

**United Bank Limited**  
Result Review

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

Pakistan Research

**UBL: CY21 EPS settled at PKR 25.2, up 68% YoY; DPS PKR 6.0**

- United Bank Limited (UBL) announced its CY21 financial results, wherein the bank announced upbeat earnings growth of 48% YoY to PKR 25.2/share. For 4QCY21, net earnings of the bank grew by 68% YoY to PKR 6.6/share. The result is also accompanied with higher than expected final dividend of PKR 6.0/share, taking the cumulative payout to PKR 18.0/share vs PKR 12.0/share in CY20.
- During the quarter, NII increased by 8% YoY to PKR 18.1bn wherein interest expense surged at a higher pace of 45% YoY versus 25% YoY increase in the interest income. On sequential basis, NII depicted a drop of 3% QoQ where interest income declined by 6% while interest expense remained lower by 8%. For CY21, NII declined by 4% YoY.
- The bank recorded provisioning reversal of PKR 541mn in 4QCY21, taking total reversal to PKR 955mn in CY21. This depicts further improvement in bank's asset quality in Dec-21. (Sep-21 domestic GIR at 5.9%)
- Non-interest income also drove the solid profitability as it surged by 50% YoY to PKR 6.1bn during 4QCY21. Fee & commission income grew by 2% YoY to PKR 3.3bn and forex income increased by 93% YoY to PKR 1.4bn while capital gains and dividend income also supported the non-interest income growth. For full year CY21, Non-interest income depicted a growth of 37% YoY.
- Operating expenses remained higher by 6% YoY to PKR 11.9bn in 4QCY21. Expenses grew by 7% YoY in CY21. Resultantly, cost to income ratio settled at 46% vs 45% in CY20.
- Effective tax rate of the bank came in at 36.6% in 4QCY21 (CY:40.8%). Higher effective tax can be due to lower ADR related to additional tax imposed on the banks.
- We have a 'BUY' stance on the stock with Dec-21 PT of PKR 196/share, whereas the dividend yield stands at 14.8%.

**Key Data**

PSX Ticker	UBL
Target Price (PKR)	196
Current Price (PKR)	145
Upside/(Downside) (%)	+ 35.2%
Dividend Yield (%)	14.8%
Total Return (%)	+ 50.0%
12-month High (PKR)	149
12-month Low (PKR)	113
Outstanding Shares (mn)	1,224.18
Market Cap (PKR mn)	177,433
Year End	December

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
M/up Earned	31,088	38,916	25%	152,003	147,974	-3%
M/up Expense	14,341	20,847	45%	77,044	76,216	-1%
<b>Net Interest Income</b>	16,747	18,069	8%	74,959	71,759	-4%
Non-Interest Income	4,063	6,096	50%	17,094	23,379	37%
Total Provisions	1,882	(541)	NM	16,768	(955)	NM
Admin Expenses	11,184	11,903	6%	41,093	43,966	7%
<b>Profit Before Tax</b>	7,745	12,803	65%	34,192	52,127	52%
Taxation	2,916	4,681	61%	13,294	21,245	60%
<b>Profit After Tax</b>	4,829	8,122	68%	20,898	30,882	48%
EPS	3.94	6.63	68%	17.1	25.2	48%
DPS	9.50	6.00	-37%	12.0	18.0	50%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
EPS	12.4	15.6	17.1	25.2	33.5	38.9
EPS Growth	-13.9%	-12.6%	9.2%	47.8%	33.0%	15.9%
DPS	11.0	12.0	12.0	18.0	21.5	24.5
PER	11.7	9.3	8.5	5.7	4.3	3.7
Dividend Yield	7.6%	8.3%	8.3%	12.4%	14.8%	16.9%
P/B	1.2	1.0	1.0	0.9	0.9	0.8
ROE	9.8%	11.9%	11.8%	16.6%	21.1%	22.4%

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 18.9% to arrive to calculate exit PBV, along with a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

**Investment Thesis**

We have a 'BUY' recommendation on the stock based on our Dec-21 PT of PKR 196/share which results in an upside of 35.2% along with a dividend yield of 14.8%. 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 rise in interest rates, 2) 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, 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 Sep 30, 2021, UBL operated through 1,344 branches in Pakistan, including 114 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	CY21A	CY22F	CY23F
Mark-up/interest earned	113,198	153,676	152,003	147,974	223,765	264,105
Mark-up/interest expensed	56,964	91,902	77,044	76,216	119,490	141,181
<b>Net interest income</b>	<b>56,234</b>	<b>61,774</b>	<b>74,959</b>	<b>71,759</b>	<b>104,275</b>	<b>122,924</b>
<b>Non-interest income</b>	<b>25,072</b>	<b>21,676</b>	<b>17,094</b>	<b>23,379</b>	<b>19,690</b>	<b>20,754</b>
Provision charged	12,914	8,220	16,768	(955)	3,776	5,193
Operating expenses	36,768	40,989	41,093	43,966	48,848	55,670
Extraordinary / Unusual Item	(6,657)	0	0	0	0	0
<b>Profit/loss to shareholders</b>	<b>15,226</b>	<b>19,134</b>	<b>20,898</b>	<b>30,882</b>	<b>41,063</b>	<b>47,577</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Cash & Treasury Balances	183,467	235,862	250,838	238,206	257,606	283,366
Investments	786,375	840,448	1,128,674	1,451,079	1,543,369	1,662,678
Advances	715,937	636,220	530,279	611,691	687,453	796,811
Operating Fixed Assets	47,556	54,348	53,037	52,732	49,222	45,945
Other Assets	156,263	126,817	86,754	92,527	100,062	110,068
<b>Total Assets</b>	<b>1,889,599</b>	<b>1,893,695</b>	<b>2,049,583</b>	<b>2,446,234</b>	<b>2,637,711</b>	<b>2,898,868</b>
Borrowings from FIs	268,124	154,484	128,987	244,665	257,103	282,814
Deposits	1,366,060	1,467,063	1,640,212	1,901,928	2,056,826	2,262,509
Other Liabilities	104,145	103,078	96,310	112,619	120,977	132,075
<b>Total Liabilities</b>	<b>1,738,329</b>	<b>1,724,626</b>	<b>1,865,510</b>	<b>2,259,213</b>	<b>2,434,907</b>	<b>2,677,397</b>
Equity	151,270	169,069	184,073	187,022	202,805	221,471
<b>Total Liabilities &amp; Equity</b>	<b>1,889,599</b>	<b>1,893,695</b>	<b>2,049,583</b>	<b>2,446,234</b>	<b>2,637,711</b>	<b>2,898,868</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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<b>Rating</b>	<b>Expected Total Return</b>
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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