

United Bank Limited

Result Review

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

Pakistan Research

UBL: 1QCY23 EPS clocked in at PKR 11.36, up 46% YoY; DPS PKR 11.00

- UBL announced its 1QCY23 financial result today, wherein the bank reported an unconsolidated EPS PKR 11.36, up 46% YoY. Along with the result, the bank announced an interim cash dividend of PKR 11.00/share for the first quarter.
- NII increased by 55% YoY to PKR 33.2bn, on back of elevated interest rates during the quarter. Interest earning increased by 87% YoY, while interest expense surged at a higher rate of 114% YoY.
- Non-interest income increased by 30% YoY to PKR 8.8bn. Fee & commission income grew by 11% YoY, while forex income depicted a whopping increase of 3.4x YoY.
- The bank booked the provision expense of PKR 2.6bn for 1QCY23 against provision expense of PKR 347mn SPLY.
- For 1QCY23, operating expenses clocked in at PKR 51.0bn, up 25% YoY which we believe is due to the inflationary pressures. However, cost to income ratio settled at 36% in 1QCY23 vs 43% in 1QCY22 on the back of higher revenues.
- Effective tax rate of the bank for 1QCY23 came at 43% vs 40% in 1QCY22.
- We have a 'BUY' stance on the stock with Dec-23 PT of PKR 165/share. The stock is offering a capital upside of 42%, along with a dividend yield of 32.8%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	165
Current Price (PKR)	116
Upside/(Downside) (%)	+42%
Dividend Yield (%)	32.8%
Total Return (%)	75%
12-month High (PKR)	140
12-month Low (PKR)	92
Outstanding Shares (mn)	1,224
Market Cap (PKR mn)	141,931
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY22	1QCY23	YoY
M/up Earned	47,956	89,837	87%
M/up Expense	26,483	56,582	114%
Net Interest Income	21,473	33,255	55%
Non-Interest Income	6,780	8,781	30%
Total Provisions	347	2,615	653%
Admin Expenses	12,059	15,023	25%
Profit Before Tax	15,847	24,399	54%
Taxation	6,319	10,496	66%
Profit After Tax	9,528	13,903	46%
EPS	7.8	11.4	46%
DPS	5.0	11.0	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	15.6	17.1	25.2	26.2	50.1	52.3
EPS Growth	-12.6%	9.2%	47.8%	3.8%	91.2%	4.5%
DPS	12.0	12.0	18.0	22.0	38.0	36.5
BVPS	138.1	150.4	167.2	170.7	184.5	197.5
PER	7.4	6.8	4.6	4.4	2.3	2.2
Dividend Yield	10.4%	10.4%	15.5%	19.0%	32.8%	31.5%
P/B	0.8	0.8	0.7	0.7	0.6	0.6
ROE	11.9%	11.8%	15.9%	15.5%	28.2%	27.4%

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 42% along with a dividend yield of 32.8%. 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	399,902	400,356	335,818
Mark-up/interest expensed	77,044	76,216	147,469	244,540	231,486	180,679
Net interest income	74,959	71,759	103,209	155,362	168,871	155,140
Non-interest income	17,094	23,379	34,443	26,938	25,190	25,906
Provision charged	16,768	(955)	15,669	10,338	6,897	4,000
Operating expenses	41,093	43,966	53,673	64,380	74,744	79,634
Profit/loss to shareholders	20,898	30,882	32,063	61,316	64,080	55,524

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	1,534,322	1,633,931	1,762,351
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	2,953,331	3,159,476	3,425,660
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	225,817	241,736	260,762
Total Liabilities & Equity	2,049,583	2,618,166	2,758,753	2,953,331	3,159,476	3,425,660

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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