

Foundation Alert

UBL: Analyst Briefing Key Takeaways

Event

- United Bank Limited (UBL PA) held its conference call today to discuss 3QCY21 results and the future outlook of the bank. Following are the key takeaways of the briefing.

Impact

- To recall, the bank posted a PAT of Rs6.75bn (EPS: 5.52) in 3QCY21 (up/down by 43/9% YoY/QoQ) taking cumulative PAT for 9MCY21 to Rs21.74bn (EPS: 17.76). The result was accompanied with a DPS of Rs4.0 taking cumulative DPS for 9MCY21 to Rs12.0.
- Revenue clocked in at Rs73.4bn during 9MCY21 compared to Rs74.2bn in 9MCY20. Management accredited this increase to non-interest income as Net Interest Income (NII) remained under pressure due to drop in interest rates. Non-markup income increased by 22% YoY for 9MCY21 which was mainly driven by decent growth in fee income (\uparrow 16% YoY) and higher gain on securities (\uparrow 3.0x, YoY).
- Cost to income ratio increased to 44% as admin expenses grew by \uparrow 6% YoY during 9MCY21. Management aims to tune down the cost to income ratio by promoting branch optimization and digitalization.
- Management shared that international provisioning charge amounted to US\$5.9mn during 9MCY21 vs. US\$81.5mn taking international coverage to 87.5% vs. 85.9% in 9MCY20. Meanwhile better recovery from domestic loans accounted for reversal of Rs1.4bn in 9MFY21.
- International loans from gulf region mainly accounts for 70% of NPLs from UAE. NPL from UAE mainly includes Hospitality, Services and Telecom.
- Bank's NPL coverage ratio is currently at 87.5% (\uparrow 1.6ppt YoY), which is expected to surpass 90% in coming quarters.
- Bank reported a loss of Rs1.2bn this quarter with regards to unwinding of Swiss subsidiary. This expense is expected to continue in the next quarter as well.
- Management expects the policy rate to rise further by 150bps by the end of Fiscal Year and has positioned their books accordingly.
- Management is optimistic with ROE generation (currently at 20%) in upcoming quarters given Bank's high CA ratio and exposure in short term and floating rate investment instruments.
- Currently Bank's ADR is at 39% which is expected to improve going forward.
- Currently fixed rate PIB instruments carries yield of \sim 9.1% with duration of 2.5yr.
- Bank is expected to maintain its dividend payout policy, despite CAR being on higher side.
- The implementation of IFRS9 is expected to have minor impact Rs8-9mn on the bottom line of the Bank.

Outlook

- We have an 'Outperform' rating on the stock with the Jun-22 TP of Rs176/sh.

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