

Equity Research | Commercial Banks | Wednesday, 3 August, 2022

UBL has announced its 1HCY22 result where it posted a profit after tax of Rs11.862bn (EPS: Rs9.69) as compared to a profit after tax of Rs14.997bn (EPS: Rs12.25) in the same period last year, down by 20.9% YoY.

The company has posted a net interest income of Rs45.106bn against Rs35.089bn in SPLY, recording a growth of 28.5% YoY. We note that this increase is attributed to the increased interest earned.

Non-interest income has increased by 28.6% YoY to Rs14.701bn as compared to Rs11.429bn during SPLY, mainly due to the increase in other income and foreign exchange income which has grown by 142.7% YoY and 286.3% YoY respectively.

Furthermore, the operating cost to income ratio has decreased to 39.2% as compared to 43.3% during SPLY. Moreover, the effective taxation has jumped to 87% as compared to 45% SPLY due to super tax imposed by the government.

UBL is currently trading at CY22E PE of 5.01x. Furthermore, the scrip is trading at a CY22E P/B of 0.64x which offers a discount of 16% relative to its historical 3-year average of 0.75x. We recommend our investors to **BUY** the scrip with a Justified PB Jun-23 TP of Rs.150 which provides an upside potential of 32%. Furthermore, it also offers an attractive dividend yield of 12% which makes a total return of 44%.

Rupees' millions	2QCY22	1QCY21	YoY	1HCY22	1HCY21	YoY
Interest earned	54,891	35,925	52.8% ▲	102,847	67,751	51.8% ▲
Interest expensed	-31,259	-17,694	76.7% ▲	-57,742	-32,662	76.8% ▲
Net Interest Income	23,633	18,231	29.6% ▲	45,106	35,089	28.5% ▲
Non-Interest Income	7,921	5,646	40.3% ▲	14,701	11,429	28.6% ▲
Operating expenses	-12,361	-10,346	19.5% ▲	-24,089	-20,199	19.3% ▲
Workers' Welfare Fund	-374	-272	37.5% ▲	-700	-517	35.3% ▲
Other charges	-10	-15	30.9% ▼	-16	-39	59.6% ▼
Profit Before Provisions	18,807	13,244	42.0% ▲	35,002	25,763	35.9% ▲
Provisions	-418	441	194.8% ▼	-766	87	976.2% ▼
Profit Before Taxation	18,389	13,685	34.4% ▲	34,236	25,850	32.4% ▲
Taxation	-16,055	-6,093	163.5% ▲	-22,374	-10,853	106.2% ▲
Profit After Taxation	2,334	7,593	69.3% ▼	11,862	14,997	20.9% ▼

Closing Period: 17 Aug 2022 to 19 Aug 2022

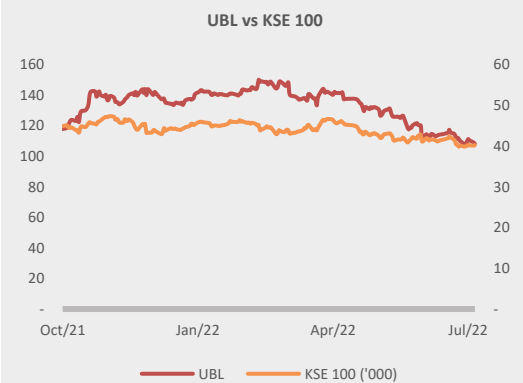
Earnings Per Share	1.91	6.20	69.3% ▼	9.69	12.25	20.9% ▼
Dividend	4.00	4.00	-	9.00	8.00	12.5% ▲
Bonus	0%	0%		0%	0%	

Operating Cost to Income	-39.2%	-43.3%	4.2% ▼	-40.3%	-43.4%	3.1% ▼
Effective Taxation	-87.3%	-44.5%	42.8% ▲	-65.4%	-42.0%	23.4% ▲

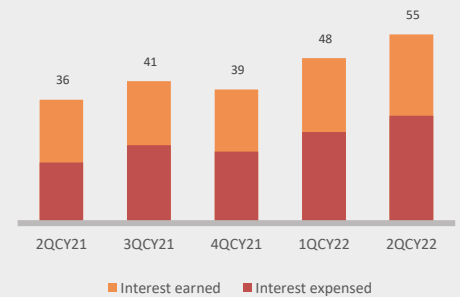
Source: ACPL Research, Company Financials

Key Statistics

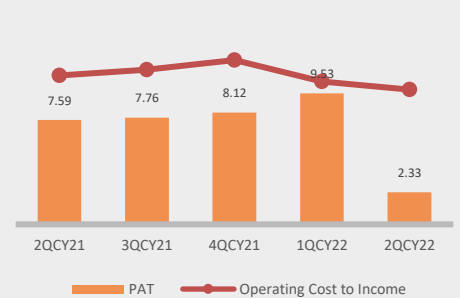
Symbol	UBL
TP - Jun 23	150
LDCP	113.50
Upside	32%
Free Float (mn)	490
Market Cap. (Rs.mn)	139,250



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

Muhammad Salman

Phone: (+92) 42 38302028; Ext: 116
Email: salman@abbasiandcompany.com

Financial Projections

Rupees' millions	2019	2020	2021	2022E	2023E	2024E	2025E
Mark-up / Return / Interest earned	153,676	152,003	147,974	230,542	251,619	253,077	249,647
Mark-up / Return / Interest expensed	-91,902	-77,044	-76,216	-129,150	-160,996	-162,339	-156,991
Net Mark-up / Interest Income	61,774	74,959	71,759	101,392	90,622	90,737	92,656
Fee and commission income	13,787	11,097	13,064	15,507	16,322	17,180	18,084
Dividend income	1,538	1,270	2,034	2,454	1,924	2,016	2,113
Foreign exchange income	4,526	3,685	3,992	9,230	11,650	14,704	18,559
(Loss) / gain on securities	2	411	3,758	1,155	1,235	1,322	1,414
Other income	1,758	644	511	950	1,120	1,320	1,557
Total non-markup / interest income	21,676	17,094	23,379	29,296	32,251	36,542	41,727
Non mark-up / interest expenses							
Operating expenses	-40,209	-40,061	-42,745	-52,667	-49,518	-51,294	-54,156
Workers' Welfare Fund	-740	-865	-1,022	-1,528	-1,437	-1,488	-1,571
Other charges	-40	-167	-199	-36	-39	-39	-39
Profit Before Provisions	42,462	50,961	51,172	76,457	71,880	74,458	78,616
Provisions / (reversal of provisions)	-8,220	-16,768	955	3,578	-3,046	-3,109	-3,166
Extraordinary / unusual items	0	0	0	0	0	0	0
Profit before income tax	34,242	34,192	52,127	80,035	68,834	71,349	75,450
Income tax expense	-15,108	-13,294	-21,245	-52,305	-30,975	-32,107	-33,953
Profit for the year	19,134	20,899	30,882	27,730	37,858	39,242	41,498
EPS	15.63	17.07	25.23	22.65	30.93	32.06	33.90

Horizontal Analysis

Horizontal Analysis	2019	2020	2021	2022E	2023E	2024E	2025E
Mark-up / Return / Interest earned	35.8%	-1.1%	-2.7%	55.8%	9.1%	0.6%	-1.4%
Mark-up / Return / Interest expensed	61.3%	-16.2%	-1.1%	69.5%	24.7%	0.8%	-3.3%
Net Mark-up / Interest Income	9.9%	21.3%	-4.3%	41.3%	-10.6%	0.1%	2.1%
Fee and commission income	-1.0%	-19.5%	17.7%	18.7%	5.3%	5.3%	5.3%
Dividend income	-26.3%	-17.5%	60.2%	20.7%	-21.6%	4.8%	4.9%
Foreign exchange income	30.6%	-18.6%	8.3%	131.3%	26.2%	26.2%	26.2%
(Loss) / gain on securities	-100.0%	18610.3%	813.3%	-69.3%	7.0%	7.0%	7.0%
Other income	66.8%	-63.4%	-20.8%	86.0%	17.9%	17.9%	17.9%
Total non-markup / interest income	-13.5%	-21.1%	36.8%	25.3%	10.1%	13.3%	14.2%
Non mark-up / interest expenses							
Operating expenses	3.6%	-0.4%	6.7%	23.2%	-6.0%	3.6%	5.6%
Workers' Welfare Fund	-134.1%	16.8%	18.1%	49.5%	-6.0%	3.6%	5.6%
Other charges	-65.1%	317.8%	18.7%	-82.0%	9.1%	0.6%	-1.4%
Profit Before Provisions	-4.7%	20.0%	0.4%	49.4%	-6.0%	3.6%	5.6%
Provisions / (reversal of provisions)	-36.4%	104.0%	-105.7%	274.5%	-185.1%	2.1%	1.8%
Profit before income tax	37.2%	-0.1%	52.5%	53.5%	-14.0%	3.7%	5.7%
Income tax expense	55.1%	-12.0%	59.8%	146.2%	-40.8%	3.7%	5.7%
Profit for the year	25.7%	9.2%	47.8%	-10.2%	36.5%	3.7%	5.7%
EPS	25.7%	9.2%	47.8%	-10.2%	36.5%	3.7%	5.7%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2019	2020	2021	2022E	2023E	2024E	2025E
Yield on Earning Assets	%	8.84	7.89	5.98	8.52	8.81	8.40	7.77
Interest Cost	%	5.55	4.26	3.24	5.15	6.01	5.68	5.15
Net Interest Margin	%	3.29	3.63	2.73	3.37	2.80	2.72	2.62
Operating Cost to Income	%	49.12	44.64	46.21	41.50	41.50	41.50	41.50
Return on Equity	%	11.32	11.35	15.09	12.68	16.03	15.37	15.06
Return on Assets	%	1.01	1.02	1.18	0.97	1.25	1.23	1.22
Balance Sheet Analysis		2019	2020	2021	2022E	2023E	2024E	2025E
Deposits Growth	%	7.39	11.80	6.75	6.75	6.75	6.75	6.75
CASA to Deposits	%	71.02	74.70	78.95	78.95	78.95	78.95	78.95
Advances to Deposits	%	43.34	32.33	36.91	45.75	45.62	45.49	45.36
Investments to Deposits	%	57.28	68.81	85.47	83.52	81.90	80.37	78.95
PIBs to Investments	%	49.91	51.94	49.85	49.85	49.85	49.85	49.85
T Bills to Investments	%	31.21	31.25	35.79	32.33	32.33	32.33	32.33
Gross Infection Ratio	%	10.95	13.72	11.81	10.62	10.32	10.02	9.72
Provisioning Coverage	%	82.63	85.81	86.85	85.10	85.10	85.10	85.10
Net Infection Ratio	%	2.10	2.24	1.75	1.44	1.40	1.37	1.33
Capital Adequacy Ratio	%	18.94	24.43	21.54	21.06	21.47	21.90	22.14
Leverage Ratio	%	5.25	5.57	4.02	3.89	3.97	4.06	4.15
Operational Analysis		2019	2020	2021	2022E	2023E	2024E	2025E
Market Share - Deposits	%	10.03	9.18	8.35	7.76	7.21	6.71	6.23
Market Share - Advances	%	8.62	7.17	7.18	6.67	6.20	5.76	5.36
Market Share - Investments	%	9.64	9.81	10.68	9.72	8.86	8.09	7.38
No. of Branches		1362	1356	1349	1349	1349	1349	1349
Investment Ratios		2019	2020	2021	2022E	2023E	2024E	2025E
Dividend Per Share		12.00	12.00	18.00	14.00	19.00	19.00	20.00
Dividend Yield	%	10.57	10.57	15.86	12.33	16.74	16.74	17.62
Dividend Cover	x	1.30	1.42	1.40	1.62	1.63	1.69	1.69
Retention Ratio	%	44.15	34.84	34.68	40.00	40.00	40.00	40.00
Payout Ratio	%	55.85	65.16	65.32	60.00	60.00	60.00	60.00
No. of Shares	('m)	1224	1224	1224	1224	1224	1224	1224
Earnings Per Share		15.63	17.07	25.23	22.65	30.93	32.06	33.90
Book Value Per Share		138.11	150.36	167.17	178.66	192.96	208.55	225.15
Price to Earnings	x	7.26	6.65	4.50	5.01	3.67	3.54	3.35
Price to Book Value	x	0.82	0.75	0.68	0.64	0.59	0.54	0.50

Source: ACPL Research, Company Financials

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited 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 email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore
 Phone: (+92) 42 38302028; Ext 116, 117
 Email: research@abbasiandcompany.com
 web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore
 Phone: (+92) 42 38302028
 Email: info@abbasiandcompany.com
 web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore
 Phone: (+92) 42 37320707
 Email: info@abbasiandcompany.com
 web: www.abbasiandcompany.com