

Earnings Review

UBL: 2QCY21 EPS clocked in at Rs6.04, up 22% YoY

Event

- United Bank Limited (UBL PA) announced its 2QCY21 result with 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 result is better than our estimates where deviation emanated from better net interest income and reversal in provision expense.

Impact

- The bank posted a PAT of Rs7,389mn in 2QCY21 (up/down by 22/3% YoY/QoQ). On YoY basis, increase in profitability is primarily contributed by higher non-markup income and reversal in provision expense compared to a hefty amount recorded in the same period last year. However, on QoQ basis, decline in profitability was a result of higher effective tax rate of 45% (4/6ppts higher YoY/QoQ).
- During 2QCY21, interest income/expense decreased by 16/17% YoY and increased by 12/17% QoQ to clock in at Rs36.87/18.04bn. As a result, net interest income decreased/increased by 15/8% YoY/QoQ. Net interest income came in better than our estimations.
- Non-markup income for 2QCY21 increased/decreased by 16/15% on YoY/QoQ. On YoY basis, increase in non-markup income was originated by higher fee income (↑38% YoY) and better capital gains (↑77% YoY). Whereas, QoQ drop was a result of lower capital gain (↓62% YoY) overwhelming the increase in forex income (↑40% YoY) and fee income (↑5% YoY).
- Operating expenses registered a modest increase of 4/2% YoY/QoQ to clock in at Rs11bn translating into a cost/income of 45%.
- The bank reported a reversal in provision expense of Rs534mn compared to an expense of Rs376/6,251mn in 1QCY21/2QCY20. Furthermore, the bank also reported higher effective tax rate of 45% (↑4/6ppts YoY/QoQ)

Outlook

- Going forward, we expect NII to recover due to recovery in banking spreads. However, likely increase in policy rate in coming quarters may exert some pressure in the short term until full asset repricing takes place. Whereas, recovery in economic activity and the delay in implementation of IFRS9 may keep the provisioning expense on the lower side.
- We have an 'Outperform' rating on the stock. The bank is currently trading at an attractive forward P/B of 0.79x.

Analyst

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Fig 01: UBL 2QCY21 earnings review

Income Statement	2QCY21	2QCY20	QoQ	YoY	1HCY21	1HCY20	YoY
Interest Earned	36,874	44,069	-16%	12%	69,804	88,443	-21%
Interest Expensed	18,044	21,789	-17%	17%	33,470	48,374	-31%
Net Interest Income (NII)	18,829	22,280	-15%	8%	36,334	40,069	-9%
Fee Income	3,652	2,642	38%	5%	7,121	6,104	17%
Dividend Income	183	218	-16%	-27%	435	396	10%
Foreign Exchange Income	736	1,050	-30%	40%	1,261	1,821	-31%
Gain on Securities	710	400	77%	-62%	2,584	858	201%
Other Income	60	312	-81%	-55%	195	524	-63%
Total Non Markup Income	5,341	4,623	16%	-15%	11,596	9,703	20%
Share of Profit from Associates	73	192	-62%	-52%	225	44	409%
Total Income	24,243	27,095	-11%	1%	48,155	49,817	-3%
Non-Markup Expense	11,297	10,887	4%	2%	22,354	21,602	3%
Operating Expense	11,008	10,632	4%	2%	21,793	20,947	4%
WWF	273	284	-4%	10%	522	503	4%
Other Charges	15	(29)	-152%	-39%	39	152	-74%
Profit Before Provisions	12,946	16,208	-20%	1%	25,801	28,506	-9%
Provisions	(534)	6,251	-109%	-242%	(158)	10,243	-102%
Profit Before Taxation	13,480	9,957	35%	8%	25,958	18,262	42%
Taxation	6,127	4,125	49%	25%	11,020	7,526	46%
Profit After Taxation	7,353	5,831	26%	-3%	14,939	10,737	39%
PAT Attributable to Shareholders	7,389	6,068	22%	-3%	14,988	10,946	37%
EPS	6.04	4.96	22%	-3%	12.24	8.94	
DPS	4.00	-			8.00	2.50	
ETR	45%	41%			42%	41%	
Cost/Income	45%	39%			45%	42%	

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