

United Bank Limited

Result Preview

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

Pakistan Research

UBL: 3QCY22 unconsolidated EPS expected at PKR 6.60, up 4% YoY; DPS PKR 5.0

- UBL is scheduled to announce its 3QCY22 financial results on 19th October, 2022. We expect the bank to post unconsolidated PAT of PKR 8.1bn (EPS PKR 6.6) up 4% YoY during 3QCY22. This would take 9MCY22 EPS to PKR 16.3 down 12% YoY. Along with the result we expect the bank to announce an interim DPS of PKR 5.0, taking cumulative DPS to PKR 14.0 for 9MCY22.
- NII to grow by 99% YoY to PKR 34.6bn due to strong balance sheet growth as assets are expected to reprice during 3Q.
- Non-interest income is expected to remain strong during 3QCY22, growing by 30% YoY to PKR 7.6bn. Fee & commission income to grow by 22% YoY along with an increase in forex income by 120% YoY.
- We expect the bank to build the provision to avoid any credit losses owing to the stressed economic outlook. We have assumed provisioning expense of PKR 1.6bn during 3QCY22 as compared to the reversal of PKR 327mn SPLY.
- Operating expenses are expected to increase by 20% YoY to PKR 13.5bn in 3QCY22 due to the inflationary pressures. However, cost to income ratio is likely to settle at 32% in 3QCY22 vs 46% in 3QCY21 due to higher revenues.
- Effective tax rate of the bank is expected to reach at 73% in 3QCY22 vs 42% in 3QCY21. Higher effective tax can be attributable to a rise in corporate tax rates for the banking industry and additional tax imposed on the banks with lower ADR in FY23 budget. We have assumed gross ADR of the bank at 39.5% in 3QCY22 vs 35.9% in 3QCY21.
- We have a 'BUY' stance on the stock with June-23 PT of PKR 155/share, providing a capital upside of 38.3% whereas dividend yield stands at 16.2%.

Key Data

PSX Ticker	UBL
Target Price (PKR)	155
Current Price (PKR)	112.3
Upside/(Downside) (%)	+ 38.3%
Dividend Yield (%)	16.2%
Total Return (%)	+ 54.5%
12-month High (PKR)	150.9
12-month Low (PKR)	107.1
Outstanding Shares (mn)	1,224.18
Market Cap (PKR mn)	137,500
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
M/up Earned	41,307	82,311	99%	109,058	185,159	70%
M/up Expense	22,707	47,680	110%	55,369	105,421	90%
Net Interest Income	18,601	34,632	86%	53,689	79,737	49%
Non-Interest Income	5,854	7,614	30%	17,283	22,315	29%
Total Provisions	(327)	1,640	NM	(415)	2,406	NM
Admin Expenses	11,308	13,561	20%	32,063	38,366	20%
Profit Before Tax	13,474	27,045	101%	39,324	61,280	56%
Taxation	5,711	18,969	232%	16,564	41,343	150%
Profit After Tax	7,763	8,076	4%	22,760	19,938	-12%
EPS	6.34	6.60	4%	18.59	16.29	-12%
DPS	4.00	5.00	-	12.0	14.0	-

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	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 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of PKR 155/share which results in an upside of 38.3% along with a dividend yield of 16.2%. 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 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, and Europe. The bank was founded in 1959 and is headquartered in Karachi, Pakistan. United Bank Limited is a subsidiary of Bestway (Holdings) Limited. As of June 30, 2022, UBL operated through 1,340 branches in Pakistan, including 150 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	CY22F	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	CY22F	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

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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.

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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 (Formerly: Alfa Adhi Securities (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