

United Bank Limited

Result Preview

PSX: UBL Bloomberg: UBL: PA Reuters: UBL: KA

Pakistan Research

UBL: 1QCY24 EPS likely to clock in at PKR 9.33, down 18% YoY; DPS PKR 9.00

- UBL's BoD meeting is scheduled on 17th April, 2024 to consider the financial results for 1QCY24. We expect the bank to post an unconsolidated EPS of PKR 9.33, down 18% YoY.
- Along with the result, we expect UBL to announce an interim cash dividend of PKR 9.00/share for 1Q owing to the bank's comfortable CAR and minimal impact of IFRS 9 implementation (PKR 2.6bn).
- NII is likely to increase by 3% YoY to PKR 34.3bn, on the back of elevated interest rates during the quarter and strong balance sheet growth. Interest earning is expected to increase by 114% YoY, while interest expense is anticipated to grow at a higher pace of 179% YoY.
- Non-interest income is expected to surge by 28% YoY to PKR 11.3bn due to strong growth in Fee & commission income and absence of capital losses. Fee & commission income is likely to increase by 25% YoY, while forex income is expected to decrease by 5% YoY.
- We have assumed provisioning expense of PKR 369mn during 1QCY24 as compared to the provision expense of PKR 2.6bn SPLY due to bank's enhanced focus on recoveries and exchange rate stability.
- Operating expenses for 1QCY24 are likely to clock in at PKR 18.1bn, up 21% YoY due to (i) higher inflation, (ii) hiring of staff and (iii) investment in IT infrastructure. Subsequently, cost to income ratio is anticipated to settle at 40% in 1QCY24 vs 36% in 1QCY23.
- Effective tax rate of the bank is expected to clock in at 58% in 1QCY24 vs 43% SPLY due to higher Super Tax charge and applicability of ADR related taxation.
- We have a 'BUY' stance on the stock with Dec-24 PT of PKR 217/share. The stock is offering a capital upside of 13%, along with a dividend yield of 19%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	217
Current Price (PKR)	193
Upside/(Downside) (%)	+ 13%
Dividend Yield (%)	19%
Total Return (%)	32%
12-month High (PKR)	197
12-month Low (PKR)	105
Outstanding Shares (mn)	1,224
Market Cap (PKR mn)	236,168
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY23	1QCY24E	YoY
M/up Earned	89,837	192,009	114%
M/up Expense	56,582	157,752	179%
Net Interest Income	33,255	34,256	3%
Non-Interest Income	8,781	11,269	28%
Total Provisions	2,615	369	-86%
Admin Expenses	15,023	18,140	21%
Profit Before Tax	24,399	27,016	11%
Taxation	10,496	15,594	49%
Profit After Tax	13,903	11,422	-18%
EPS	11.36	9.33	-18%
DPS	11.00	9.00	-18%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	25.2	26.2	43.4	43.1	42.83	42.55
EPS Growth	47.8%	3.8%	65.9%	-0.7%	-0.7%	-0.6%
DPS	18.0	22.0	44.0	36.5	34.5	34.5
BVPS	167.2	170.7	206.3	212.3	221.1	231.6
PER	7.7	7.4	4.4	4.5	4.5	4.5
Dividend Yield	9.3%	11.4%	22.8%	18.9%	17.9%	17.9%
P/B	1.1	1.0	0.9	0.8	0.8	0.8
ROE	15.9%	15.5%	23.0%	20.6%	19.8%	18.8%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for United Bank Limited (UBL) has been computed on dividend discounting method using Justified PBV for the calculation of terminal value. We have used sustainable ROE of 19% to arrive to calculate exit PBV, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of PKR 217/share which results in an upside of 13% along with a dividend yield of 19%. Our investment case on UBL is based on (1) on the back of strong balance sheet growth and (2) balance sheet ideally positioned to benefit from monetary easing.

Risks

Key risks to our investment thesis are: 1) lower than estimated growth in advances and deposits 3) higher than expected provisioning.

Company Description

United Bank Limited provides commercial banking and related services in Pakistan, the United States, Middle East, and Europe. The bank was founded in 1959 and is headquartered in Karachi, Pakistan. United Bank Limited is a subsidiary of Bestway (Holdings) Limited. As of December 31, 2023, UBL operated through 1,356 branches in Pakistan, including 209 Islamic banking branches; and 2 branches in Karachi Export Processing Zone, as well as 8 branches internationally.

Financial Highlights - UBL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Mark-up/interest earned	147,974	250,679	521,374	640,561	394,707	345,471
Mark-up/interest expensed	76,216	147,469	378,490	496,895	249,620	199,784
Net interest income	71,759	103,209	142,884	143,666	145,086	145,687
Non-interest income	23,379	34,443	22,869	42,867	43,204	46,098
Provision charged	(955)	15,669	(9,042)	1,768	2,026	2,226
Operating expenses	43,966	53,673	66,677	81,225	83,453	87,416
Profit/loss to shareholders	30,882	32,063	53,180	52,805	52,434	52,093

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Cash & Treasury Balances	267,937	143,004	277,330	263,464	289,810	318,791
Investments	1,496,542	1,415,194	4,385,217	1,733,552	1,473,414	1,599,033
Advances	646,188	921,837	613,566	1,040,012	1,149,418	1,269,771
Operating Fixed Assets	70,769	73,223	76,044	84,471	93,833	104,233
Other Assets	136,729	205,495	222,842	165,905	182,495	200,745
Total Assets	2,618,166	2,758,753	5,574,998	3,287,403	3,188,970	3,492,573
Borrowings from FIs	563,285	564,519	2,815,471	645,214	298,958	328,854
Deposits	1,750,944	1,838,367	2,350,541	2,233,014	2,456,315	2,701,947
Other Liabilities	99,295	146,847	156,486	149,296	163,069	178,186
Total Liabilities	2,413,523	2,549,733	5,322,497	3,027,524	2,918,342	3,208,987
Equity	204,643	209,020	252,501	259,879	270,628	283,556
Total Liabilities & Equity	2,618,166	2,758,753	5,574,998	3,287,403	3,188,970	3,492,542

Source: Company Accounts, Akseer Research

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Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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