Foundation Securities
A Fauji Foundation Goup Company
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PAKISTAN **April 28, 2023**

Earning Review

UBL: 1QCY23 EPS at Rs11.62, DPS Rs11.0

Event

- United Bank Limited (UBL PA) announced its 1QCY23 result with consolidated earnings of Rs14.2bn (EPS Rs11.62), up by 53%/9% YoY/QoQ.
- The result was accompanied by cash dividend of Rs11/sh.
- The result is above our expectation given higher than expected foreign exchange income of Rs4.4bn. Moreover, cash payout is higher than our expectation of Rs6.0/sh.

Impact

- The bank posted a PAT of Rs14.2bn in 1QCY23 (up by 53% YoY), mainly due to higher Net Interest Income and Non-funded income.
- Net interest income (NII) increased by 56/10% YoY/QoQ in 1QCY23. Bank's NII was supported by increase in interest earned of 88/21% YoY/QoQ in 1QCY23. Whereas, interest expense increased by 114/29% YoY/QoQ in 1QCY23.
- Non-funded income increased by 37% YoY mainly due to higher Foreign Exchange Income of Rs4.4bn and fee income which increased by 13% YoY.
- Operating expense increased by 24% YoY to Rs15.7bn in 1QCY23. This translated into Cost/income of 37% (down by 7.9% YoY).
- The bank recorded provision expense of Rs2.7bn in 1QCY23, as compared to provision expense of Rs334mn in 1QCY22.
- Effective tax rate for 1QCY23 clocked in at 42% due to imposition of 4% super tax and increase in corporate tax rate to 39%.
- UBL is exploring a potential merger with Silkbank limited and intends to seek permission of the State Bank of Pakistan to commence due diligence. The potential merger will be subject to due diligence, internal and regulatory approvals and definitive agreements.

Outlook

- Bank's focus on digitalization to achieve low cost deposits with controlled cost would bode positively for it. Besides, we foresee provisioning expense to normalize given lack of one offs, improving economic conditions in the Middle East due to elevated oil prices and focus on quality lending. Moreover, Bank's current investment portfolio provides it an 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.

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Table 01: Earnings Review UBL 1QCY23

	1QCY23	1QCY22	YoY	4QCY22	QoQ
Interest Earned	92,568	49,332	88%	76,579	21%
Interest Expensed	57,621	26,968	114%	44,750	29%
Net Interest Income (NII)	**34,947**	**22,363**	**56%**	**31,829**	**10%**
Fee Income	4,782	4,217	13%	4,585	4%
Dividend Income	475	530	-10%	618	-23%
Foreign Exchange Income	4,439	1,343	230%	832	434%
Gain on Securities	(637)	446	-243%	(197)	224%
Other Income	197	239	-18%	6,852	-97%
Total Non-Markup Income	**9,255**	**6,776**	**37%**	**12,691**	**-27%**
Share of Profit from Associates	**(158)**	**(47)**	**236%**	**(23)**	**595%**
Total Income	**44,044**	**29,092**	**51%**	**44,497**	**-1%**
Operating Expense	15,720	12,687	24%	15,737	0%
WWF	500	328	52%	310	61%
Other Charges	2	6	-73%	31	-95%
Non-Markup Expense	**16,222**	**13,021**	**25%**	**16,078**	**1%**
Profit Before Provisions	**27,823**	**16,071**	**73%**	**28,419**	**-2%**
Provisions	2,715	334	712%	10,770	-75%
Profit Before Taxation	**25,108**	**15,737**	**60%**	**17,649**	**42%**
Taxation	10,637	6,365	67%	4,334	145%
Profit After Taxation	**14,471**	**9,373**	**54%**	**13,315**	**9%**
PAT Attributable to Shareholders	**14,227**	**9,282**	**53%**	**13,089**	**9%**
EPS	**11.62**	**7.58**		**10.69**	
DPS	**11.00**	**5.00**		**9.00**	
Cost/Income	**37%**	**45%**		**36%**	
Effective Tax rate	**42%**	**40%**		**25%**	

Source: Company Accounts, Foundation Research, April 2023

Important disclosures:

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Recommendations definitions

If

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