

United Bank Limited

Result Preview

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

Pakistan Research

UBL: 1QCY23 EPS likely to clock in at PKR 10.42, up 17% YoY; DPS PKR 7.50

- UBL's BoD meeting is scheduled on 28th April, 2023 to consider the financial results for 1QCY23. We expect the bank to post an unconsolidated EPS PKR 10.42, up 34% YoY. Along with the result, we expect UBL to announce an interim cash dividend of PKR 7.50/share for 1Q.
- NII is likely to increase by 45% YoY to PKR 31.1bn, due to elevated interest rates during the quarter. Interest earning is expected to increase by 75% YoY, while interest expense is anticipated to go up with a higher pace of 98% YoY.
- Non-interest income is expected to surge by 9% YoY to PKR 7.4bn. Fee & commission income is likely to increase by 9% YoY, while forex income is expected to increase by 50% YoY.
- Owing to the stressed economic outlook, we expect the bank to build the provisions. We have assumed provisioning expense of PKR 1.3bn during 1QCY23 as compared to the provision expense of PKR 347mn SPLY.
- Operating expenses for 1QCY23 are likely to clock in at PKR 14.9bn, up 23% YoY due to the inflationary pressures. However, cost to income ratio is anticipated to settle at 39% in 1QCY23 vs 43% in 1QCY22 on the back of higher revenues.
- Effective tax rate of the bank is expected to clock in at 43% in 1QCY23 vs 40% SPLY.
- We have a 'BUY' stance on the stock with Dec-23 PT of PKR 165/share. The stock is offering a capital upside of 45%, along with a dividend yield of 30.4%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	165
Current Price (PKR)	114
Upside/(Downside) (%)	+ 45%
Dividend Yield (%)	30.4%
Total Return (%)	76%
12-month High (PKR)	140
12-month Low (PKR)	92
Outstanding Shares (mn)	1,224
Market Cap (PKR mn)	139,018
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY22	1QCY23E	YoY
M/up Earned	47,956	83,707	75%
M/up Expense	26,483	52,555	98%
Net Interest Income	21,473	31,152	45%
Non-Interest Income	6,780	7,383	9%
Total Provisions	347	1,286	270%
Admin Expenses	12,059	14,879	23%
Profit Before Tax	15,847	22,370	41%
Taxation	6,319	9,619	52%
Profit After Tax	9,528	12,751	34%
EPS	7.78	10.42	34%
DPS	5.00	7.50	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	17.1	25.2	26.2	49.3	52.6	45.42
EPS Growth	9.2%	47.8%	3.8%	88.4%	6.7%	-13.7%
DPS	12.0	18.0	22.0	34.5	37.0	32.00
BVPS	150.4	167.2	170.7	187.2	200.5	215.61
PER	6.7	4.5	4.3	2.3	2.2	2.5
Dividend Yield	10.6%	15.9%	19.4%	30.4%	32.6%	28.2%
P/B	0.8	0.7	0.7	0.6	0.6	0.5
ROE	11.8%	15.9%	15.5%	27.6%	27.1%	21.8%

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 18% to arrive to calculate exit PBV, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of PKR 165/share which results in an upside of 45% along with a dividend yield of 30.4%. Our investment case on UBL is based on (1) NIMs expansion on the back of strong balance sheet growth (2) balance sheet ideally positioned to benefit from the higher interest rates.

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, 2022, UBL operated through 1,335 branches in Pakistan, including 150 Islamic banking branches; and 2 branches in Karachi Export Processing Zone, as well as 8 branches internationally.

Financial Highlights - UBL

Income Statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23F	CY24F	CY25F
Mark-up/interest earned	152,003	147,974	250,679	394,152	400,976	336,263
Mark-up/interest expensed	77,044	76,216	147,469	240,513	231,486	180,679
Net interest income	74,959	71,759	103,209	153,639	169,490	155,584
Non-interest income	17,094	23,379	34,443	25,542	25,196	25,911
Provision charged	16,768	(955)	15,669	9,010	6,897	4,000
Operating expenses	41,093	43,966	53,673	64,212	74,756	79,946
Profit/loss to shareholders	20,898	30,882	32,063	60,397	64,429	55,603

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	250,838	267,937	143,004	153,014	163,725	177,642
Investments	1,128,674	1,496,542	1,415,194	1,537,687	1,637,646	1,765,532
Advances	530,279	646,188	921,837	990,260	1,069,168	1,171,803
Operating Fixed Assets	53,037	70,769	73,223	76,052	78,990	82,041
Other Assets	86,754	136,729	205,495	199,684	213,661	231,823
Total Assets	2,049,583	2,618,166	2,758,753	2,956,696	3,163,191	3,428,841
Borrowings from FIs	128,987	563,285	564,519	604,035	646,317	701,254
Deposits	1,640,212	1,750,944	1,838,367	1,967,052	2,104,746	2,283,650
Other Liabilities	96,310	99,295	146,847	156,427	166,677	179,994
Total Liabilities	1,865,510	2,413,523	2,549,733	2,727,514	2,917,740	3,164,898
Equity	184,073	204,643	209,020	229,182	245,451	263,943
Total Liabilities & Equity	2,049,583	2,618,166	2,758,753	2,956,696	3,163,191	3,428,841

Source: Company Accounts, Akseer Research

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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.

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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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