

United Bank Limited

Result Review & Key takeaways

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

Pakistan Research

UBL – Provisioning reversals lift 2QCY21 EPS to PKR 6.20, up 20% YOY

- United bank Limited (UBL) announced its 2QCY21 results, where the bank posted surprise earnings growth of 20% YoY to PKR 6.20/share. The announced result was higher than market expectations. This took cumulative earnings for 1HCY21 to PKR 12.3/share, up 32% YoY. Along with the result, the bank also announced an interim cash dividend of PKR 4.0/share, taking the cumulative payout to PKR 8.0/share for 1HCY21.
- The bank also conducted its analyst briefing yesterday to discuss the main drivers of higher earnings.
- The bank highlighted that, higher non-interest income and reversals on domestic loan book lifted the profitability of the bank during 2QCY21.
- The management informed that it had booked net reversal of PKR 1.1bn in 1HCY21 on domestic book vs charge of PKR 1.1 bn, in 1H last year. Domestic asset quality of the bank continues to improve to 5.8% at end of June-21 compared to 6.3% in Dec-20.
- As far as the international book is concerned, UBL has increased its coverage ratio to 86.3% in June-21 compared to 85.9% in Dec-20. The management also hinted that provisioning reversals are expected on international book as gulf region's economies are reviving.
- Higher non-interest income was well supported by increase in card related fees, commission on remittances and commission on bancassurance.
- Operating expenses remained higher by 7% YoY to PKR 10.6bn in 2QCY21 mainly due to continuous investment in IT and technology and outsourced services. Resultantly, the cost to income ratio clocked in at 45% in 2QCY21 vs 38% in 2QCY20.
- Effective tax rate of the bank clocked in at 44.5% in 2QCY21. The management updated that the bank has charged additional tax of 5% as bank's ADR came in below than 40%. To recall, government has recently imposed additional tax on banks whose ADR falls below 50% to encourage lending activities.
- We have a 'BUY' stance on the stock with PT 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)	156,046
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY20	2QCY21	YoY	1HCY20	1HCY21	YoY
M/up Earned	42,964	35,925	-16%	86,345	67,751	-22%
M/up Expense	21,186	17,694	-16%	47,224	32,662	-31%
Net Interest Income	21,778	18,231	-16%	39,121	35,089	-10%
Non-Interest Income	4,261	5,646	33%	8,926	11,429	28%
Total Provisions	5,729	(441)	-108%	9,430	(87)	-101%
Admin Expenses	9,940	10,633	7%	19,813	20,755	5%
Profit Before Tax	10,370	13,685	32%	18,805	25,850	37%
Taxation	4,029	6,093	51%	7,404	10,853	47%
Profit After Tax	6,341	7,593	20%	11,401	14,997	32%
EPS	5.18	6.20	20%	9.3	12.3	32%
DPS	0.00	4.00	NM	2.5	8.0	220%

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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