

## UMB Financial (UMBF)

**\$68.83** (As of 12/27/19)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/14/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: C

## Summary

UMB Financial displays a decent earnings surprise history, having beaten the Zacks Consensus Estimate in two of the trailing four quarters and in-line results in one. The company remains committed to drive operating efficiency through several strategic objectives, including improvement in revenues and capital management. Also, a strong capital position keeps it well poised to undertake any opportunistic expansions in the quarters ahead. Moreover, growth in loan and deposit balances reflects the company's healthy balance sheet position. However, shares of UMB Financial have underperformed the industry over the past three months. The company's expenses are expected to further increase due to investments in technology. Also, significant exposure to commercial loans and intense competition in business operations act as key headwinds.

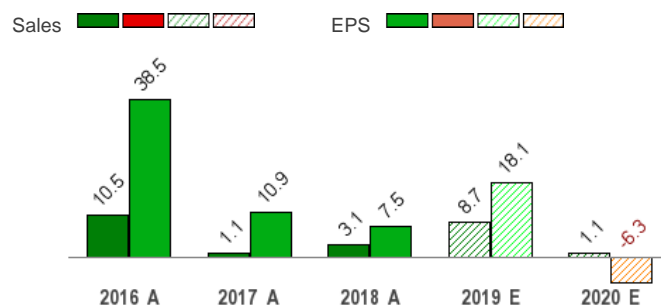
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$71.97 - \$59.88</b>
20 Day Average Volume (sh)	<b>176,505</b>
Market Cap	<b>\$3.4 B</b>
YTD Price Change	<b>12.9%</b>
Beta	<b>0.94</b>
Dividend / Div Yld	<b>\$1.24 / 1.8%</b>
Industry	<b><a href="#">Banks - Midwest</a></b>
Zacks Industry Rank	<b>Top 41% (103 out of 252)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>8.6%</b>
Last Sales Surprise	<b>-1.8%</b>
EPS F1 Est- 4 week change	<b>0.4%</b>
Expected Report Date	<b>02/04/2020</b>
Earnings ESP	<b>3.7%</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	273 E	275 E	280 E	284 E	1,112 E
2019	270 A	272 A	272 A	276 E	1,100 E
2018	253 A	251 A	251 A	257 A	1,012 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.06 E	\$1.08 E	\$1.12 E	\$1.15 E	\$4.46 E
2019	\$1.19 A	\$1.17 A	\$1.27 A	\$1.16 E	\$4.76 E
2018	\$1.18 A	\$1.12 A	\$1.16 A	\$0.56 A	\$4.03 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>16.4</b>
P/E F1	<b>14.5</b>
PEG F1	<b>1.9</b>
P/S TTM	<b>2.7</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/27/2019. The reports text is as of 12/30/2019.

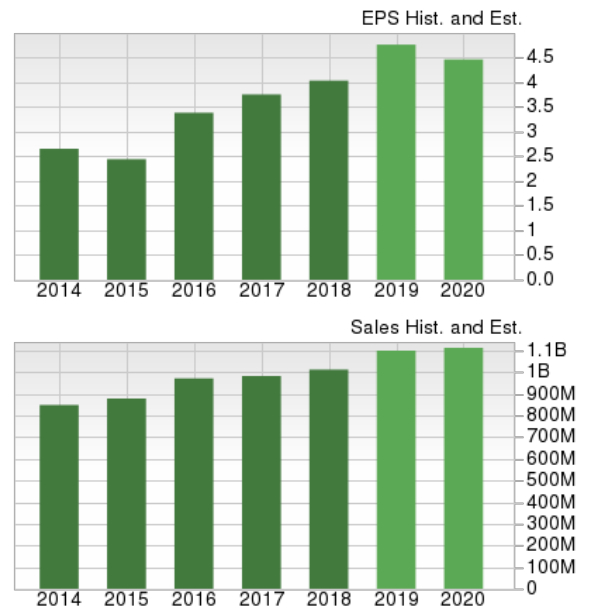
## Overview

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 2018) 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** (24%) 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** (24%) 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** (7%) 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.



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## 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 14.9% over the last five years (ended 2018). Notably, the uptrend in NII continued in the first nine months of 2019, mainly driven by loan growth, while NIM decreased on a challenging rate environment. Therefore, an improving lending scenario is expected to benefit NII in the coming days.

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.

▲ 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 three-year period ended 2017, fee income witnessed a CAGR of 6.9%. Though the trend reversed in 2018 due to fall in trading and investment banking income, growing popularity of HSAs is likely to boost income for its healthcare-services segment. Notably, fee income escalated in the first nine months of 2019.

▲ UMB Financial has a healthy balance sheet position. The company witnessed impressive loan growth in the last five years (2014-2018), recording a CAGR of 14.7%. Also, deposits have seen a CAGR of 9.1% in the same time span. The uptrend continued in the first nine months of 2019. With lower tax rates and softening of regulations, 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 Sep 30, 2019, the total risk-based capital ratio was 13.51%. 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 2017 and 2018. 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, the same deteriorated in the first nine months of 2019. Going forward, the company's diversified loan portfolio will likely help keep its credit quality at normalized levels.

▲ Shares of UMB Financial have underperformed the industry in the past three months. However, the company's current-year earnings estimates have moved marginally north over the past 30 days. Further, it seems undervalued when compared with the broader industry. Its current price-to-sales (P/S) ratio is lower than the industry's average, while its PEG ratio is on par with the industry. Also, the stock has a Value Score of B. Therefore, given the strong fundamentals and positive estimates revision, the stock has upside potential.

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### Reasons To Sell:

- ▼ Cost escalation is the key downside for UMB Financial. The company's non-interest expenses have witnessed a CAGR of 5.4% over the last five years (2014-2018), with the trend continuing in the first nine months of 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 Sep 30, 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.

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

### MB Financial Q3 Earnings Top on High Revenues

UMB Financial reported third-quarter 2019 net operating earnings of \$1.27 per share, surpassing the Zacks Consensus Estimate of \$1.17. The reported figure compares favorably with the prior-year quarter's earnings of \$1.16.

Higher revenues, aided by rising loans and deposit balances, supported the results. However, reduction in net interest margin was a major drag. Further, higher provisions and elevated expenses were the undermining factors.

Including certain non-recurring items, the company reported net income of \$62.4 million for the reported quarter, up from the \$57.8 million recorded in the prior-year quarter.

### Increase in Revenues, Loans & Deposits Balance, Costs Flare Up

Total revenues for the July-September quarter came in at \$271.9 million, up 8.2% year over year. Yet, the revenue figure lagged the Zacks Consensus Estimate of \$276.9 million.

Net interest income came in at \$168.3 million, reflecting an increase of 11.8% from the year-ago quarter. Increase in average loans and average loan yields, mainly led to this upside. NIM contracted 9 basis points (bps) to 3.09% from the prior-year quarter reported tally.

Non-interest income totaled \$103.6 million, up 2.7% year over year. This upside resulted from a rise in most of the income components, partly muted by lower service charges on deposit accounts and other income.

Non-interest expenses (GAAP basis) came in at \$191.4 million, up 6.1% from the year-ago tally, mainly due to rise in most of the expense components. Adjusted non-interest expenses were \$191.2 million, up 6.1% year over year.

Efficiency ratio (GAAP basis) decreased to 70.7% from the prior-year quarter's 71.27%. Fall in efficiency ratio indicates rose in profitability. Adjusted efficiency ratio was 70.63%, down from the year-earlier quarter's 71.18%.

As of Sep 30, 2019, average loans and leases were around \$12.9 billion, up 2.4% sequentially. Additionally, average deposits climbed 2.7% from the prior-quarter's end to \$19.3 billion.

### Credit Quality: A Mixed Bag

Total non-accrual and restructured loans came in at \$71.8 million, up 41.9% year over year. Further, provision for loan losses came in at \$7.5 million, up 30.4% from the year-earlier quarter. Yet, the ratio of net charge-offs to average loans was 0.07% in the reported quarter, down 2 bps from the year-ago quarter.

### Strong Capital & Profitability Ratios

As of Sep 30, 2019, Tier 1 risk-based capital ratio was 12.53% compared with 13.47% as of Sep 30, 2018. Further, total risk-based capital ratio was 13.51% compared with 14.54% at the end of the prior-year quarter. Tier 1 leverage ratio was 9.62% compared with 10.58% as of Sep 30, 2018.

Adjusted return on average assets at the quarter's end was 1.04%, down from 1.11% in the year-ago quarter. Additionally, return on average equity was 9.72% compared with 10.35% in the prior-year quarter.

### Outlook

Management expects loan growth to drive NII for fourth-quarter 2019.

For the same period, NIM is anticipated to contract 4-5 bps owing to the Fed's latest rate cut, pace of the LIBOR move, loan growth, the potential variability in the aviation trust business, and the overall balance sheet mix and the company's need for funding.

Operating expenses are anticipated to remain elevated in the near term, mainly due the company's investment in technology.

For 2019, the expected tax rate is 15-16%.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-1.82%
EPS Surprise	8.55%
Quarterly EPS	1.27
Annual EPS (TTM)	4.19

## 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 Oct 29, UMB Financial's board of directors announced a common stock quarterly dividend of 31 cents per share, up 3.3%. The new dividend will be paid on Jan 2, 2020, to shareholders of record as of Dec10, 2019.

## Valuation

UMB Financial's shares are up 12.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 23.8% and 21.8% over the past year, respectively.

The S&P 500 Index is up 30.7% in the past year.

The stock is currently trading at 15.44X forward 12 months earnings, which compares to 12.90X for the Zacks sub-industry, 14.80X for the Zacks sector and 18.77X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.46X and as low as 12.46X, with a 5-year median of 16.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72 price target reflects 16.15X 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	15.44	12.9	14.8	18.77
	5-Year High	24.46	16.92	16.21	19.34
	5-Year Low	12.46	10.38	12.01	15.17
	5-Year Median	16.54	13.66	13.98	17.43
P/TBV TTM	Current	1.43	3	3.28	12.36
	5-Year High	2.38	3.94	3.98	12.36
	5-Year Low	1.24	2.08	2.44	6.03
	5-Year Median	1.67	2.93	3.46	9.06
P/S F12M	Current	3.04	5.14	6.56	3.41
	5-Year High	3.96	6.05	6.61	3.41
	5-Year Low	2.11	3.31	5.2	2.54
	5-Year Median	2.99	4.81	6.03	3

As of 12/27/2019

## Industry Analysis Zacks Industry Rank: Top 41% (103 out of 252)



## Top Peers

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

Industry Comparison Industry: Banks - Midwest				Industry Peers		
	UMBF Neutral	X Industry	S&P 500	BOH Neutral	FHN Neutral	TCF Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>B</b>	<b>F</b>
Market Cap	3.38 B	451.27 M	23.80 B	3.82 B	5.14 B	7.16 B
# of Analysts	5	3	13	3	7	4
Dividend Yield	1.80%	2.22%	1.78%	2.83%	3.39%	3.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>D</b>
Cash/Price	0.40	0.21	0.04	0.10	0.62	0.22
EV/EBITDA	6.04	10.06	13.88	10.52	3.62	16.02
PEG Ratio	1.91	2.76	2.13	2.14	1.23	NA
Price/Book (P/B)	1.32	1.30	3.33	2.96	1.05	0.60
Price/Cash Flow (P/CF)	11.59	11.79	13.55	14.92	10.33	10.32
P/E (F1)	14.48	12.30	19.62	17.16	10.25	11.65
Price/Sales (P/S)	2.68	3.07	2.66	5.00	2.33	5.53
Earnings Yield	6.92%	8.13%	5.09%	5.83%	9.75%	8.59%
Debt/Equity	0.03	0.42	0.71	0.09	0.24	0.16
Cash Flow (\$/share)	5.97	2.50	6.94	6.38	1.60	4.57
<b>Growth Score</b>	<b>F</b>	-	-	<b>F</b>	<b>B</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	13.70%	13.88%	10.48%	9.38%	14.53%	15.35%
Proj. EPS Growth (F1/F0)	18.06%	10.22%	6.14%	5.67%	14.28%	1.65%
Curr. Cash Flow Growth	2.75%	27.59%	14.75%	11.32%	52.04%	24.21%
Hist. Cash Flow Growth (3-5 yrs)	5.16%	12.16%	8.93%	4.11%	38.94%	34.83%
Current Ratio	0.68	0.93	1.24	0.70	0.96	0.96
Debt/Capital	3.28%	29.77%	42.92%	7.89%	19.30%	13.13%
Net Margin	16.06%	22.99%	11.06%	29.05%	19.09%	17.59%
Return on Equity	8.55%	10.97%	17.10%	17.33%	10.34%	9.88%
Sales/Assets	0.05	0.05	0.54	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	8.66%	5.06%	2.49%	4.19%	6.31%	126.88%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>D</b>	<b>C</b>
Daily Price Chg	0.47%	0.00%	0.21%	0.08%	-0.06%	-0.40%
1 Week Price Chg	1.09%	1.73%	1.46%	3.38%	2.38%	2.19%
4 Week Price Chg	1.84%	1.93%	1.98%	5.12%	3.05%	10.17%
12 Week Price Chg	10.96%	11.21%	9.78%	15.42%	4.67%	28.02%
52 Week Price Chg	14.60%	22.23%	28.47%	43.67%	28.43%	29.92%
20 Day Average Volume	176,505	30,870	1,778,443	181,654	3,326,686	1,290,296
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.12%
(F1) EPS Est 4 week change	0.38%	0.00%	0.00%	0.00%	-0.04%	0.31%
(F1) EPS Est 12 week change	1.63%	1.59%	0.12%	-0.84%	1.32%	-1.11%
(Q1) EPS Est Mthly Chg	-0.22%	0.00%	0.00%	0.00%	-0.07%	-0.56%

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## 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.

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### 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	<b>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>C</b>
VGM Score	<b>D</b>

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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