

## Foundation Alert

### UBL: Conference Call Key Takeaways

#### Event

- United Bank Limited (UBL PA) held its conference call today to discuss CY21 results and the outlook of the bank. Following are the key takeaways of the briefing.

#### Impact

- The bank posted PAT of Rs30.4bn (EPS: 24.84) in CY21 (up by 46% YoY). The result was accompanied with a DPS of Rs6.0 taking cumulative DPS for CY21 to Rs18.0/sh.
- The increase in profitability was mainly due to (1) higher non-interest income, and (2) provision reversals in CY21.
- International loan book expensed provision of US\$6.2mn in CY21 as compared to US\$91.8mn in CY20. This improved international book coverage to 86.4% (85.9% SPLY).
- Meanwhile domestic loan book recorded reversal of Rs2.0bn in CY21 as compared to a charge of Rs1.9bn last year. The infection ratio for domestic book declined to 5.0% in Dec'21 (↓1.3ppt YoY).
- Deposits increased by 6.9% YoY to Rs1.88tn, with CASA improving by 50bps YoY to 85.9%.
- Cost of deposit improved to 3.3% in CY21 as compared to 4% in CY20.
- Investment book increased by 30.3% YoY to Rs1.5tn.
- Tbill/PIB-fixed/PIB-floater accumulated at Rs532/328/413bn, with yields of 9.4/9.7/8.7% respectively.
- A major chunk of PIB portfolio is expected to reprice in Feb and thereon in 1HCY22.
- Management believes the treasury book is well equipped to ride yield curve ahead.
- Meanwhile ADR clocked in at 41.6%, improving by 45/57bps YoY/QoQ. Yield on advances declined to 9.8% in CY21 as compared to 12.1% in CY20.
- CAR for the bank clocked in at 21.5% for Dec'21 as compared to 24.4% in Dec'20.
- Management aims to continuing de-risking international book as macroeconomics improves in GCC with rising oil prices and region hosting mega events.
- Management seems optimistic in real estate/construction as foreclosure laws implementation improves covering banks' exposure. Management plans to improve skewness in mortgage financing and lead deployment in gov'ts initiatives to stimulate the sector.
- Management is also keen on digital banking license and would pursue after accessing pros-and-cons.
- UBL is expected to maintain consistent dividend payout policy.

#### Outlook

- UBL low cost of deposits, because of its high CA, remains relatively immune to adverse changes in interest rate. Banks sufficient CAR keeps dividend payout outlook intact. We have Outperform stance on the stock with target price of Rs166.0 for Dec-22. The stock has a dividend yield of 11% and is currently trading at an attractive P/B of 0.8.

Table 01: Earnings Review UBL 4QCY21

	4QCY21	4QCY20	YoY	3QCY21	QoQ	CY21	CY20	YoY
Interest Earned	40,435	32,145	26%	42,522	-5%	152,761	156,079	-2%
Interest Expensed	21,422	14,797	45%	23,134	-7%	78,025	79,006	-1%
<b>Net Interest Income (NII)</b>	<b>19,014</b>	<b>17,348</b>	<b>10%</b>	<b>19,388</b>	<b>-2%</b>	<b>74,736</b>	<b>77,073</b>	<b>-3%</b>
Fee Income	4,183	3,580	17%	3,413	23%	14,717	12,830	15%
Dividend Income	612	364	68%	523	17%	1,571	872	80%
Foreign Exchange Income	1,511	806	87%	1,380	10%	4,152	3,858	8%
Gain on Securities	486	(371)	-231%	408	19%	3,478	610	470%
Other Income	111	247	-55%	97	14%	404	674	-40%
<b>Total Non Markup Income</b>	<b>6,904</b>	<b>4,625</b>	<b>49%</b>	<b>5,822</b>	<b>19%</b>	<b>24,321</b>	<b>18,844</b>	<b>29%</b>
<b>Share of Profit from Associates</b>	<b>95</b>	<b>330</b>	<b>-71%</b>	<b>23</b>	<b>320%</b>	<b>342</b>	<b>505</b>	<b>-32%</b>
<b>Total Income</b>	<b>26,012</b>	<b>22,303</b>	<b>17%</b>	<b>25,232</b>	<b>3%</b>	<b>99,057</b>	<b>95,918</b>	<b>3%</b>
<b>Non-Markup Expense</b>	<b>14,150</b>	<b>12,158</b>	<b>16%</b>	<b>12,176</b>	<b>16%</b>	<b>48,681</b>	<b>44,784</b>	<b>9%</b>
Operating Expense	13,785	11,983	15%	11,870	16%	47,447	43,743	8%
WWF	253	168	51%	260	-3%	1,035	874	18%
Other Charges	113	7	1508%	46	143%	199	167	19%
<b>Profit Before Provisions</b>	<b>11,862</b>	<b>10,145</b>	<b>17%</b>	<b>13,056</b>	<b>-9%</b>	<b>50,376</b>	<b>51,133</b>	<b>-1%</b>
Provisions	(583)	1,802	-132%	(708)	-18%	(1,449)	17,256	-108%
<b>Profit Before Taxation</b>	<b>12,445</b>	<b>8,343</b>	<b>49%</b>	<b>13,764</b>	<b>-10%</b>	<b>51,825</b>	<b>33,878</b>	<b>53%</b>
Taxation	4,691	2,931	60%	5,764	-19%	21,474	13,577	58%
<b>Profit After Taxation</b>	<b>7,754</b>	<b>5,411</b>	<b>43%</b>	<b>8,000</b>	<b>-3%</b>	<b>30,350</b>	<b>20,300</b>	<b>50%</b>
<b>PAT Attributable to Shareholders</b>	<b>8,665</b>	<b>5,122</b>	<b>69%</b>	<b>6,756</b>	<b>28%</b>	<b>30,409</b>	<b>20,789</b>	<b>46%</b>
EPS	7.08	4.18		5.52		24.84	16.98	
DPS	6.00	9.50		4.00		18.00	12.00	
<b>Cost/Income</b>	<b>54%</b>	<b>55%</b>		<b>48%</b>		<b>49%</b>	<b>47%</b>	
<b>Effective Tax rate</b>	<b>38%</b>	<b>35%</b>		<b>42%</b>		<b>41%</b>	<b>40%</b>	

Source: Company Accounts, Foundation Research, February 2021

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