

United Bank Limited

Result Review

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

Pakistan Research

UBL: 1QCY22 unconsolidated EPS clocked in at PKR 7.78, up 29% YoY; DPS PKR 5.0

- United Bank Limited (UBL) announced its 1QCY22 financial results today, wherein the bank posted upbeat earnings growth of 29% YoY to PKR 7.78/share. The result is also accompanied with interim dividend of PKR 5.0/share.
- During the quarter, NII grew 27% YoY to PKR 21.5bn wherein interest expense surged at a higher pace of 77% YoY versus 51% YoY increase in the interest income due to abrupt rise in interest rates.
- Non-interest income also drove the solid profitability as it surged 17% YoY to PKR 6.7bn in 1QCY22. Fee & commission income grew 29% YoY to PKR 3.9bn and forex income increased 165% YoY to PKR 1.3bn while dividend income also supported the non-interest income growth.
- Operating expenses remained higher by 19% YoY to PKR 12.1bn in 1QCY21. Cost to income ratio settled at 43% in 1QCY22 vs 45% in 1QCY21.
- Effective tax rate of the bank came in at 40% in 4QCY22 (1QCY21:39%). Higher effective tax can be due to lower ADR related to additional tax imposed on the banks.
- On a sequential basis, earnings of the bank grew by 17% QoQ led by 19% growth in NII. While fee and commission income rose by 17% QoQ which also supported the bottomline growth.
- We have a 'BUY' stance on the stock with Dec-22 PT of PKR 190/share, providing a capital upside of 33.5% whereas dividend yield stands at 15.5%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	190
Current Price (PKR)	145
Upside/(Downside) (%)	+ 33.5%
Dividend Yield (%)	15.5%
Total Return (%)	+ 48.9%
12-month High (PKR)	150
12-month Low (PKR)	113
Outstanding Shares (mn)	1,224.18
Market Cap (PKR mn)	173,834
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY21	1QCY22	YoY	QoQ
M/up Earned	31,826	47,956	51%	23%
M/up Expense	14,968	26,483	77%	27%
Net Interest Income	16,858	21,473	27%	19%
Non-Interest Income	5,783	6,780	17%	11%
Total Provisions	354	347	-2%	NM
Admin Expenses	10,122	12,059	19%	1%
Profit Before Tax	12,165	15,847	30%	24%
Taxation	4,760	6,319	33%	35%
Profit After Tax	7,405	9,528	29%	17%
EPS	6.05	7.78	29%	17%
DPS	4.00	5.00		

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	15.6	17.1	25.2	33.2	36.5	36.5
EPS Growth	-12.6%	9.2%	47.8%	31.6%	9.9%	0.0%
DPS	12.0	12.0	18.0	22.0	23.5	23.5
PER	9.1	8.3	5.6	4.3	3.9	3.9
Dividend Yield	8.5%	8.5%	12.7%	15.5%	16.5%	16.5%
P/B	1.0	0.9	0.8	0.8	0.7	0.7
ROE	11.9%	11.8%	15.9%	19.1%	19.5%	18.1%

Source: Company Accounts, Akseer Research

Saqib Hussain

saqib.hussain@alphacapital.com.pk

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-22 PT of PKR 190/share which results in an upside of 33.5% along with a dividend yield of 15.5%. 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 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 Dec 31, 2022, UBL operated through 1,341 branches in Pakistan, including 145 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	CY22E	CY23F	CY24F
Mark-up/interest earned	153,676	152,003	147,974	240,093	264,918	267,454
Mark-up/interest expensed	91,902	77,044	76,216	139,416	149,084	146,373
Net interest income	61,774	74,959	71,759	100,677	115,834	121,081
Non-interest income	21,676	17,094	23,379	22,621	21,773	22,881
Provision charged	8,220	16,768	(955)	2,230	4,785	5,665
Operating expenses	40,989	41,093	43,966	50,376	55,045	60,577
Profit/loss to shareholders	19,134	20,898	30,882	40,647	44,655	44,657

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Cash & Treasury Balances	235,862	250,838	267,937	314,745	346,219	380,841
Investments	840,448	1,128,674	1,496,542	1,365,107	1,464,343	1,555,741
Advances	636,220	530,279	646,188	750,665	868,513	1,013,634
Operating Fixed Assets	54,348	53,037	70,769	66,058	61,661	57,417
Other Assets	126,817	86,754	136,729	152,152	167,367	184,104
Total Assets	1,893,695	2,049,583	2,618,166	2,648,727	2,908,104	3,191,737
Borrowings from FIs	154,484	128,987	563,285	257,103	282,814	311,095
Deposits	1,467,063	1,640,212	1,750,944	2,056,826	2,262,509	2,488,760
Other Liabilities	103,078	96,310	99,295	114,894	125,384	136,922
Total Liabilities	1,724,626	1,865,510	2,413,523	2,428,824	2,670,706	2,936,777
Equity	169,069	184,073	204,643	219,903	237,398	254,960
Total Liabilities & Equity	1,893,695	2,049,583	2,618,166	2,648,727	2,908,104	3,191,737

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

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.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.pk