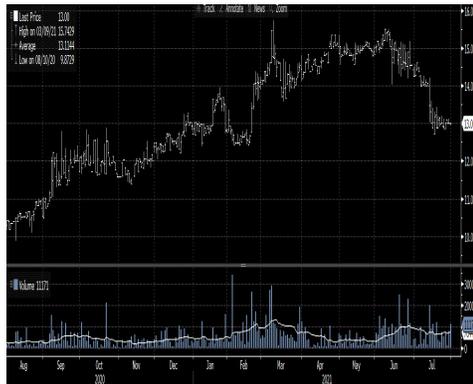


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Target Price	US\$ 20.00
Current Price	US\$ 14.37
Total Return	40%
Rating	BUY

Market Cap.	US\$ 79 mn
Shares Outstanding	5.5 mn
Free Float (%)	Appr. 82%
52 Week Range (US\$)	10.35 / 15.89
Avg. Daily Value	US\$ 19k
Russell 2000 Index	2,132
Insider Holding %	18%



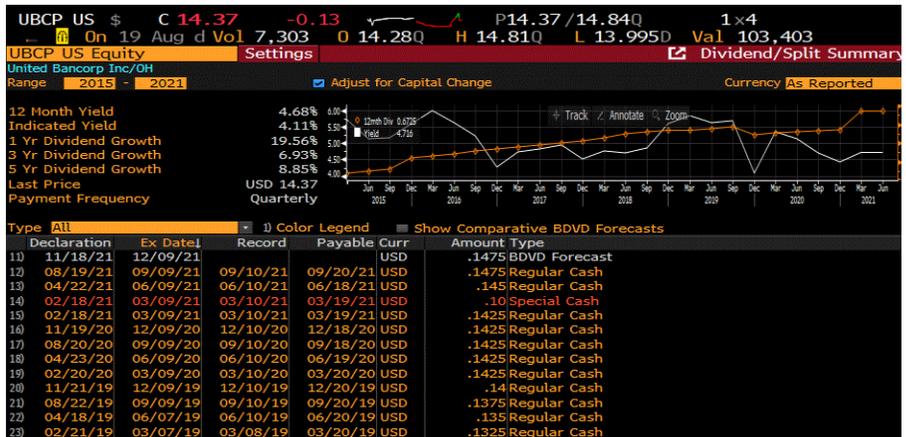
United Bancorp Inc. [UBCP]

Surprise Dividend Hike; 4.8% Yield

Industry: Banking Regional

3rd Dividend Hike in 2021, 4.8% Yield

United Bancorp [UBCP] reported a surprise dividend hike, increasing its quarterly dividend to a quarterly run-rate of 14.75 cents, and an annualized level of \$0.59. This is now the 3rd dividend increase by UBCP this current calendar year, which is simply remarkable given the US economy is still being impacted by Covid. Along with the 10 cent Special Dividend declared in February this year, the total annual 2021 dividend of \$0.6825 is a 4.8% full-year yield. Both this dividend increase, as well as the Special Dividend announcement, were above our expectations. The regular dividend annualized run-rate is now 4.1%. As a reminder, UBCP has declared 5 Special Dividends during the past 5 years, which highlights the board's keen focus on rewarding shareholders with a high yield.



Risk: Above Average Forecasting and Valuations

(US\$mn except ratios)	2020A	2021E
Net Interest Income	22.9	21.3
Profit Before Tax	8.6	7.8
EPS (US\$)	1.39	1.25
EPS Growth	16.8%	-10.1%
PE	10.3	11.5
Dividend Yield	4.0%	4.8%
Price/Book	1.2	1.1
ROE	11.5%	12.1%

Analyst :

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The 2021 regular dividend payout ratio remains moderate, and therefore imminently sustainable in our opinion, at 47% of expected annual EPS. As a reminder, UBCP had paid out as high as 63% of EPS via dividends as recently as 2018. Our \$0.60 dividend forecast for 2022 may now prove to be conservative, given it implies only a 40% payout ratio.

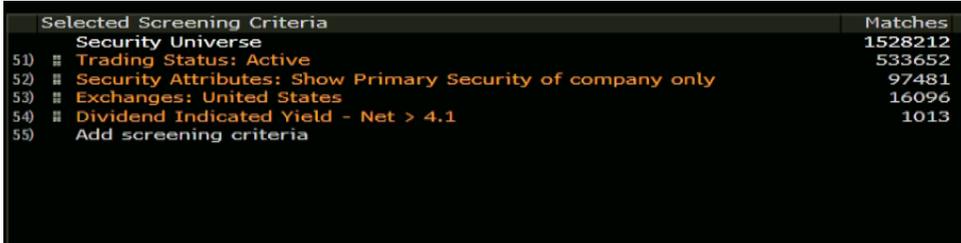
With the benchmark US 10-year Treasury yielding around 1.3%, and the Fed Funds rate still near zero, UBCP's dividend yield is very attractive in our opinion, and among the top 10% of all US equities, and higher than the dividend yields of various bank/financial indices – further details in this report.

We have written a detailed Update Note a couple weeks ago on UBCP's strong Q2 results, so we will not reiterate that commentary again today.

We would encourage investors to please access that Update Note on our website [<https://evaluateresearch.com/all-reports/>].

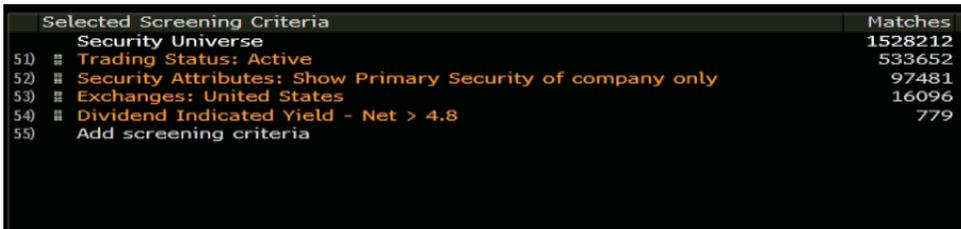
Dividend Top Decile amongst US Equities

UBCP's current dividend is clearly among the top decile amongst all US equities. We ran a screen using the Bloomberg terminal, which is by far the best and most robust screening tool for large Wall Street firms and professional investors. As can be seen in the following table, among 16,096 listed equities in the US today, there are only 1,013 stocks with a dividend yield greater than 4.1% [UBCP's run-rate regular dividend yield]. This places UBCP among the top 7% of all US stocks. Keep in mind the equity market includes many REITs, mature no-growth companies [such as ATT], utilities, energy trusts, high-payout ETFs, etc. which are generally low-to-no growth entities which reward investors with high dividends/payouts but with negligible stock price appreciation. In the case of UBCP, we expect solid EPS and stock price growth, along with a superior dividend yield.



Selected Screening Criteria	Matches
Security Universe	1528212
51) # Trading Status: Active	533652
52) # Security Attributes: Show Primary Security of company only	97481
53) # Exchanges: United States	16096
54) # Dividend Indicated Yield - Net > 4.1	1013
55) Add screening criteria	

We also ran another screen to see how many US listed equities have a dividend yield higher than the 4.8% total dividend [regular + special dividend] UBCP will pay in 2021. Using this total actual dividend figure, UBCP would rank among the top 5% of all US equities, as indicated in the following chart.



Selected Screening Criteria	Matches
Security Universe	1528212
51) # Trading Status: Active	533652
52) # Security Attributes: Show Primary Security of company only	97481
53) # Exchanges: United States	16096
54) # Dividend Indicated Yield - Net > 4.8	779
55) Add screening criteria	

Strong Q2 Results: 31% YoY EPS Growth

A couple weeks ago, UBCP reported very strong +31% YoY EPS growth for Q2 ended June, which is fully 27% ahead of our estimate. This is the fourth straight quarter where UBCP has meaningfully surpassed our estimates, despite the challenging economic environment the past one year. In 2020, UBCP's earnings were driven by strong interest income and gains on asset sales, while 2021 YTD record earnings have benefitted from write-backs [i.e., positive income statement impact] of provisioning expenses as UBCP remains in an enviable position of being over-provisioned, a conservative and prudent position to be in, while asset quality remains strong with low levels of non-accrual loans. As CEO Scott Everson noted, "we anticipate being able to continue releasing tranches of our allowance [provisioning] for loan losses in

future periods if our credit quality remains sound.” We suspect this trend of provisioning write-backs may continue for a few more quarters, and lead to further solid EPS and positive earnings surprise - more details in this report.

With these strong results, we had increased our 2021 EPS by 7% to \$1.24, up from our prior estimate of \$1.16. We maintain our price target of \$20.00, implying over 40% return potential. We have a hard time understanding the decline in UBCP’s stock price during the month of July from record highs of \$15.89 earlier this year. Small cap indices have been weak recently, down as much as -8% intra-month in July, most likely due to the typical summer months trading volume declines. We would strongly view this short-term downdraft as an attractive entry point and buying opportunity, especially given record earnings, the Special Dividend announcement earlier this year, and a recovering US economy. Our price target suggests a forward P/E multiple of 13.4x on our 2022 estimate, which is a huge discount to the overall market’s [S&P 500 and Russell 2000 small-cap indices] current multiple of 21.4x and 25.4x P/E on 2022 consensus forecasts, and in-line with other broad financial sector valuation levels. UBCP’s YTD earnings performance continues to be exceptional especially in light of the past Covid-19 recession, and the bank’s EPS growth currently is clearly outperforming almost all small and large banks in the USA and globally.

UBCP remains underlevered and well capitalized with an 18.1% total risk-based capital ratio, excess liquidity and a low loans-to-deposit ratio. With a 7% QoQ and a 4% YoY increase in book value per share to \$11.96, the stock is trading at only 1.2x trailing P/B, with a 4.1% current regular [4.8% total including the Special Dividend] dividend yield, and a forward 9.6x P/E on our 2022 estimates. UBCP continues to be focused on becoming a \$1.0 billion bank in terms of total assets, which would imply 37% further growth. According to UBCP, “we are optimistic that as our economy starts to recover more fully, as we are starting to see in recent months, that we will have better opportunities to leverage our securities portfolio more in-line with our previous level and ramp-up our loan production to levels at which we are more historically accustomed; therefore, increasing our level of higher yielding earning assets and generating more interest and loan fee income.”

UBCP’s asset quality has remained pristine, thus enabling the bank to be in a comfortable and enviable position of being overprovisioned in the face of below-expectations nonaccrual levels, which is leading to strong earnings growth in 2021. It is remarkable in hindsight that despite Covid-19, UBCP experienced sequential declines in nonaccrual loans throughout 2020.

Conclusion: Target remains \$20. Reiterate Buy at 9.6x P/E, 1.0x P/B & 4.2% Yield

We reiterate our Buy rating and retain our target price to \$20.00 based on the stock trading at 1.2x trailing tangible price/book, 9.6x P/E, 4.2% yield, and 1.0x price/book based on our 2022 estimates. Our target price suggests over 40% total return potential.

Our \$20.00 price target implies a forward P/E multiple of 13.4x on our forward 2022 estimate, which is a huge discount to the overall market’s [S&P 500 and

Russell 2000 small-cap indices] current multiple of 21.4x and 25.4x P/E on 2022 consensus forecasts. Our target price also suggests a 3.0% dividend yield and a 1.4x price/book on our 2022 dividend and year-end book value estimates. We believe the P/E of 13.4x and dividend yield of 3.0% implied by our \$20 target is reasonable, given the P/E multiples and dividend yields [based on consensus 2022 estimates] of the following key indices: S&P Financial Index at 14.2x P/E and 1.9% dividend yield, the S&P Bank Index at 12.6x and 2.5%, the NASDAQ Bank Index at 14.2x and 2.2%, the KBW Bank Index at 12.5x and 2.5%, and UBCP's peers are at 14.0x and 2.8%, respectively.

4.8% Dividend Yield, Special Dividend Announced

It is important to note that when many banks globally slashed their dividends in the face of Covid-19, UBCP prudently maintained an unchanged dividend for several quarters. We continue to forecast a dividend increase for next year 2022 as well. One of the tenets to our positive thesis on UBCP has been management's and the board's keen focus on growing their dividend over time, and the just released new Annual Report highlights this track record going back to 1983:

DIVIDEND AND STOCK HISTORY

	Cash Dividends Declared ⁽¹⁾	Special Cash Dividends and Stock Dividends	Distribution Date of Dividends and Exchanges
1983	\$ 0.05	-	-
1984	\$ 0.06	4 for 1 Exchange ⁽²⁾	January 2, 1984
1985	\$ 0.07	-	-
1986	\$ 0.09	-	-
1987	\$ 0.09	50% Stock Dividend	October 2, 1987
1988	\$ 0.10	-	-
1989	\$ 0.10	-	-
1990	\$ 0.11	-	-
1991	\$ 0.12	-	-
1992	\$ 0.12	100% Stock Dividend	September 10, 1992
1993	\$ 0.12	100% Stock Dividend	November 30, 1993
1994	\$ 0.13	10% Stock Dividend	September 9, 1994
1995	\$ 0.19	-	-
1996	\$ 0.20	10% Stock Dividend	June 20, 1996
1997	\$ 0.23	10% Stock Dividend	September 19, 1997
1998	\$ 0.26	5% Stock Dividend	December 18, 1998
1999	\$ 0.30	5% Stock Dividend	December 20, 1999
2000	\$ 0.31	5% Stock Dividend	December 20, 2000
2001	\$ 0.32	5% Stock Dividend	December 20, 2001
2002	\$ 0.33	5% Stock Dividend	December 20, 2002
2003	\$ 0.35	10% Stock Dividend	December 19, 2003
2004	\$ 0.39	10% Stock Dividend	December 20, 2004
2005	\$ 0.43	10% Stock Dividend	December 20, 2005
2006	\$ 0.48	10% Stock Dividend	December 20, 2006
2007	\$ 0.52	-	-
2008	\$ 0.54	-	-
2009	\$ 0.56	-	-
2010	\$ 0.56	-	-
2011	\$ 0.56	-	-
2012	\$ 0.42	-	-
2013	\$ 0.29	-	-
2014	\$ 0.33	-	-
2015	\$ 0.37	5¢ Per Share Special Dividend	December 29, 2015
2016	\$ 0.42	5¢ Per Share Special Dividend	December 29, 2016
2017	\$ 0.46	5¢ Per Share Special Dividend	December 29, 2017
2018	\$ 0.52	5¢ Per Share Special Dividend	December 28, 2018
2019	\$ 0.545	-	-
2020	\$ 0.57	-	-

Well Capitalized with 18.1% Total Capital

As mentioned in our recent Update Note, we believe UBCP is in a strong position to benefit from increasing loan demand as the economy continues to recover. In addition to ample liquidity, UBCP remains well capitalized with an 18.1% total risk-based capital ratio as of March 31, 2021, the latest disclosed information in the company's most recent 10-Q filing. Of this, Tier 1 capital [to risk-weighted assets] was also at a healthy 13.3%, suggesting solid levels of both total capital as well as Tier 1 capital. Total stockholders' equity in relation to total assets was 9.5% on June 30, 2021, up from 9.1% at March-end, and up slightly from the 9.4% level reported at Q2-end last year.

Interestingly, UBCP has strong capital metrics despite returning a lot of capital to shareholders with its healthy dividend payout ratio of 47% for the full year 2020, and the Special Dividend announced several months back. Remarkably, despite the Covid-19 recession, UBCP's capital and leverage metrics had strengthened sequentially during 2020.

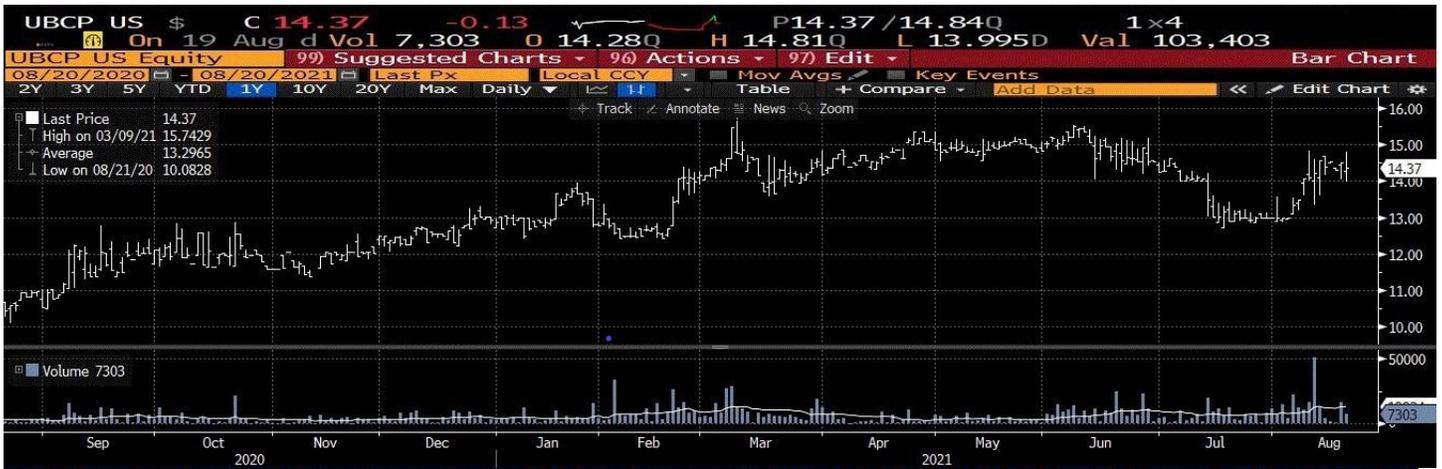
Book Value +7% QoQ; Significant Scope to Increase Loans-to-Deposit

UBCP's book value per share jumped 7% QoQ and 4% YoY to \$11.96 as of June-end, and ROE was a solid 11.80% annualized, up from the 11.44% annualized level for Q1, and up strongly from 10.0% in last year's second quarter. ROA was also strong at 1.2% annualized in Q2, up from 0.9% YoY.

Management has hinted that they feel demand for loans should soon start to increase with growth in the economy. Loans-to-deposits currently stood at 76% as of June-end, up fractionally from 74% as of March-end, and in-line with prior year levels, but down considerably from 81% at 2019 year-end. As we have mentioned previously, a slowdown in lending due to the overall economy and Covid-19, as well as the low loan-to-deposit ratio of the Powhatan acquisition, gives UBCP tremendous headroom to increase lending and interest income going forward. The current level of loans is abnormally low, and below the bank's more optimal level of around 90%. By way of reference, UBCP had loan-to-deposit levels of 105% in 2016, and 102% in 2015.

All parts of the US are experiencing a residential housing boom, driven by work-from-home, people fleeing big cities, consumers spending more on their homes in lieu of vacations, millennials reaching home-buying age, etc. With mortgage rates still at low levels, lumber prices now down some 30% YTD [after being up over 100% YTD a few months back] a recovering economy, and employment gains, we are hopeful UBCP will see an uptick in lending in various areas such as consumer, commercial real estate, residential housing, etc.

1 Year Price Chart



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