

United Bank Limited
Result Review

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

Pakistan Research

UBL – Higher NII lifted 3QCY21 unconsolidated EPS to PKR 6.34, up 66% YoY

- United bank Limited (UBL) announced its 3QCY21 results today, where the bank posted upbeat earnings growth of 66% YoY to PKR 6.34/share, higher than consensus expectations. This took cumulative net earnings for 9MCY21 to PKR 18.6/share, up 42% YoY. Along with the result, the bank also announced an interim cash dividend of PKR 4.0/share, taking the cumulative payout to PKR 12.0/share.
- Lower than expected decline in net interest income and provisioning reversal lifted the overall profitability of the bank during 3QCY21.
- During the quarter, NII declined by 3% YoY to PKR 18.6bn as interest expense surged at a higher pace of 47% YoY versus 19% YoY increase in the interest income. On sequential basis, NII posted growth of 2% QoQ where interest income increased by 19% while interest expense was up by 28% mainly led by volumetric growth. We await further details from the management in this regard.
- The bank recorded provisioning reversal of PKR 327mn in 3QCY21, taking total reversal to PKR 415mn during 9MCY21. This depicts further improvement in bank's asset quality in Sept-21. (June-21 GIR at 5.8%)
- Non-interest income also drove the solid profitability as it surged by 43% YoY to PKR 5.9bn. Fee & commission income grew by 17% YoY to PKR 3.1bn while capital gains and forex income also supported the non-interest income growth.
- Operating expenses remained higher by 12% YoY to PKR 11.3bn in 3QCY21 as the bank is aggressively investing in IT. The cost to income ratio, resultantly, clocked in at 46% vs 44% in 3QCY20.
- Effective tax rate of the bank came in at 42.4% in 3QCY21 (9M:42.1%). Higher effective tax can be due to lower ADR related to additional tax imposed by the government on banks.
- We have a 'BUY' stance on the stock with PT of PKR 160/share whereas the dividend yield stands at 10.8%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	160
Current Price (PKR)	130
Upside/(Downside) (%)	+ 23.2%
Dividend Yield (%)	10.8%
Total Return (%)	+ 33.9%
12-month High (PKR)	149
12-month Low (PKR)	106
Outstanding Shares (mn)	1,224.18
Market Cap (PKR mn)	159,168
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY20	3QCY21	YoY	9MCY20	9MCY21	YoY
M/up Earned	34,571	41,307	19%	120,915	109,058	-10%
M/up Expense	15,479	22,707	47%	62,703	55,369	-12%
Net Interest Income	19,091	18,601	-3%	58,212	53,689	-8%
Non-Interest Income	4,104	5,854	43%	13,031	17,283	33%
Total Provisions	5,457	(327)	NM	14,887	(415)	NM
Admin Expenses	10,096	11,308	12%	29,909	32,063	7%
Profit Before Tax	7,643	13,474	76%	26,447	39,324	49%
Taxation	2,974	5,711	92%	10,378	16,564	60%
Profit After Tax	4,669	7,763	66%	16,069	22,760	42%
EPS	3.81	6.34	66%	13.1	18.6	42%
DPS	0.00	4.00	NM	2.5	12.0	380%

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 16.3% to arrive to calculate exit PBV, along with a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-21 PT of PKR 160/share which results in an upside of 23.2% along with a dividend yield of 10.8%. 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 anticipated growth in advances and deposits 2) higher than anticipated provisioning.

Company Description

United Bank Limited provides commercial banking and related services in Pakistan, the United States, Middle East, Europe, and Africa. The bank was founded in 1959 and is headquartered in Karachi, Pakistan. United Bank Limited is a subsidiary of Bestway (Holdings) Limited. As of June 30, 2021, UBL operated through 1,348 branches in Pakistan, including 100 Islamic banking branches; and 2 branches in Karachi Export Processing Zone, as well as 13 branches internationally.

Financial Highlights - UBL

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Mark-up/interest earned	113,198	153,676	152,003	136,325	170,282	205,666
Mark-up/interest expensed	56,964	91,902	77,044	66,211	88,501	109,352
Net interest income	56,234	61,774	74,959	70,115	81,781	96,314
Non-interest income	25,072	21,676	17,094	19,573	17,006	17,734
Provision charged	12,914	8,220	16,768	3,598	4,325	4,530
Operating expenses	36,768	40,989	41,093	42,810	46,195	49,946
Extraordinary / Unusual Item	(6,657)	0	0	0	0	0
Profit/loss to shareholders	15,226	19,134	20,898	25,455	28,960	35,743

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	183,467	235,862	250,838	280,443	312,701	347,098
Investments	786,375	840,448	1,128,674	1,289,379	1,461,920	1,646,907
Advances	715,937	636,220	530,279	577,207	619,146	664,108
Operating Fixed Assets	47,556	54,348	53,037	49,976	46,650	43,544
Other Assets	156,263	126,817	86,754	84,898	94,663	105,076
Total Assets	1,889,599	1,893,695	2,049,583	2,281,904	2,535,080	2,806,733
Borrowings from FIs	268,124	154,484	128,987	144,211	160,799	178,487
Deposits	1,366,060	1,467,063	1,640,212	1,833,796	2,044,726	2,269,646
Other Liabilities	104,145	103,078	96,310	120,826	133,574	147,167
Total Liabilities	1,738,329	1,724,626	1,865,510	2,098,833	2,339,099	2,595,300
Equity	151,270	169,069	184,073	183,070	195,981	211,433
Total Liabilities & Equity	1,889,599	1,893,695	2,049,583	2,281,904	2,535,080	2,806,733

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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