

United Bank Limited

Result Review

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

Pakistan Research

UBL: 4QCY22 unconsolidated EPS clocked in at PKR 10.9, up 64% YoY; DPS at PKR 9.0

- UBL announced its 4QCY22 financial results today, wherein the bank posted an unconsolidated PAT of PKR 13.3bn (EPS PKR 10.9) up 64% YoY. This took the cumulative CY22 EPS to PKR 26.2, down 4% YoY. Along with the result, the bank announced a final cash dividend of PKR 9.0/share, taking cumulative CY22 DPS to PKR 22.0.
- NII increased by 68% YoY to PKR 30.4bn due to higher interest rates during 4Q. Interest earning grew by 91% YoY, while interest expense accelerates with higher pace of 111% YoY.
- Non-interest income increased by 102% YoY to PKR 12.3bn during the quarter under review. This massive increase could be attributed to a one-off in other income (await clarity) as well as 25% YoY increase in fee & commission income.
- UBL recorded provision expense of PKR 10.3bn during 4Q against the reversal of PKR 541mn in SPLY. This is possibly due to provisions taken against investments in Pakistan Eurobonds (await clarity).
- Operating expenses increased by 25% YoY to PKR 14.8bn in 4QCY22 due to the inflationary pressures. However, cost to income ratio settled at 35% in 4QCY22 vs 49% in 4QCY21 on back of higher revenues.
- Effective tax rate of the bank clocked in at 25% in 4QCY22 vs 37% in 4QCY21. The lower tax rate is due to the reversal of ADR related taxes charged during 9M CY22.
- We have a 'BUY' stance on the stock with Dec-23 PT of PKR 157/share. The stock is offering a capital upside of 53%, along with a dividend yield of 23.4%.

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | UBL |
| Target Price (PKR) | 157 |
| Current Price (PKR) | 102 |
| Upside/(Downside) (%) | + 53% |
| Dividend Yield (%) | 23.4% |
| Total Return (%) | + 76% |
| 12-month High (PKR) | 151 |
| 12-month Low (PKR) | 92 |
| Outstanding Shares (mn) | 1,224.18 |
| Market Cap (PKR mn) | 125,442 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

| | 4QCY21 | 4QCY22 | YoY | CY21 | CY22 | YoY |
|----------------------------|--------|--------|------|---------|---------|-----|
| M/up Earned | 38,916 | 74,372 | 91% | 147,974 | 250,679 | 69% |
| M/up Expense | 20,847 | 43,937 | 111% | 76,216 | 147,469 | 93% |
| Net Interest Income | 18,069 | 30,436 | 68% | 71,759 | 103,209 | 44% |
| Non-Interest Income | 6,096 | 12,323 | 102% | 23,379 | 34,443 | 47% |
| Total Provisions | (541) | 10,253 | NM | (955) | 15,669 | NM |
| Admin Expenses | 11,903 | 14,849 | 25% | 43,966 | 53,673 | 22% |
| Profit Before Tax | 12,803 | 17,657 | 38% | 52,127 | 68,310 | 31% |
| Taxation | 4,681 | 4,356 | -7% | 21,245 | 36,247 | 71% |
| Profit After Tax | 8,122 | 13,301 | 64% | 30,882 | 32,063 | 4% |
| EPS | 6.6 | 10.9 | 64% | 25.2 | 26.2 | 4% |
| DPS | 6.0 | 9.0 | 50% | 18.0 | 22.0 | 22% |

Key Financial Ratios

| | CY19A | CY20A | CY21A | CY22E | CY23F | CY24F |
|----------------|--------|-------|-------|-------|-------|-------|
| EPS | 15.6 | 17.1 | 25.2 | 26.2 | 32.3 | 40.3 |
| EPS Growth | -12.6% | 9.2% | 47.8% | 3.8% | 23.4% | 24.8% |
| DPS | 12.0 | 12.0 | 18.0 | 22.0 | 24.0 | 30.0 |
| BVPS | 138.1 | 150.4 | 167.2 | 172.0 | 178.0 | 188.0 |
| PER | 6.6 | 6.0 | 4.1 | 3.9 | 3.2 | 2.5 |
| Dividend Yield | 11.7% | 11.7% | 17.6% | 21.5% | 23.4% | 29.3% |
| P/B | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 |
| ROE | 11.9% | 11.8% | 15.9% | 15.4% | 18.5% | 22.0% |

Source: Company Accounts, Akseer Research

Muhammad Atif
muhammad.atif@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% to arrive to calculate exit PBV, along with a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of PKR 157/share which results in an upside of 53% along with a dividend yield of 23.4%. 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 September 30, 2022, UBL operated through 1,338 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 | CY22A | CY23F | CY24F |
| Mark-up/interest earned | 153,676 | 152,003 | 147,974 | 250,679 | 382,045 | 384,265 |
| Mark-up/interest expensed | 91,902 | 77,044 | 76,216 | 147,469 | 246,698 | 236,564 |
| Net interest income | 61,774 | 74,959 | 71,759 | 103,209 | 135,347 | 147,701 |
| Non-interest income | 21,676 | 17,094 | 23,379 | 34,443 | 24,919 | 25,275 |
| Provision charged | 8,220 | 16,768 | (955) | 15,669 | 19,160 | 8,634 |
| Operating expenses | 40,989 | 41,093 | 43,966 | 53,673 | 63,540 | 77,703 |
| Profit/loss to shareholders | 19,134 | 20,898 | 30,882 | 32,063 | 39,559 | 49,384 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | CY19A | CY20A | CY21A | CY22F | CY23F | CY24F |
| Cash & Treasury Balances | 235,862 | 250,838 | 267,937 | 307,591 | 338,351 | 372,186 |
| Investments | 840,448 | 1,128,674 | 1,496,542 | 1,065,350 | 1,180,153 | 1,302,391 |
| Advances | 636,220 | 530,279 | 646,188 | 923,373 | 1,003,162 | 1,098,081 |
| Operating Fixed Assets | 54,348 | 53,037 | 70,769 | 71,625 | 68,358 | 65,887 |
| Other Assets | 126,817 | 86,754 | 136,729 | 165,744 | 182,319 | 200,550 |
| Total Assets | 1,893,695 | 2,049,583 | 2,618,166 | 2,533,683 | 2,772,342 | 3,039,095 |
| Borrowings from FIs | 154,484 | 128,987 | 563,285 | 180,218 | 198,239 | 218,063 |
| Deposits | 1,467,063 | 1,640,212 | 1,750,944 | 2,010,080 | 2,211,088 | 2,432,197 |
| Other Liabilities | 103,078 | 96,310 | 99,295 | 132,865 | 145,151 | 158,667 |
| Total Liabilities | 1,724,626 | 1,865,510 | 2,413,523 | 2,323,163 | 2,554,479 | 2,808,927 |
| Equity | 169,069 | 184,073 | 204,643 | 210,521 | 217,863 | 230,168 |
| Total Liabilities & Equity | 1,893,695 | 2,049,583 | 2,618,166 | 2,533,683 | 2,772,342 | 3,039,095 |

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 (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@alphacapital.com.pk