

United Bank Limited

Analyst Briefing Key Takeaways

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

Pakistan Research

UBL: 4QCY22 Analyst Briefing Key Takeaways

- UBL held its 4QCY22 Analyst Briefing on February 28, 2023 to discuss the financial results and future outlook of the bank. To recall, the bank posted an unconsolidated EPS of PKR 10.9, up 64% YoY during 4Q, which took the cumulative CY22 EPS to PKR 26.2, down 4% YoY. Along with the result, the bank announced a final cash dividend of PKR 9.0/share, taking cumulative CY22 DPS to PKR 22.0.
- NIMS for CY22 clocked in at 4.9% vs 3.8% during CY21. NIMS will further increase during 1HCY23 on the back of floating rate PIBs re-pricing which accounts for 60% of the PIBs investment. Moreover, the bank has few PIBs maturities yielding around 8-8.5% during current year which would be deployed in high yield instruments.
- Bank's NFI income for the year ended Dec-22 increased by 47%, on the back of higher fee & commission income. UBL also reported a gain of PKR 6.8bn during 4Q as the bank winds-up its subsidiary in Switzerland.
- During CY22, the bank advances depicted an increase of 43% on YoY basis, which resultantly uplifts the ADR above regulatory threshold. The fresh loan disbursement was made to FIs, textile, utilities etc. Going forward, management informed that banks would maintain higher ADR depending on the economic conditions of the country, irrespective of the taxation measures.
- Regarding the IFRS-9 implementation, bank has informed that it would have the potential impact of PKR 2.5bn in CY23. International ventures of the bank have already implemented the IFRS-9.
- Management informed that the bank remained conservative on its Eurobond exposure and booked the required provisions.
- Regarding Islamic Banking, management foresee huge growth potential in this sector, at present UBL operates 150 Islamic branches along with 200 Islamic windows. Furthermore, the bank has already applied for 300 more Islamic windows. Going forward, the bank is targeting a 50:50 ratio between Islamic and Conventional business.
- On UBL's GCC exposure, management has informed that higher oil prices have supported its business, as there is pickup in lending to UAE and Bahrain customers. The bank has also successfully restructured four accounts in UAE, Bahrain and Qatar.
- The management is looking forward to increase its presence in the new residential areas, particularly projects along the motorways.

Key Data

PSX Ticker	UBL
Target Price (PKR)	157
Current Price (PKR)	113
Upside/(Downside) (%)	+ 39%
Dividend Yield (%)	21.2%
Total Return (%)	+ 60%
12-month High (PKR)	151
12-month Low (PKR)	92
Outstanding Shares (mn)	1,224.18
Market Cap (PKR mn)	138,357
Year End	December

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 157/share which results in an upside of 39% along with a dividend yield of 21.2%. 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 September 30, 2022, UBL operated through 1,338 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	CY22A	CY23F	CY24F
Mark-up/interest earned	153,676	152,003	147,974	250,679	382,045	384,265
Mark-up/interest expensed	91,902	77,044	76,216	147,469	246,698	236,564
Net interest income	61,774	74,959	71,759	103,209	135,347	147,701
Non-interest income	21,676	17,094	23,379	34,443	24,919	25,275
Provision charged	8,220	16,768	(955)	15,669	19,160	8,634
Operating expenses	40,989	41,093	43,966	53,673	63,540	77,703
Profit/loss to shareholders	19,134	20,898	30,882	32,063	39,559	49,384

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Cash & Treasury Balances	235,862	250,838	267,937	307,591	338,351	372,186
Investments	840,448	1,128,674	1,496,542	1,065,350	1,180,153	1,302,391
Advances	636,220	530,279	646,188	923,373	1,003,162	1,098,081
Operating Fixed Assets	54,348	53,037	70,769	71,625	68,358	65,887
Other Assets	126,817	86,754	136,729	165,744	182,319	200,550
Total Assets	1,893,695	2,049,583	2,618,166	2,533,683	2,772,342	3,039,095
Borrowings from FIs	154,484	128,987	563,285	180,218	198,239	218,063
Deposits	1,467,063	1,640,212	1,750,944	2,010,080	2,211,088	2,432,197
Other Liabilities	103,078	96,310	99,295	132,865	145,151	158,667
Total Liabilities	1,724,626	1,865,510	2,413,523	2,323,163	2,554,479	2,808,927
Equity	169,069	184,073	204,643	210,521	217,863	230,168
Total Liabilities & Equity	1,893,695	2,049,583	2,618,166	2,533,683	2,772,342	3,039,095

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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