

Foundation Alert

UBL: Analyst Briefing Key Takeaways

Event

- United Bank Limited (UBL PA) held its analyst briefing today to discuss 1QCY23 results and the outlook of the bank. Following are the key takeaways of the briefing.

Impact

- On consolidated basis, the bank posted PAT of Rs14.2bn (EPS: Rs11.6) in 1QCY23 (up by 53/9% YoY/QoQ). Bank declared cash dividend of Rs11.0 per share in 1QCY23.
- On unconsolidated basis, bank posted PAT of Rs13.9bn in 1QCY23, up 46/5% YoY/QoQ.
- 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 5.2% in 1QCY23 from 4.3% in 1QCY22, with higher yielding assets.
- Non-Interest income increased 30% YoY due to (1) Increase in Banking fees (13% YoY), (2) increase in corporate service charges (up 42% YoY) and FI rebate/commission (up 17% YoY), (3) trade and guarantee income more than double to Rs766mn and (4) ATM and card related fee at Rs770mn.
- Operating expense increased by 24% YoY to Rs14.5bn as inflation impacts costs reinvestments in technology and people. Subsequently, cost to income ratio reduced to 35% in 1QCY23 against 42% in 1QCY22.
- Bank booked provision reversal of Rs946mn in international portfolio and domestic NPLs reduced by Rs370mn since Dec'22.
- Bank level non-performing loans (NPLs) stood at Rs109.9bn at Mar'23, (Dec'22: Rs93.3bn). The increase is mainly due to impact of currency devaluation of Rs17bn on UBL International NPLs portfolio.
- Deposits increased by 7% YoY to Rs2.1tn. Average current accounts increased by 12% YoY followed by 6% YoY growth in savings. Subsequently, current to total deposits ratio stood at 48% against 49% at Dec'22 with domestic CASA ratio level at 91% at Mar'23.
- Cost of deposit increased to 7.5% in 1QCY23 as compared to 4.5% in 1QCY22.
- Investment book decreased by 21% YoY to Rs1.7tn. Management states timely repositioning within investments strengthens bank's NII with well diversified portfolio of fixed and floating rate investments.
- Management believes the treasury book is well equipped to ride yield curve ahead.
- Banks Advances decreased by 23% to Rs711bn as of Mar'23 with international portfolio reduced to US\$494mn and domestic performing advances at Rs569bn.
- 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 dividend payout policy would depend upon maintaining sufficient buffer over regulatory requirement.

Outlook

- Bank's focus on digitalization to achieve low cost deposits with controlled cost would bode positively. Besides, we foresee improving economic condition in Middle East due to elevated oil prices and focused on quality lending to play in bank's favor. Moreover, Bank's current investment portfolio provides 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 - 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, May 2023

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