

Foundation Alert

UBL: Analyst Briefing Key Takeaways

Event

- United Bank Limited (UBL PA) held its analyst briefing today to discuss CY22 results and the outlook of the bank. Following are the key takeaways of the briefing.

Impact

- On consolidated basis, the bank posted PAT of Rs31.5bn (EPS: Rs25.7) in CY22 (up by 4% YoY). Bank declared cash dividend of Rs22.0 per share in CY22.
- On unconsolidated basis, bank posted PAT of Rs32.1bn in CY22, up 4% YoY.
- The increase in profitability was mainly due to higher Net Interest Income and Non-Interest Income despite increase in provision expense and operating cost.
- Bank NIMs improved to 4.9% in CY22 from 3.8% in CY21, with higher yielding assets.
- Non-Interest income increased 47% YoY due to (1) higher Banking fees as card related income up by 21% YoY, (2) increase in home remittance (up 20% YoY) and trade & guarantee income (up 58% YoY), (3) capital gain of Rs466mn on foreign bonds and (4) Rs6.8bn gain on winding up of subsidiary.
- Operating expense increased by 22% YoY to Rs52.3bn as inflation impacts costs reinvestments in technology and people. Despite that, cost to income ratio improved to 38.0% in CY22 against 44.9% in CY21.
- Domestic asset quality continues to improve as infection ratio dropped to 3.3% at Dec'22 vs 5.0% at Dec'21. International NPL coverage well maintained at 87.5% at Dec'22.
- Deposits increased by 5% YoY to Rs1.8tn, with CASA at 89%.
- Average current accounts to total deposit percentage improved to 49% from 47% in CY21.
- Cost of deposit increased to 6.4% in CY22 as compared to 3.6% in CY21.
- Investment book decreased by 5% YoY to Rs1.4tn.
- Management believes the treasury book is well equipped to ride yield curve ahead.
- Banks Advances increased by 43% to Rs922bn as of Dec'22 with international portfolio maintained at US\$715mn.
- Management is keen to expand through digital banking to bank on growing digital penetration with transformation to Digital front end platform through leading innovations in order to regain branchless space.
- UBL is expected to maintain consistent dividend payout policy.

Outlook

- Bank's focus on digitalization to achieve low cost deposits with controlled cost would bode positively. Besides, we foresee provisioning expense to normalize given lack of one offs, improving economic condition in Middle East due to elevated oil prices and focused on quality lending. Moreover, Bank's current investment portfolio provide it opportunity to ride the interest rate cycles along with agility to shift if things improve.
- Aforementioned factors plus comfortable buffer over regulatory requirements would enhance our conviction for continuation of strong dividend payout and thus compels us to have an "Outperform" stance on the stock with Dec-23 TP of Rs143.5.

Table 01: Consolidated financial highlights CY22

	4QCY22	4QCY21	YoY	3QCY22	QoQ	CY22	CY21	YoY
Interest Earned	76,579	40,435	89%	75,403	2%	257,830	152,761	69%
Interest Expensed	44,750	21,422	109%	46,480	-4%	150,086	78,025	92%
Net Interest Income (NII)	31,829	19,014	67%	28,923	10%	107,743	74,736	44%
Fee Income	4,585	4,183	10%	4,286	7%	17,243	14,717	17%
Dividend Income	618	612	1%	214	189%	1,537	1,571	-2%
Foreign Exchange Income	798	1,533	-48%	3,293	-76%	9,560	4,174	129%
Gain on Securities	(197)	486	na	109	-280%	561	3,478	-84%
Other Income	6,886	89	7597%	280	2361%	7,607	382	1891%
Total Non-Markup Income	12,691	6,904	84%	8,182	55%	36,507	24,321	50%
Share of Profit from Associates	(23)	95	na	(679)	-97%	(650)	342	na
Total Income	44,497	26,012	71%	36,426	22%	144,250	99,057	46%
Operating Expense	15,737	13,785	14%	14,437	9%	56,165	47,447	18%
WWF	310	253	23%	338	-8%	1,353	1,035	31%
Other Charges	31	113	-72%	2	1601%	49	199	-75%
Non-Markup Expense	16,078	14,150	14%	14,777	9%	57,566	48,681	18%
Profit Before Provisions	28,419	11,862	140%	21,650	31%	86,034	50,719	70%
Provisions	10,770	(583)	na	5,461	97%	17,599	(1,449)	na
Profit Before Taxation	17,649	12,445	42%	16,189	9%	68,435	52,167	31%
Taxation	4,334	4,691	-8%	9,596	-55%	36,375	21,474	69%
Profit After Taxation	13,315	7,754	72%	6,593	102%	32,061	30,693	4%
PAT Attributable to Shareholders	13,089	8,665	51%	6,513	101%	31,515	30,409	4%
EPS	10.69	7.08		5.32		25.74	24.84	
DPS	9.00	6.00		4.00		22.00	18.00	
Cost/Income	36%	54%		41%		40%	49%	
Effective Tax rate	25%	38%		59%		53%	41%	

Source: Company Accounts, Foundation Research, February 2023

AnalystFoundation Research
+92 21 3561 2290-94research@fs.com.pk
Ext: 313

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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