

## United Bank Limited

### Result Review

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

Pakistan Research

## UBL: 2QCY24 EPS clocks in at PKR 11.32, up 12% YoY; DPS 11.00

- UBL announced its 2QCY24 financial result today, wherein the bank reported an unconsolidated EPS PKR 11.32, up 12% YoY. Along with the result, the bank announced an interim cash dividend of PKR 11.00/share.
- Net interest income decreased by 24% YoY to PKR 27.0bn, possibly due to a downward movement in NIMs. As expected, the interest expense accelerated at a faster pace (+287% YoY) to PKR 250bn, compared to interest income (+176% YoY), thereby pressuring the net interest income.
- Non-interest income increased considerably by 168% YoY to PKR 18.3bn on the back of sizable capital gains of PKR 9.2bn. Fee & commission income grew by 8% YoY and forex income increased 44% YoY.
- The bank booked a provision reversal of PKR 647mn for 2QCY24 against provision expense of PKR 346 mn SPLY.
- For 2QCY24, admin expenses clocked in at PKR 18.2bn, up 14% YoY, which we believe is due to the inflationary pressure and IT-related spending. Subsequently, cost-to-income ratio was recorded at 41% in 2QCY24 vs 38% in 2QCY23.
- Effective tax rate of the bank for 2QCY24 came in at 49% vs 53% in 2QCY23.
- We have a 'Hold' recommendation on the stock with a Dec-24 PT of PKR 218/share. The stock is offering a capital downside of 18%, along with a dividend yield of 14%.

#### Key Data

PSX Ticker	UBL
Target Price (PKR)	218
Current Price (PKR)	266
Upside/(Downside) (%)	-18%
Dividend Yield (%)	14%
Total Return (%)	-4%
12-month High (PKR)	267
12-month Low (PKR)	139
Outstanding Shares (mn)	1,224
Market Cap (PKR mn)	328,080
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	2QCY23	2QCY24	YoY	1HCY23	1HCY24	YoY
M/up Earned	100,026	276,527	176%	189,863	515,154	171%
M/up Expense	64,420	249,504	287%	121,002	461,516	281%
<b>Net Interest Income</b>	<b>35,606</b>	<b>27,024</b>	<b>-24%</b>	<b>68,861</b>	<b>53,638</b>	<b>-22%</b>
Non-Interest Income	6,841	18,314	168%	15,622	39,184	151%
Total Provisions	(346)	647	NM	(2,268)	2,367	NM
Admin Expenses	15,921	18,150	14%	30,944	37,026	20%
<b>Profit Before Tax</b>	<b>26,179</b>	<b>27,238</b>	<b>4%</b>	<b>50,578</b>	<b>58,163</b>	<b>15%</b>
Taxation	13,763	13,381	-3%	24,259	28,244	16%
<b>Profit After Tax</b>	<b>12,416</b>	<b>13,857</b>	<b>12%</b>	<b>26,319</b>	<b>29,919</b>	<b>14%</b>
EPS	10.14	11.32		21.50	24.44	
DPS	11.00	11.00		22.00	22.00	

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	25.2	26.2	43.4	46.5	42.94	42.65
EPS Growth	47.8%	3.8%	65.9%	6.9%	-7.6%	-0.7%
DPS	18.0	22.0	44.0	38.5	34.5	34.5
BVPS	167.2	170.7	206.3	213.6	222.5	233.2
PER	7.7	7.4	4.4	4.2	4.5	4.5
Dividend Yield	6.8%	8.3%	16.5%	13.7%	13.0%	13.0%
P/B	1.6	1.6	1.3	1.3	1.2	1.1
ROE	15.9%	15.5%	23.0%	16.9%	14.3%	27.5%

Source: Company Accounts, Akseer Research

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**Valuation Basis**

Our PT for UBL has been computed on the dividend discounting method using Justified PBV for the calculation of the terminal value. We have used sustainable ROE of 19% to arrive at the exit PBV, along with a risk-free rate of 15%, a beta of 1.0, and a market risk premium of 6%, translating to a cost of equity of 21%.

**Investment Thesis**

We have a 'Hold' recommendation on the stock based on our Dec-24 PT of PKR 218/share, resulting in a downside of 18% along with a dividend yield of 14%. Our investment case on UBL is based on strong balance sheet growth and cost rationalization initiatives by the bank, which keep a lid on OPEX.

**Risks**

Key risks to our investment thesis are: 1) lower-than-expected growth in advances and deposits and 2) higher-than-expected provisioning.

**Company Description**

Founded in 1959, United Bank Limited (UBL) provides commercial banking and related services in Pakistan, the United States, the Middle East, and Europe. United Bank Limited is a subsidiary of Bestway (Holdings) Limited. As of December 31, 2023, UBL operated 1,356 branches in Pakistan, including 209 Islamic banking branches, two branches in Karachi Export Processing Zone, and eight branches internationally. The bank is headquartered in Karachi.

**Financial Highlights - UBL**

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Mark-up/interest earned	147,974	250,679	521,374	687,483	394,978	345,704
Mark-up/interest expensed	76,216	147,469	378,490	551,155	249,620	199,784
<b>Net interest income</b>	<b>71,759</b>	<b>103,209</b>	<b>142,884</b>	<b>136,329</b>	<b>145,357</b>	<b>145,920</b>
<b>Non-interest income</b>	<b>23,379</b>	<b>34,443</b>	<b>22,869</b>	<b>51,997</b>	<b>43,205</b>	<b>46,100</b>
Provision charged	(955)	15,669	(9,042)	(321)	2,026	2,226
Operating expenses	43,966	53,673	66,677	81,450	83,461	87,423
<b>Profit/loss to shareholders</b>	<b>30,882</b>	<b>32,063</b>	<b>53,180</b>	<b>56,873</b>	<b>52,569</b>	<b>52,209</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Cash & Treasury Balances	267,937	143,004	277,330	263,464	289,810	318,791
Investments	1,496,542	1,415,194	4,385,217	1,735,171	1,475,168	1,600,904
Advances	646,188	921,837	613,566	1,040,012	1,149,418	1,269,771
Operating Fixed Assets	70,769	73,223	76,044	84,471	93,833	104,233
Other Assets	136,729	205,495	222,842	165,905	182,495	200,745
<b>Total Assets</b>	<b>2,618,166</b>	<b>2,758,753</b>	<b>5,574,998</b>	<b>3,289,023</b>	<b>3,190,725</b>	<b>3,494,444</b>
Borrowings from FIs	563,285	564,519	2,815,471	645,214	298,958	328,854
Deposits	1,750,944	1,838,367	2,350,541	2,233,014	2,456,315	2,701,947
Other Liabilities	99,295	146,847	156,486	149,296	163,069	178,186
<b>Total Liabilities</b>	<b>2,413,523</b>	<b>2,549,733</b>	<b>5,322,497</b>	<b>3,027,524</b>	<b>2,918,342</b>	<b>3,208,987</b>
Equity	204,643	209,020	252,501	261,499	272,382	285,426
<b>Total Liabilities &amp; Equity</b>	<b>2,618,166</b>	<b>2,758,753</b>	<b>5,574,998</b>	<b>3,289,023</b>	<b>3,190,725</b>	<b>3,494,413</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.

**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%

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