

## Foundation Alert

### UBL: Conference Call Key Takeaways

#### Event

- United Bank Limited (UBL PA) held its conference call today to discuss 2QCY21 results and the future outlook of the bank. Following are the key takeaways of the briefing.

#### Impact

- To recall, the bank posted consolidated earnings of Rs6.04/sh (up/down by 22/3% YoY/QoQ). This takes 1HCY21 EPS to clock in at Rs12.24/sh (up 37% YoY). The result is accompanied with an interim cash dividend of Rs4.0/sh which takes total cash dividend for 1HCY21 to stand at Rs8.0/sh.
- The bank's deposit base grew by 12.8% during 1HCY21 to stand at Rs1.8tn based on ↑20% YoY increase in average domestic deposits. Average domestic current/saving account deposits registered a decent growth of 22/16% YoY. This growth in current/saving deposits increased avg. CA/CASA to 43/85% up/down 9/4bps compared to same period last year. UBL's average market share in the deposit base increased to 8.3% (↑30bps) compared to 8% in the previous year.
- UBL's investments posted a growth of 29% during 1HCY21 to stand at Rs1,457bn. During 1HCY21, UBL has increased its T-Bill/Floating Rate PIB investments by 84/24% to Rs634/407bn whereas exposure in fixed rate PIBs declined by 12% to Rs208bn. Yields on T-bill investment stands at 7.5% while yield on floating/fixed rate PIBs stand at 7.9/10.3%. Management believes that the treasury book is well placed to ride the interest rate cycle. Furthermore, management also shared that average maturity of PIBs stands at 1.3yrs with 3QCY21 accounting for the major portion of upcoming maturities.
- Domestic advances registered a modest growth of 5% during 1HCY21 whereas international advances increased by 8% to clock in at US\$648mn. As a result, advances to deposit ratio clocked in at 31%, ↓260bps in 1HCY21. Management expects this ratio to improve going forward as it inclined towards exploring opportunities in housing, consumer, agriculture and corporate space.
- During 1HCY21, the bank recorded a provision charge of US\$6.6mn on the international portfolio increasing its coverage ratio to 86.3%. On the other hand, the bank reported net reversals in the domestic book of Rs1.1bn compared to equivalent charge in the same period last year.
- Effective tax rate for the 1HCY21 clocked in on the higher side (42%) due to higher tax charge in 2QCY21 OF 45% to account for additional tax burden levied upon banks in the Federal budget. As per the management, the banks will be charged additional tax on their total income from federal government securities. However, finer details related to the subject is yet to be released by the federal government.
- The bank stand well capitalized with CAR of 23.5% reflecting sufficient buffer over regulatory requirements.

#### Outlook

- We have an 'Outperform' rating on the stock. The bank is currently trading at an attractive forward P/B of 0.79x.

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Fig 01: UBL 2QCY21 earnings review

Income Statement	2QCY21	2QCY20	YoY	QoQ	1HCY21	YoY
Interest Earned	36,874	44,069	-16%	12%	69,804	-21%
Interest Expensed	18,044	21,789	-17%	17%	33,470	-31%
<b>Net Interest Income (NII)</b>	<b>18,829</b>	<b>22,280</b>	<b>-15%</b>	<b>8%</b>	<b>36,334</b>	<b>-9%</b>
Fee Income	3,652	2,642	38%	5%	7,121	17%
Dividend Income	183	218	-16%	-27%	435	10%
Foreign Exchange Income	736	1,050	-30%	40%	1,261	-31%
Gain on Securities	710	400	77%	-62%	2,584	201%
Other Income	60	312	-81%	-55%	195	-63%
<b>Total Non Markup Income</b>	<b>5,341</b>	<b>4,623</b>	<b>16%</b>	<b>-15%</b>	<b>11,596</b>	<b>20%</b>
<b>Share of Profit from Associates</b>	<b>73</b>	<b>192</b>	<b>-62%</b>	<b>-52%</b>	<b>225</b>	<b>409%</b>
<b>Total Income</b>	<b>24,243</b>	<b>27,095</b>	<b>-11%</b>	<b>1%</b>	<b>48,155</b>	<b>-3%</b>
<b>Non-Markup Expense</b>	<b>11,297</b>	<b>10,887</b>	<b>4%</b>	<b>2%</b>	<b>22,354</b>	<b>3%</b>
Operating Expense	11,008	10,632	4%	2%	21,793	4%
WWF	273	284	-4%	10%	522	4%
Other Charges	15	(29)	-152%	-39%	39	-74%
<b>Profit Before Provisions</b>	<b>12,946</b>	<b>16,208</b>	<b>-20%</b>	<b>1%</b>	<b>25,801</b>	<b>-9%</b>
Provisions	(534)	6,251	-109%	-242%	(158)	-102%
<b>Profit Before Taxation</b>	<b>13,480</b>	<b>9,957</b>	<b>35%</b>	<b>8%</b>	<b>25,958</b>	<b>42%</b>
Taxation	6,127	4,125	49%	25%	11,020	46%
<b>Profit After Taxation</b>	<b>7,353</b>	<b>5,831</b>	<b>26%</b>	<b>-3%</b>	<b>14,939</b>	<b>39%</b>
<b>PAT Attributable to Shareholders</b>	<b>7,389</b>	<b>6,068</b>	<b>22%</b>	<b>-3%</b>	<b>14,988</b>	<b>37%</b>
EPS	6.04	4.96	22%	-3%	12.24	
DPS	4.00	-			8.00	
ETR	45%	41%			42%	
Cost/Income	45%	39%			45%	

Source: Company Accounts, Foundation Research, August 2021

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.