

Earnings Review

UBL: 3QCY21 EPS clocked in at Rs6.53, DPS Rs4.00

Event

- United Bank Limited (UBL PA) announced its 3QCY21 result with consolidated earnings of Rs6.53/sh (up/down by 43/9% YoY/QoQ). This takes cumulative earnings during 9M CY21 to Rs18.74/sh (↑39% YoY). The result is accompanied with a cash dividend of Rs4/sh translating into a cumulative dividend of Rs12/sh.
- The result is largely in line with our estimates with mild deviation emanated from reversal of provision expense.

Impact

- The bank posted a PAT of Rs8.0bn in 3QCY21 (up by 72/9% YoY/QoQ) while elevated loss from discontinued operations amounted to Rs1.2bn. On YoY basis, increase in profitability was a result of (1) reversal in provision expense of Rs708mn vs. expense of Rs5.5bn during 3QCY20 and (2) higher non-markup income ↑29% YoY offsetting the drop in Net Interest Income (NII). On QoQ basis, improvement in profitability was mainly driven by better NII ↑3% QoQ and impressive increase of ↑87% QoQ in FX Income.
- During 3QCY21, interest income/expense increased by 19/45% YoY while it registered a growth of 15/28% QoQ. This resulted in NII clocking at Rs19.39bn for the quarter recording an increase/decrease of 3/1% QoQ/YoY.
- Non-markup income clocked in at Rs5.8bn (up by 29/9% YoY/QoQ). On YoY basis, surge in non-markup income was driven by strong recovery in fee income (↑12% YoY) and dividend income of Rs523mn (↑4.6x YoY). This surge was further supported by impressive increase in FX income (↑12% YoY) and Gain on securities of Rs408mn (↑3.3x YoY) during the quarter. However, on QoQ basis, uptick in FX income (↑87% QoQ) and rebound in dividend income (↑2.9x, QoQ) resulted in higher non-markup income during the quarter.
- Operating expense remained upbeat and clocked in at Rs11.9bn translating into an increase of 10/8% YoY/QoQ. Consequently cost/income increased by 3/2ppt YoY/QoQ to stand at 47%.
- The bank booked a reversal in provisioning expense of Rs708mn compared to a reversal of 534mn in the previous quarter. In addition to this, UBL also reported a loss from discontinued operation of Rs1.17bn this quarter.

Outlook

- Going forward, we expect NII to recover due to recovery in banking spreads in the medium term. 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 with the Jun-22 TP of Rs176/sh.

Analyst

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Table 01: Earnings Review UBL 3QCY21

| | 3QCY21 | 3QCY20 | YoY | QoQ | 9MCY21 | 9MCY20 | YoY |
|--|---------------|---------------|-------------|-------------|---------------|---------------|------------|
| Interest Earned | 42,522 | 35,594 | 19% | 15% | 112,326 | 123,933 | -9% |
| Interest Expensed | 23,134 | 15,938 | 45% | 28% | 56,604 | 64,208 | -12% |
| Net Interest Income (NII) | 19,388 | 19,656 | -1% | 3% | 55,722 | 59,725 | -7% |
| Fee Income | 3,413 | 3,049 | 12% | -7% | 10,534 | 9,106 | 16% |
| Dividend Income | 523 | 113 | 364% | 186% | 958 | 509 | 88% |
| Foreign Exchange Income | 1,380 | 1,230 | 12% | 87% | 2,641 | 3,052 | -13% |
| Gain on Securities | 408 | 123 | 231% | -43% | 2,991 | 982 | 205% |
| Other Income | 97 | 2 | n.a | 62% | 293 | 572 | -49% |
| Total Non Markup Income | 5,822 | 4,518 | 29% | 9% | 17,417 | 14,220 | 22% |
| Share of Profit from Associates | 23 | 131 | -83% | -69% | 247 | 175 | 41% |
| Total Income | 25,232 | 24,305 | 4% | 4% | 73,387 | 74,119 | -1% |
| Non-Markup Expense | 12,176 | 11,027 | 10% | 8% | 34,531 | 32,627 | 6% |
| Operating Expense | 11,870 | 10,816 | 10% | 8% | 33,663 | 31,760 | 6% |
| WWF | 260 | 203 | 28% | -5% | 782 | 706 | 11% |
| Other Charges | 46 | 8 | 481% | 211% | 86 | 160 | -46% |
| Profit Before Provisions | 13,056 | 13,278 | -2% | 1% | 38,856 | 41,493 | -6% |
| | | | - | | | | - |
| Provisions | (708) | 5,501 | 113% | 32% | (866) | 15,453 | 106% |
| Profit Before Taxation | 13,764 | 7,777 | 77% | 2% | 39,722 | 26,040 | 53% |
| Taxation | 5,764 | 3,120 | 85% | -6% | 16,783 | 10,646 | 58% |
| PAT from Continuing Operations | 8,000 | 4,657 | 72% | 9% | 22,939 | 15,394 | 49% |
| Loss from Discontinued Operations | 1,177 | 1 | | | 1,070 | 11 | |
| PAT Attributable to Shareholders | 6,756 | 4,721 | 43% | -9% | 21,744 | 15,667 | 39% |
| EPS - Cont. Operations | 6.53 | 3.80 | | | 18.74 | 12.57 | |
| EPS - Total | 5.52 | 3.86 | | | 17.76 | 12.80 | |
| DPS | 4.00 | - | | | 12.00 | 2.50 | |
| Cost/Income | 47% | 44% | | | 46% | 43% | |
| ETR | 42% | 40% | | | 42% | 41% | |

Source: Company Accounts, Foundation Research, October 2021

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Recommendations definitions

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