

United Bank Limited

Result Preview

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

Pakistan Research

UBL: 4QCY22 unconsolidated EPS to clock in at PKR 7.75, up 17% YoY

- UBL is scheduled to announce its 4QCY22 financial results on 22nd February, 2023. We expect the bank to post an unconsolidated PAT of PKR 9.5bn (EPS PKR 7.8) up 17% YoY. This would take the CY22 EPS to PKR 23.1 down 9% YoY. Along with the result, we expect the bank to announce a final cash dividend of PKR 6.0/share, taking cumulative DPS to PKR 19.0 for CY22.
- NII is likely to grow by 41% YoY to PKR 25.5bn owing to elevated interest rates during 4Q. Interest earning is expected to increase by 79% YoY, while interest expense to go up by 111% YoY.
- Non-interest income is expected to show a meagre increase of 2% YoY to PKR 6.2bn. Fee & commission income is likely to increase by 35% YoY, while forex income to decline by 15% YoY.
- Owing to stressed economic outlook, we expect the bank to build the provisions. We have assumed provisioning expense of PKR 3.3bn during 4QCY22 as compared to the reversal of PKR 541mn in SPLY.
- Operating expenses are likely to increase by 27% YoY to PKR 15.1bn in 4QCY22 due to the inflationary pressures. However, cost to income ratio would settle at 48% in 4QCY22 vs 49% in 4QCY21 on back of higher revenues.
- Effective tax rate of the bank is expected to clock in at 29% in 4QCY22 vs 37% in 4QCY21. We have assumed gross ADR above the regulatory requirement of 50%. The bank would reverse the ADR related taxes charged during 9MCY22.
- We have a 'BUY' stance on the stock with Dec-23 PT of PKR 157/share. The stock is offering a capital upside of 53%, along with a dividend yield of 23.5%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	157
Current Price (PKR)	102
Upside/(Downside) (%)	+ 53%
Dividend Yield (%)	23.5%
Total Return (%)	+ 77%
12-month High (PKR)	151
12-month Low (PKR)	92
Outstanding Shares (mn)	1,224.18
Market Cap (PKR mn)	125,099
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY21	4QCY22E	YoY	CY21	CY22E	YoY
M/up Earned	38,916	69,483	79%	147,974	245,789	66%
M/up Expense	20,847	43,990	111%	76,216	147,522	94%
Net Interest Income	18,069	25,493	41%	71,759	98,267	37%
Non-Interest Income	6,096	6,207	2%	23,379	28,326	21%
Total Provisions	(541)	3,294	NM	(955)	8,710	NM
Admin Expenses	11,903	15,108	27%	43,966	53,931	23%
Profit Before Tax	12,803	13,299	4%	52,127	63,952	23%
Taxation	4,681	3,811	-19%	21,245	35,702	68%
Profit After Tax	8,122	9,488	17%	30,882	28,249	-9%
EPS	6.63	7.75	17%	25.23	23.08	-9%
DPS	6.00	6.00		18.0	19.0	

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	15.6	17.1	25.2	23.1	32.3	40.3
EPS Growth	-12.6%	9.2%	47.8%	-8.5%	39.8%	25.0%
DPS	12.0	12.0	18.0	19.0	24.0	30.0
BVPS	138.1	150.4	167.2	168.9	177.8	187.8
PER	6.5	6.0	4.1	4.4	3.2	2.5
Dividend Yield	11.7%	11.7%	17.6%	18.6%	23.5%	29.4%
P/B	0.7	0.7	0.6	0.6	0.6	0.5
ROE	11.9%	11.8%	15.9%	13.7%	18.6%	22.1%

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% 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 53% along with a dividend yield of 23.5%. 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	CY22F	CY23F	CY24F
Mark-up/interest earned	153,676	152,003	147,974	245,789	381,941	384,228
Mark-up/interest expensed	91,902	77,044	76,216	147,522	246,698	236,564
Net interest income	61,774	74,959	71,759	98,267	135,243	147,665
Non-interest income	21,676	17,094	23,379	28,326	24,918	25,274
Provision charged	8,220	16,768	(955)	8,710	19,160	8,634
Operating expenses	40,989	41,093	43,966	53,931	63,538	77,703
Profit/loss to shareholders	19,134	20,898	30,882	28,249	39,506	49,363

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	1,061,537	1,179,960	1,302,177
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	2,529,870	2,772,149	3,038,881
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	206,707	217,670	229,954
Total Liabilities & Equity	1,893,695	2,049,583	2,618,166	2,529,870	2,772,149	3,038,881

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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