

United Bank Limited

Result Preview

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

Pakistan Research

UBL: 2QCY24 EPS to clock in at PKR 9.21, down 9% YoY; DPS PKR 11.00

- The BoD meeting for UBL is scheduled on 31st July, 2024, wherein we expect the bank to record an EPS PKR 9.21, down 9% YoY.
- Along with the result, we expect UBL to announce an interim cash dividend of PKR 11.0/share for 2Q due to the bank's comfortable CAR position.
- NII is likely to decrease by 23% YoY to PKR 27.3bn due to a downward movement in policy rate and a sizable increase in deposits. This is expected to accelerate the interest expense by 244% YoY to PKR 221bn, while interest income is estimated to increase by 149% YoY.
- Non-interest income is expected to surge by 280% YoY to PKR 13.0bn due to strong growth in fee & commission income of 21% YoY in 2QCY24.
- We expect provision reversals to continue this quarter at PKR 1.2bn as compared to a reversal of PKR 1.7bn in 1QCY24 due to (i) a lack of NPL buildup on the domestic side and (ii) stable oil prices (proxy for international book) which remained flat during the quarter.
- Operating expenses for 2QCY24 are expected to clock in at PKR 19.4bn, up 22% YoY driven by (i) elevated inflation levels, (ii) personnel expenses, and (iii) investment in IT infrastructure. Subsequently, C/I ratio is anticipated to settle at 48% in 2QCY24 vs 41% in 2QCY23.
- Effective tax rate of the bank is expected to stand at 49% in 2QCY24 vs 53% SPLY due to 39% corporate tax and 10% super tax.
- We have a 'Hold' stance on the stock with Dec-24 PT of PKR 218/share. The stock is offering a capital downside of 14%, along with a dividend yield of 14%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	218
Current Price (PKR)	255
Upside/(Downside) (%)	-14%
Dividend Yield (%)	14%
Total Return (%)	0%
12-month High (PKR)	267
12-month Low (PKR)	139
Outstanding Shares (mn)	1,224
Market Cap (PKR mn)	311,860
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY23	2QCY24E	YoY	1HCY23	1HCY24E	YoY
M/up Earned	100,026	248,596	149%	189,863	487,223	157%
M/up Expense	64,420	221,313	244%	121,002	433,325	258%
Net Interest Income	35,606	27,284	-23%	68,861	53,898	-22%
Non-Interest Income	3,417	12,997	280%	12,198	33,866	178%
Total Provisions	-3,078	-1,209	-61%	-463	-2,929	532%
Admin Expenses	15,921	19,373	22%	30,944	37,652	22%
Profit Before Tax	26,179	22,117	-16%	50,578	53,041	5%
Taxation	13,763	10,837	-21%	24,259	25,700	6%
Profit After Tax	12,416	11,280	-9%	26,319	27,341	4%
EPS	10.14	9.21	-	21.50	22.33	-
DPS	11.00	11.00	-	22.00	22.00	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	25.2	26.2	43.4	43.1	42.8	42.6
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	7.1%	8.6%	17.3%	14.3%	13.5%	13.5%
P/B	1.5	1.5	1.2	1.2	1.2	1.1
ROE	15.9%	15.5%	23.0%	22.1%	19.7%	18.7%

Source: Company Accounts, Akseer Research

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Valuation Basis

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

Investment Thesis

We have a 'Hold' recommendation on the stock based on our Dec-24 PT of PKR 218/share, resulting in a downside of 14% along with a dividend yield of 14%. Our investment case on UBL is based on strong balance sheet growth and cost rationalization initiatives by the bank, which keep a lid on OPEX.

Risks

Key risks to our investment thesis are: 1) lower-than-expected growth in advances and deposits and 2) higher-than-expected provisioning.

Company Description

Founded in 1959, United Bank Limited (UBL) provides commercial banking and related services in Pakistan, the United States, the 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 branches of Islamic banking, two branches in Karachi Export Processing Zone, and eight branches internationally. The bank is headquartered in Karachi.

Financial Highlights - UBL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	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	CY24E	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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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