Univest Financial Corporation

Nasdaq:UVSP
Earnings Call
Thursday, January 26, 2023 9:00 AM EST

Call Participants

EXECUTIVES

Jeffrey M. Schweitzer
Vice Chairman, President & CEO

Brian J. Richardson
Senior Executive VP & CFO

Michael S. Keim
Chief Operating Officer, President, Univest Bank and Trust Co.

Presentation

Operator

Hello, everybody, and welcome to Univest Financial Corporation's Fourth Quarter 2022 Earnings Call. [Operator Instructions]

I would now like to turn the conference over to Jeff Schweitzer, President and CEO. Please go ahead.

Jeffrey M. Schweitzer
Vice Chairman, President & CEO

Thank you, Drew, and good morning, and thank you to all of our listeners for joining us. Joining me on the call this morning is Mike Keim, our Chief Operating Officer and President of Univest Bank and Trust; and Brian Richardson, our Chief Financial Officer.

Before we begin, I would like to remind everyone of the forward-looking statements disclaimer. Please be advised that during the course of this conference call, management may make forward-looking statements that express management's intentions, beliefs or expectations within the meaning of the federal securities laws. Univest's actual results may differ materially from those contemplated by those forward-looking statements. I will refer you to the forward-looking cautionary statements in our earnings release and in our SEC filings.

Hopefully, everyone had a chance to review our earnings release from yesterday. If not, it can be found on our website at univest.net under the Investor Relations tab.

We reported net income of $23.8 million during the fourth quarter or $0.81 per share. The highlight of the quarter was our continued strong organic loan growth. Loans grew $274 million or 18.8% annualized, excluding PPP loans during the quarter and $842.8 million or 16% for the year. This strong growth, along with the increasing interest rate environment during the year, resulted in net interest income increasing 25.5% in 2022 compared to 2021, excluding PPP activity. We are very happy with our results for the quarter and 2022 as a whole as we reported solid growth and financial results while also investing in long-term strategic initiatives in our digital strategy and expansion into Western Pennsylvania and Maryland.

Before I pass it over to Brian, I would like to thank the entire Univest family for the great work they do every day and for their continued efforts serving our customers, communities and each other.

I will now turn it over to Brian for further discussion on our results.

Brian J. Richardson
Senior Executive VP & CFO

Thank you, Jeff, and I would also like to thank everyone for joining us today. As Jeff indicated, we are very pleased with our performance throughout 2022. I would like to touch on 4 items from the earnings release. First, we continue to see the benefit of our strong loan growth in recent years, coupled with our asset sensitivity in the rising rate environment. Reported margin of 3.76%, increased 9 basis points compared to last quarter. Net interest income increased $3.7 million or 6.3% on a linked-quarter basis. During the quarter, deposits grew $116.8 million or 8% annualized. This included growth of $69.1 million in noninterest-bearing deposits.

Second, during the quarter, we recorded a provision for credit losses of $5.4 million. Our coverage ratio was 1.29% at December 31 compared to 1.28% at September 30. Net charge-offs for the quarter totaled $908,000 or 6 basis points annualized. For the year, net charge-offs totaled $3.9 million or 7 basis points. Consistent with the prior quarter, despite general concerns regarding the economy, we are not seeing signs or indications of credit quality deterioration in our portfolio. During the quarter, we continued to see stability in nonperforming assets and criticizing classified loans.

Third, noninterest income increased $1.3 million or 6.6% compared to the fourth quarter of 2021. The fourth quarter of 2022 included $1.2 million adjustment related to investment in advisory income, $1.2

million of swap fees related to the conversion of certain LIBOR-based loans to SOFR and $526,000 of BOLI death benefits. Offsetting these items was continued pressure on wealth management revenue, driven by reduced assets under management and supervision due to market volatility and reduced gain on sale income from our mortgage banking business due to the current interest rate environment.

Fourth, noninterest expense increased $4 million or 9.2% compared to the fourth quarter of 2021. This includes $434,000 related to our digital transformation initiative, $370,000 of incremental expense resulting from the inclusion of the Paul I. Sheaffer Insurance Agency, which was acquired in December of 2021; $430,000 of fraud losses; $318,000 related to our expansion into Western PA and Maryland; and $184,000 of restructuring charges related to the planned consolidation of 2 financial centers. Excluding these items, noninterest expense increased $2.3 million or 5.5% versus the fourth quarter of 2021.

I believe the remainder of the earnings release was straightforward, and I would now like to focus on 5 items as it relates to 2023 guidance.

First, for 2022, net interest income totaled $218.3 million. For 2023, we expect loan growth of approximately 12% to 14%, and we expect this to result in net interest income growth of approximately 13% to 15% of the base of $218.3 million. This assumes 125 basis point increase in February. Each additional 25 basis point increase is expected to result in annualized net interest income of approximately $250,000 to $500,000.

Second, the provision for credit losses will continue to be driven by changes in economic forecast and credit performance of the portfolio. At this time, we expect the provision for 2023 to be approximately $18 million to $20 million.

Third, for 2022, noninterest income included $977,000 of BOLI death benefits. Excluding these BOLI death benefits, noninterest income totaled $76.9 million in 2022. In 2023, we expect noninterest income growth of approximately 4% to 6% of the base of $76.9 million.

Fourth, we reported noninterest expense of $186.8 million for 2022 and expect growth of approximately 7% to 9% in 2023. This includes core expense growth of approximately 5% to 6% plus 2% to 3% related to our expansion markets. Lastly, as it relates to income taxes, we expect our effective tax rate to be approximately 20% to 20.5% based on current statutory rates.
That concludes my prepared remarks. We'd be happy to answer any questions. Drew, would you please begin the question-and-answer session?

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Tim Switzer from KBW.

Timothy Switzer

I'm on for Mike Perito. Can we start with your loan growth expectations? I think you guys kind of raised it just a little bit from, I guess, sort of in the same range of 13% to 15%. Can you talk about kind of like the main drivers you're seeing and -- what -- did anything help affect the acceleration to 19% annualized this quarter? And like is there still upside do you think to maybe your guidance of economic trends don't deteriorate?

Michael S. Keim
President & Director

This is Mike Keim, Tim. I think the range that Brian communicated is an appropriate range for where we're looking at. We continue to grow our teams in our existing markets, and that's helping us to maintain volume. And then in our new markets in the Western PA and Maryland, we believe that, that's allowing us to have upside growth relative to our peers.

In our mortgage operation, we had put on hybrid ARMs in 2022. We believe that will occur -- continue to occur at a rate in 2023, but we'll see where rates go and we would -- because we much prefer to get back to our primary mode, which is selling and reaping the gain on sale on our mortgage production while retaining the servicing rights.

So all in all, I'll come back to the fact that we're comfortable with the range that Brian communicated. I would not say we have dramatic upside to that, but we're confident in what we're doing and we -- as we move forward here.

Timothy Switzer

Okay. And could you -- the NII guide is really helpful. But could you talk about kind of the trajectory of that in the NIM? I know it might be hard to hit like actual -- like an actual target number on the NIM itself, but can you help us think about how like the rising deposit costs are going to help? Last quarter, you guys mentioned it would probably peak this quarter and next and then move back into like the 3.50%, 3.55% range. Is that range higher now?

Brian J. Richardson
Senior Executive VP & CFO

This is Brian Richardson. We're really holding in that same range. We expect the kind of NIM behaved exactly as we would have expected in the fourth quarter. We do expect this to be the peak and expect it to pull back in that mid-single-digit basis point range next quarter and in the subsequent quarters and settling probably right at mid-3.50% to 3.60% ranges, where I think we will end up.

Really the function of the deposit beta, current cycle to date, looking on interest-bearing, we're at roughly 28%. If you look all in, on deposits, we're up closer to 15%. Historical norm on interest-bearing for us would it be in that 40% to 45% range. So we still have some room to go there. And if we're looking at historical norm on total deposits, that'd be closer to the 30% range. So again, about halfway there on the deposit side. So I do think contraction will continue to occur for the next several quarters.

Timothy Switzer

I got you. Okay. So a little bit of NIM contraction in the next few quarters and then kind of stabilizes, hopefully, with the Fed pausing or something.

I think the last question I had for you guys, your guide for $18 million to $20 million on the provision, if you kind of annualize the number you guys had this quarter? It's a little bit above that. What -- like charge-offs and NPAs are still like pretty solid. So what kind of drove the provision this quarter?

Brian J. Richardson
Senior Executive VP & CFO

Yes. So we look at our coverage ratio, you look at specific assets, there's various things that play in there. And that's why, I mean, I do -- as I indicated, is event-driven. There will be some moving parts that would continue as we navigate forward. But again, we think that $18 million to $20 million range is appropriate, especially the loan growth...

Timothy Switzer

Right. Yes. I mean the loan reserve percentage didn't really move up all that much. But I just wanted to ask.

Operator

[Operator Instructions] So we have no further questions at this time, so I'll hand you back over to Jeff Schweitzer.

Jeffrey M. Schweitzer
Vice Chairman, President & CEO

Thank you, Drew, and thank you, everyone, for listening in on our call today. As I said in my comments, we're very pleased with our results for 2022. A lot of strong financial performance, a lot of growth and we're excited about the momentum we carry into '23 even with pending economic concerns out there. We're in great markets with great people and really strong customers. So we look forward to a successful 2023 and talking to you at the end of the first quarter. Have a great day.

Operator
That concludes today's Univest Financial Corporation held Fourth Quarter 2022 Earnings Call. You may now disconnect your lines.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2023 Capital IQ, Inc.