

United Bank Limited
Result Preview

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

Pakistan Research

UBL - 2QCY21 EPS to arrive at PKR 5.50, up 6% YoY

- UBL is scheduled to announce its 2QCY21 financial results today. In this regard, we expect the bank to post profit after tax of PKR 6.7bn (EPS PKR 5.50) in 2QCY21, up 6% YoY. This will take cumulative earnings for 1HCY21 to PKR 11.6/share, up 24% YoY. The bank is also expected to announce an interim cash dividend of PKR 3.5/share, taking the cumulative payout to PKR 7.5/share for 1HCY21.
- Despite 17% YoY decline in NII in 2QCY21, UBL earnings are expected to grow by 6% YoY due to normalization of the provisioning cost. To recall, UBL increased its coverage against the international non performing portfolio last year and major provisioning was charged in the same year.
- Resultantly, provisioning expense is expected to clock in at PKR 893mn (down 84% YoY) in 2QCY21. For, 1HCY21, the cumulative provisions likely to stand at PKR 1.2bn, down 87% YoY.
- Sequentially, bank's earning is likely to decline by 9% QoQ which can be attributable to absence of capital gains. UBL booked PKR 1.8bn capital gain on foreign sovereign bonds and equities in 1QCY21.
- Operating expenses during the quarter are likely to increase by 9% YoY to PKR 10.8bn in 2QCY21 due to the normalization of the business activity as well as branch network expansion. Resultantly, the cost to income ratio is expected to reach at 48% in 2QCY21 from 38% in 2QCY20.
- We have a 'BUY' stance on the stock with TP of PKR 160/share whereas the dividend yield stands at 10.6%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	160
Current Price (PKR)	127
Upside/(Downside) (%)	+ 26.3%
Dividend Yield (%)	10.6%
Total Return (%)	+ 37%
12-month High (PKR)	149
12-month Low (PKR)	106
Outstanding Shares (mn)	1,224.18
Market Cap (PKR mn)	155,287
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY20	2QCY21E	YoY	1HCY20	1HCY21E	YoY
M/up Earned	42,964	33,510	-22%	86,345	65,336	-24%
M/up Expense	21,186	15,517	-27%	47,224	30,484	-35%
Net Interest Income	21,778	17,994	-17%	39,121	34,852	-11%
Non-Interest Income	4,261	4,757	12%	8,926	10,540	18%
Total Provisions	5,729	893	-84%	9,430	1,247	-87%
Admin Expenses	9,940	10,811	9%	19,813	20,933	6%
Profit Before Tax	10,370	11,047	7%	18,805	23,212	23%
Taxation	4,029	4,308	7%	7,404	9,069	22%
Profit After Tax	6,341	6,739	6%	11,401	14,143	24%
EPS	5.18	5.50	6%	9.3	11.6	24%
DPS	-	3.50	NM	2.5	7.5	200%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	12.4	15.6	17.1	20.1	23.5	29.1
EPS Growth	-13.9%	-12.6%	9.2%	17.7%	17.2%	23.5%
DPS	11.0	12.0	12.0	13.5	14.0	17.5
PER	10.2	8.1	7.4	6.3	5.4	4.4
Dividend Yield	8.7%	9.5%	9.5%	10.6%	11.0%	13.8%
P/B	1.0	0.9	0.8	0.8	0.8	0.7
ROE	9.8%	11.9%	11.8%	13.4%	15.2%	17.5%

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 16.3% to arrive to calculate exit PBV, along with a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-21 PT of PKR 160/share which results in an upside of 37% along with a dividend yield of 10.6%. 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 rate scenario.

Risks

Key risks to our investment thesis are: 1) lower than anticipated growth in advances and deposits 2) higher than anticipated 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 March 31, 2021, UBL operated 1,348 branches in Pakistan, including 100 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	CY21F	CY22F	CY23F
Mark-up/interest earned	113,198	153,676	152,003	133,901	170,254	205,623
Mark-up/interest expensed	56,964	91,902	77,044	64,033	88,501	109,352
Net interest income	56,234	61,774	74,959	69,868	81,753	96,271
Non-interest income	25,072	21,676	17,094	18,683	17,005	17,734
Provision charged	12,914	8,220	16,768	4,932	4,529	4,739
Operating expenses	36,768	40,989	41,093	42,987	46,195	49,946
Extraordinary / Unusual Item	(6,657)	0	0	0	0	0
Profit/loss to shareholders	15,226	19,134	20,898	24,595	28,821	35,592

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Cash & Treasury Balances	183,467	235,862	250,838	280,443	312,701	347,098
Investments	786,375	840,448	1,128,674	1,289,132	1,461,533	1,646,370
Advances	715,937	636,220	530,279	577,207	619,146	664,108
Operating Fixed Assets	47,556	54,348	53,037	49,976	46,650	43,544
Other Assets	156,263	126,817	86,754	84,898	94,663	105,076
Total Assets	1,889,599	1,893,695	2,049,583	2,281,656	2,534,693	2,806,196
Borrowings from FIs	268,124	154,484	128,987	144,211	160,799	178,487
Deposits	1,366,060	1,467,063	1,640,212	1,833,796	2,044,726	2,269,646
Other Liabilities	104,145	103,078	96,310	120,826	133,574	147,167
Total Liabilities	1,738,329	1,724,626	1,865,510	2,098,833	2,339,099	2,595,300
Equity	151,270	169,069	184,073	182,823	195,594	210,896
Total Liabilities & Equity	1,889,599	1,893,695	2,049,583	2,281,656	2,534,693	2,806,196

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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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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