-sales (P/S) and PEG ratios are lower than the respective industry averages.

UMB Financial benefits from its top-line strength aided by rising loans and deposits along with improving credit quality. Strong capital position aids steady capital deployment activities.

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). Costs 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 73% as of Dec 31, 2019 — 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 this favorable trend, the company's current-year earnings estimates have been revised 20.2% downward over the past 30 days. Therefore, given the above concerns, 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.

Last Earnings Report

UMB Financial Q4 Earnings Beat, Revenues Increase

UMB Financial reported fourth-quarter 2019 net operating earnings of \$1.36 per share, which surpassed the Zacks Consensus Estimate of \$1.16. The bottom line also compared favorably with the prior-year quarter's earnings of 56 cents per share.

Results reflect higher revenues, aided by rising loan and deposit balances. Also, fall in provisions supported the company's performance. However, contraction in NIM and higher expenses were the major drags.

The company reported net income of \$66.5 million, up from the \$25.5 million recorded in the prior-year quarter.

In 2019, net operating earnings of \$4.99 per share improved 23.8% from the prior year. Also, it outpaced the consensus estimate of \$4.76. Further, 2019 net income improved 24.6% to \$243.6 million.

Revenues, Loans & Deposits Balance Rise, Costs Up

Total revenues in the quarter came in at \$282.7 million, up 10.1% year over year. Also, the top line outpaced the Zacks Consensus Estimate of \$275.8 million.

In 2019, total revenues were \$1.1 billion, up 8.5%. The top line matched the consensus estimate.

Net interest income came in at \$172.4 million, reflecting an increase of 6.5% from the year-ago quarter. Growth in average loans and average loan yields mainly led to this upside. NIM contracted 22 basis points (bps) to 3.02%.

Non-interest income totaled \$110.4 million, up 16.2% year over year. This upswing resulted from a rise in most of the income components, partly muted by lower service charges on deposit accounts and bankcard fees.

Non-interest expenses (GAAP basis) were \$203.5 million, up 10.4% from the year-ago quarter due to rise in almost all the expense components.

Efficiency ratio (GAAP basis) decreased to 71.59% from the prior-year quarter's 71.26%. Rise in efficiency ratio indicates fall in profitability. Adjusted efficiency ratio was 71.35%, up from the year-earlier quarter's 70.19%.

As of Dec 31, 2019, average loans and leases were \$13.2 billion, up 2.6% sequentially. Additionally, average deposits climbed 5.6% from the prior-quarter end to \$20.4 billion.

Credit Quality: A Mixed Bag

Total non-accrual and restructured loans came in at \$56.4 million, up 31% year over year. However, provision for loan losses was \$2 million, down significantly. Also, the ratio of net charge-offs to average loans was 0.23%, down 128 bps from the year-ago quarter.

Strong Capital & Profitability Ratios

As of Dec 31, 2019, Tier 1 risk-based capital ratio was 12.33% compared with 12.89% as of Dec 31, 2018. Also, total risk-based capital ratio was 13.26% compared with 13.95% at the end of the prior-year quarter. Tier 1 leverage ratio was 9.37% compared with 9.87% as of Dec 31, 2018.

Adjusted return on average assets at the quarter's end was 1.06%, up from the year-ago quarter's 0.50%. Additionally, return on average equity was 10.23% compared with 4.95% in the prior-year quarter.

Outlook

With expectations that the Federal Reserve will hold rates steady, the company anticipates about 4-5 bps NIM compression for the first quarter of 2020.

For 2020, the expected tax rate is 15-16%.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	2.52%
EPS Surprise	17.24%
Quarterly EPS	1.36
Annual EPS (TTM)	4.99

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 Jan 28, UMB Financial's board of directors announced a common stock quarterly dividend of 31 cents per share. The dividend was paid on Apr 1 to shareholders on record as of Mar 10.

Valuation

UMB Financial's shares are down 31.8% in the year-to-date period and 28.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 37.9% and 28.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 31.6% and 22.7%, respectively.

The S&P 500 Index is down 17.3% in the year-to-date period and 8% in the past year.

The stock is currently trading at 10.32X forward 12 months earnings, which compares to 9.35X for the Zacks sub-industry, 11.94X for the Zacks sector and 16.99X 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 16.52X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$51 price target reflects 11.23X 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	10.32	9.35	11.94	16.99
	5-Year High	24.46	16.92	16.19	19.34
	5-Year Low	9.86	9.03	11.23	15.19
	5-Year Median	16.52	13.58	13.95	17.44
P/TB TTM	Current	0.96	1.88	2.32	10.05
	5-Year High	2.38	3.94	3.97	12.78
	5-Year Low	0.87	1.66	1.97	6.02
	5-Year Median	1.65	2.95	3.45	9.14
P/S F12M	Current	2.03	3.18	4.93	2.94
	5-Year High	3.96	6.05	6.65	3.44
	5-Year Low	1.98	3.17	4.93	2.54
	5-Year Median	3	4.81	6.03	3

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 253)



Top Peers

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

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	UMBF Neutral	X Industry	S&P 500	BOH Neutral	FHN Neutral	TCF Neutral
VGM Score	D	-	-	D	D	C
Market Cap	2.29 B	304.36 M	19.05 B	2.36 B	2.68 B	3.94 B
# of Analysts	5	3.5	13	4	9	9
Dividend Yield	2.65%	3.20%	2.23%	4.54%	6.99%	5.41%
Value Score	F	-	-	C	C	B
Cash/Price	1.60	0.27	0.06	0.26	1.38	0.52
EV/EBITDA	-2.25	6.28	11.47	5.28	0.62	6.50
PEG Ratio	1.81	2.32	2.00	1.61	0.87	NA
Price/Book (P/B)	0.88	0.84	2.56	1.85	0.54	0.71
Price/Cash Flow (P/CF)	6.84	6.38	10.14	8.58	4.49	5.16
P/E (F1)	13.70	9.12	16.97	12.87	6.08	7.92
Price/Sales (P/S)	1.78	1.90	2.01	3.07	1.17	2.29
Earnings Yield	7.75%	10.96%	5.81%	7.78%	16.43%	12.64%
Debt/Equity	0.04	0.39	0.70	0.07	0.16	0.42
Cash Flow (\$/share)	6.85	2.79	7.01	6.88	1.91	5.02
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	14.60%	14.63%	10.92%	9.76%	16.15%	14.85%
Proj. EPS Growth (F1/F0)	-27.17%	-14.31%	-0.64%	-17.49%	-14.99%	-18.97%
Curr. Cash Flow Growth	12.97%	13.30%	5.93%	3.89%	14.37%	57.50%
Hist. Cash Flow Growth (3-5 yrs)	9.00%	16.06%	8.55%	4.36%	16.55%	55.93%
Current Ratio	0.71	0.91	1.24	0.70	0.95	0.98
Debt/Capital	3.61%	28.17%	42.36%	6.23%	13.49%	29.13%
Net Margin	18.89%	23.35%	11.64%	29.31%	19.35%	15.52%
Return on Equity	9.80%	10.88%	16.74%	17.60%	10.94%	10.38%
Sales/Assets	0.05	0.05	0.54	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	-0.96%	0.00%	0.61%	-1.66%	33.07%	49.98%
Momentum Score	C	-	-	C	D	F
Daily Price Chg	6.05%	2.11%	4.33%	4.16%	6.06%	4.91%
1 Week Price Chg	-6.90%	-4.84%	-4.40%	2.13%	-13.70%	-14.99%
4 Week Price Chg	-0.11%	-8.50%	-1.70%	-4.78%	-12.36%	-5.45%
12 Week Price Chg	-30.14%	-34.22%	-20.64%	-36.46%	-46.97%	-42.52%
52 Week Price Chg	-28.73%	-27.33%	-12.97%	-26.47%	-40.66%	-40.12%
20 Day Average Volume	403,654	78,848	4,016,075	417,581	7,946,550	1,474,583
(F1) EPS Est 1 week change	0.00%	0.00%	-0.26%	0.00%	-4.15%	-7.17%
(F1) EPS Est 4 week change	-20.06%	-11.69%	-5.64%	-14.85%	-13.07%	-18.32%
(F1) EPS Est 12 week change	-18.48%	-13.18%	-7.49%	-16.84%	-12.56%	-23.00%
(Q1) EPS Est Mthly Chg	-21.28%	-10.71%	-9.90%	-4.63%	-25.00%	-18.69%

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	C
Momentum Score	C
VGM Score	D

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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