

## Foundation Alert

### UBL to initiate due diligence of Telenor Microfinance Bank

#### Event

- State Bank of Pakistan has granted in-principle approval to UBL to commence due diligence of Telenor Microfinance Bank (TMB) in respect of proposed acquisition of 55% of Telenor microfinance bank limited held by Telenor Pakistan BV.

#### Impact

- The bank is jointly owned by Telenor Pakistan BV (joint stock company based in Amsterdam) with 55% shareholding and Alipay (Hong Hong) Holding Limited, a subsidiary of Ant Group Co. Ltd China, with 45% shareholding.
- In March 2018, Ant Group acquired 45% strategic stake in TMB for US\$184.5mn. This translated into valuation of US\$410mn of TMB.
- As of 31<sup>st</sup> Dec 2020, TMB has more than 170k touch points in the country and 8.14/3.45m active users of easypaisa mWallet/easypaisa app.
- As of end-3QCY21, TMB has total deposits of Rs36.0bn with bifurcation of 63/9% CA/SA.
- Bank has total assets Rs50.8bn and equity of Rs4.1bn.
- TMB has book value of Rs7.94/sh.
- Bank's net advances stand at Rs10.8bn which translates into 30% ADR. Infection remains on higher end with 17% NPLs of gross advances, however bank seems to be imprudent as coverage remains at 52%.
- Bank's investment book stands at Rs12.4bn (34% IDR), with investments reliance on T-bills only.
- On the profitability front, bank has reported loss of Rs7.6bn in 9MCY21, compared to loss of Rs7.9bn in the same period last year.
- Admin expenses occupies major portion of expenses with Rs12.2bn (↓12% YoY) in 9MCY21. This is mainly driven from commissions to retailers and franchisees in respect of branchless banking, and customer incentives.
- To note, MCB Bank also showed interest in acquiring TMB in latter half of last year.

#### Outlook

- UBL remains strong on profitability outlook, with an 'outperform' stance. We haven't incorporated the acquisition in our valuation as we await further progress on this front.

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**Recommendation's definitions**

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