

## United Bank Limited

### Result Review

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

Pakistan Research

## UBL: 3QCY22 unconsolidated EPS clocked in at PKR 5.64, down 11% YoY; DPS PKR 4.0

- UBL announced its 3QCY22 financial result today, where in the bank posted unconsolidated PAT of PKR 6.9bn (EPS PKR 5.6), down 11% YoY. Cumulative EPS for 9MCY22 stands at PKR 15.3, down 18% YoY. Along with the result, UBL announced an interim DPS of PKR 4.0, taking cumulative DPS for 9MCY22 to PKR 13.0.
- The earnings came in lower than our expectation mainly due to higher than expected provisioning expense.
- Net interest income (NII) of the bank remained strong during the quarter growing by 49% YoY to PKR 27.6bn, owing to strong balance sheet growth as assets continued to reprice during the quarter under review.
- Non-interest income grew by 27% YoY to PKR 7.4bn in 3QCY22. Fee & commission income depicted a growth of 26% YoY to PKR 3.9bn along with an increase in forex income by 121% YoY to PKR 3.0bn due to currency volatility.
- UBL booked a provisioning expense of PKR 4.6bn in 3QCY22 vs a reversal of PKR 327mn in 3QCY21. We believe, the bank has prudently downgraded some of its assets to avoid any expected credit loss due to ongoing tough economic environment and 2) impairment of investments.
- UBL's operating expenses increased by 24% YoY to PKR 14.0bn in 3QCY22 which could be due to adhoc increase in employees' allowance to offset inflationary pressures. However, cost to income ratio settled at 40% in 3QCY22 vs 46% in 3QCY21 due to higher revenues.
- For 3QCY22, effective tax rate of the bank reached at 58% against 42% in 3QCY21. Higher effective tax rate can be attributable to 1) increase in corporate tax rates for the banking industry, 2) Super tax on CY22 profits and 3) additional tax imposed on the banks with lower ADR in FY23 budget.
- We have a 'BUY' stance on the stock with June-23 PT of PKR 155/share, providing a capital upside of 36.1% whereas dividend yield stands at 16.2%.

#### Key Data

PSX Ticker	UBL
Target Price (PKR)	155
Current Price (PKR)	114.1
Upside/(Downside) (%)	+ 36.1%
Dividend Yield (%)	16.2%
Total Return (%)	+ 52.3%
12-month High (PKR)	150.9
12-month Low (PKR)	107.1
Outstanding Shares (mn)	1,224.2
Market Cap (PKR mn)	139,703.4
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	3QCY21	3QCY22	YoY	9MCY21	9MCY22	YoY
M/up Earned	41,307	73,459	78%	109,058	176,306	62%
M/up Expense	22,707	45,791	102%	55,369	103,533	87%
<b>Net Interest Income</b>	<b>18,601</b>	<b>27,668</b>	<b>49%</b>	<b>53,689</b>	<b>72,774</b>	<b>36%</b>
Non-Interest Income	5,854	7,418	27%	17,283	22,119	28%
Total Provisions	(327)	4,651	NM	(415)	5,416	NM
Admin Expenses	11,308	14,019	24%	32,063	38,823	21%
<b>Profit Before Tax</b>	<b>13,474</b>	<b>16,417</b>	<b>22%</b>	<b>39,324</b>	<b>50,653</b>	<b>29%</b>
Taxation	5,711	9,517	67%	16,564	31,891	93%
<b>Profit After Tax</b>	<b>7,763</b>	<b>6,900</b>	<b>-11%</b>	<b>22,760</b>	<b>18,762</b>	<b>-18%</b>
EPS	6.34	5.64	-11%	18.59	15.33	-18%
DPS	4.00	4.00	-	12.0	13.0	-

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	15.6	17.1	25.2	21.9	25.4	25.0
EPS Growth	-12.6%	9.2%	47.8%	-13.2%	16.1%	-1.7%
DPS	12.0	12.0	18.0	18.0	19.0	19.0
PER	7.3	6.7	4.5	5.2	4.5	4.6
Dividend Yield	10.5%	10.5%	15.8%	15.8%	16.6%	16.6%
P/B	0.8	0.8	0.7	0.7	0.7	0.6
ROE	11.9%	11.8%	15.9%	13.1%	14.9%	14.1%

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 18.9% to arrive to calculate exit PBV, along with a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

**Investment Thesis**

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of PKR 155/share which results in an upside of 36.1% along with a dividend yield of 16.2%. 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 June 30, 2022, UBL operated through 1,340 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)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Mark-up/interest earned	153,676	152,003	147,974	266,314	311,715	260,909
Mark-up/interest expensed	91,902	77,044	76,216	157,947	187,867	141,126
<b>Net interest income</b>	<b>61,774</b>	<b>74,959</b>	<b>71,759</b>	<b>108,367</b>	<b>123,848</b>	<b>119,783</b>
<b>Non-interest income</b>	<b>21,676</b>	<b>17,094</b>	<b>23,379</b>	<b>28,693</b>	<b>25,751</b>	<b>26,666</b>
Provision charged	8,220	16,768	(955)	5,916	3,627	3,538
Operating expenses	40,989	41,093	43,966	50,531	56,094	61,980
<b>Profit/loss to shareholders</b>	<b>19,134</b>	<b>20,898</b>	<b>30,882</b>	<b>26,790</b>	<b>31,115</b>	<b>30,593</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	235,862	250,838	267,937	314,745	339,924	367,118
Investments	840,448	1,128,674	1,496,542	1,677,929	1,822,788	1,946,024
Advances	636,220	530,279	646,188	683,879	727,280	807,072
Operating Fixed Assets	54,348	53,037	70,769	70,019	66,825	64,410
Other Assets	126,817	86,754	136,729	165,954	179,230	193,569
<b>Total Assets</b>	<b>1,893,695</b>	<b>2,049,583</b>	<b>2,618,166</b>	<b>2,912,526</b>	<b>3,136,049</b>	<b>3,378,193</b>
Borrowings from FIs	154,484	128,987	563,285	514,207	555,343	599,771
Deposits	1,467,063	1,640,212	1,750,944	2,056,826	2,221,372	2,399,082
Other Liabilities	103,078	96,310	99,295	136,305	146,409	157,322
<b>Total Liabilities</b>	<b>1,724,626</b>	<b>1,865,510</b>	<b>2,413,523</b>	<b>2,707,338</b>	<b>2,923,125</b>	<b>3,156,175</b>
Equity	169,069	184,073	204,643	205,188	212,924	222,018
<b>Total Liabilities &amp; Equity</b>	<b>1,893,695</b>	<b>2,049,583</b>	<b>2,618,166</b>	<b>2,912,526</b>	<b>3,136,049</b>	<b>3,378,193</b>

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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Hold	Between -5% and +15%
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