

## United Bank Limited

### Result Review

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

Pakistan Research

## UBL: 1QCY24 EPS clocked in at PKR 12.73, up 12% YoY; DPS PKR 11.00

- UBL announced its 1QCY24 financial result today, wherein the bank reported an unconsolidated EPS of PKR 12.73, up 12% YoY. Along with the result, the bank announced an interim cash dividend of PKR 11.00/share.
- NII decreased by 20% YoY to PKR 26.6bn, as a surge in markup expense outpaced the increase in markup earned during the quarter due to a considerable increase of 3.0x in REPO borrowing.
- Non-interest income increased by 2.3x YoY to PKR 20.4bn due to substantial capital gains of PKR 12.8bn. Fee & commission income grew by 22% YoY, while forex income depicted a decline of 38% YoY.
- The bank booked a provision reversal of PKR 1.7bn for 1QCY24 against provision expense of PKR 2.6bn SPLY.
- For 1QCY24, operating expenses clocked in at PKR 18.3bn, up 22% YoY which we believe is due to the inflationary pressure and IT related spending. Subsequently, cost to income ratio was recorded at 39% in 1QCY24 vs 36% in 1QCY23.
- Effective tax rate of the bank for 1QCY24 came in at 49% vs 43% in 1QCY23. However, taxation expense is lower than our expectation given the absence of ADR related tax.
- We have a 'BUY' stance on the stock with Dec-24 PT of PKR 218/share. The stock is offering a capital upside of 13%, along with a dividend yield of 20%.

#### Key Data

PSX Ticker	UBL
Target Price (PKR)	218
Current Price (PKR)	193
Upside/(Downside) (%)	+13%
Dividend Yield (%)	20%
Total Return (%)	33%
12-month High (PKR)	199
12-month Low (PKR)	106
Outstanding Shares (mn)	1,224
Market Cap (PKR mn)	236,169
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	1QCY23	1QCY24	YoY
M/up Earned	89,837	238,627	166%
M/up Expense	56,582	212,012	275%
<b>Net Interest Income</b>	<b>33,255</b>	<b>26,614</b>	<b>-20%</b>
Non-Interest Income	8,781	20,397	132%
Total Provisions	2,615	(1,720)	-166%
Admin Expenses	15,023	18,279	22%
<b>Profit Before Tax</b>	<b>24,399</b>	<b>30,451</b>	<b>25%</b>
Taxation	10,496	14,863	42%
<b>Profit After Tax</b>	<b>13,903</b>	<b>15,588</b>	<b>12%</b>
EPS	11.36	12.73	12%
DPS	11.00	11.00	0.0%

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	9.3%	11.4%	22.8%	19.9%	17.9%	17.9%
P/B	1.1	1.0	0.9	0.8	0.8	0.8
ROE	15.9%	15.5%	23.0%	22.1%	19.7%	18.7%

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 19% to arrive to calculate exit PBV, along with a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

**Investment Thesis**

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of PKR 218/share which results in an upside of 13% along with a dividend yield of 20%. Our investment case on UBL is based on (1) strong balance sheet growth (2) investments ideally positioned to benefit from monetary easing.

**Risks**

Key risks to our investment thesis are: 1) lower than estimated growth in advances and deposits 2) 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 December 31, 2023, UBL operated through 1,356 branches in Pakistan, including 209 Islamic banking branches; and 2 branches in Karachi Export Processing Zone, as well as 8 branches internationally.

**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.

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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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