

Equity Research | Commercial Banks | Thursday, 20 July, 2023

UBL has announced its 2QCY23 result where it posted a profit after tax of Rs12.41bn (EPS: Rs10.14) as compared to a profit after tax of Rs2.33bn (EPS: Rs1.91) in the same period last year, up by 432% YoY amid the reversal of provision.

The company has posted a net interest income of Rs35.60bn against Rs23.63bn in SPLY, recording a growth of 50.7% YoY. We note that this increase is attributed to the increased in interest income.

Non-interest income has decreased by 56.9% YoY to Rs3.41bn as compared to Rs7.9bn during SPLY, mainly due to a huge loss on securities.

The operating cost to income ratio has almost remained flat at 39.4%. The bank has booked a reversal of Rs3bn as compared to the provision of Rs418mn in last year. Lastly, the effective taxation has decreased to 52.6% as compared to 87.3% in SPLY.

UBL is currently trading at CY23E PE of 3.5x. Furthermore, the scrip is trading at a CY23E P/B of 0.80x which offers a discount of 9% relative to its historical 3-year average of 0.88x. We recommend our investors to **BUY** the scrip with a Justified PB Jun-24 TP of Rs165 which provides an upside potential of 16%. Furthermore, it also offers an attractive dividend yield of 25% which makes a total return of 41%.

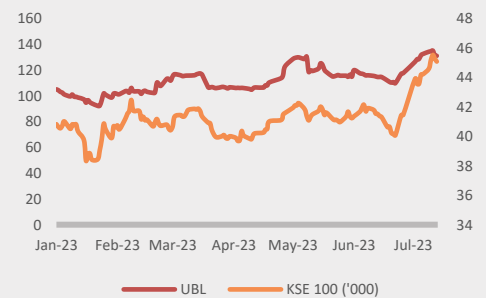
Rupees' millions	2QCY23	2QCY22	YoY	1HCY23	1HCY22	YoY
Interest earned	100,026	54,891	82.2% ▲	189,863	102,847	84.6% ▲
Interest expensed	-64,420	-31,259	106.1% ▲	-121,002	-57,742	109.6% ▲
<b>Net Interest Income</b>	<b>35,606</b>	<b>23,633</b>	<b>50.7% ▲</b>	<b>68,861</b>	<b>45,106</b>	<b>52.7% ▲</b>
Fee and commission income	4,434	3,836	15.6% ▲	8,772	7,755	13.1% ▲
Dividend income	516	356	45.0% ▲	991	1,260	21.3% ▼
Foreign exchange income	2,561	3,332	23.1% ▼	6,908	4,615	49.7% ▲
(Loss) / gain on securities	-4,287	146	3026.9% ▼	-4,927	575	957.3% ▼
Other income	354	190	85.7% ▲	594	475	25.1% ▲
<b>Non-Interest Income</b>	<b>3,417</b>	<b>7,921</b>	<b>56.9% ▼</b>	<b>12,198</b>	<b>14,701</b>	<b>17.0% ▼</b>
Operating expenses	-15,380	-12,361	24.4% ▲	-29,905	-24,089	24.1% ▲
Workers' Welfare Fund	-539	-374	43.8% ▲	-1,035	-700	47.9% ▲
Other charges	-3	-10	75.4% ▼	-4	-16	74.5% ▼
Profit Before Provisions	23,101	18,807	22.8% ▲	50,115	35,002	43.2% ▲
Provisions	3,078	-418	635.5% ▲	463	955	148.5% ▼
Profit Before Taxation	26,179	18,389	42.4% ▲	50,578	34,236	47.7% ▲
Taxation	-13,763	-16,055	14.3% ▼	-24,259	-22,374	8.4% ▲
<b>Profit After Taxation</b>	<b>12,416</b>	<b>2,334</b>	<b>431.9% ▲</b>	<b>26,319</b>	<b>11,862</b>	<b>121.9% ▲</b>
Closing Period: 1 Aug, 2023 to 3 Aug, 2023						
Earnings Per Share	10.14	1.91	431.9% ▲	21.50	9.69	121.9% ▲
Dividend	11.00	4.00	175.0% ▲	22.00	9.00	144.4% ▲
Bonus	0%	0%		0.00	0.00	
Operating Cost to Income	-39.4%	-39.2%	0.2% ▲	-36.9%	-40.3%	3.4% ▼
Effective Taxation	-52.6%	-87.3%	34.7% ▼	-48.0%	-65.4%	17.4% ▼

Source: ACPL Research, Company Financials

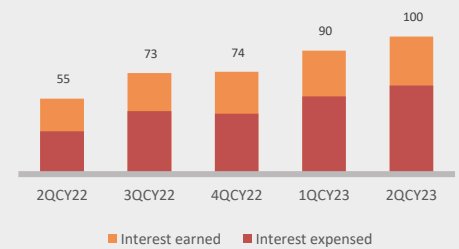
## Key Statistics

Symbol	UBL
TP - Jun 24	165
LDCP	142.8
Upside	16%
Free Float (mn)	490
Market Cap. (Rs.mn)	170,161

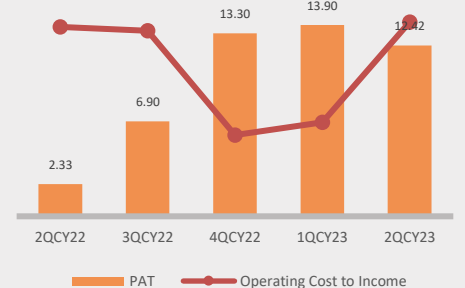
## UBL vs KSE 100



## Interest Earned vs Expensed (Rs'bn)



## PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	152,003	147,974	250,679	377,858	413,935	445,202	485,092
Mark-up / Return / Interest expensed	-77,044	-76,216	-147,469	-238,948	-260,533	-271,869	-285,127
<b>Net Mark-up / Interest Income</b>	<b>74,959</b>	<b>71,759</b>	<b>103,209</b>	<b>138,910</b>	<b>153,403</b>	<b>173,333</b>	<b>199,965</b>
Fee and commission income	11,097	13,064	15,871	17,350	18,967	20,735	22,668
Dividend income	1,270	2,034	2,093	1,901	1,838	1,923	2,016
Foreign exchange income	3,685	3,992	8,414	4,207	4,628	5,091	5,600
(Loss) / gain on securities	411	3,758	466	-6,391	-767	-850	-940
Other income	644	511	7,549	962	1,011	1,061	1,114
<b>Total non-markup / interest income</b>	<b>17,094</b>	<b>23,379</b>	<b>34,443</b>	<b>18,030</b>	<b>25,677</b>	<b>27,960</b>	<b>30,457</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-40,061	-42,745	-52,284	-57,900	-66,068	-78,856	-90,268
Workers' Welfare Fund	-865	-1,022	-1,339	-2,003	-2,286	-2,477	-2,835
Other charges	-167	-199	-49	-8	-9	-10	-10
<b>Profit Before Provisions</b>	<b>50,961</b>	<b>51,172</b>	<b>83,979</b>	<b>97,028</b>	<b>110,716</b>	<b>119,951</b>	<b>137,309</b>
Provisions / (reversal of provisions)	-16,768	955	-15,669	-819	-4,558	-4,673	-4,777
Extraordinary / unusual items	0	0	0	0	0	0	0
<b>Profit before income tax</b>	<b>34,192</b>	<b>52,127</b>	<b>68,310</b>	<b>96,209</b>	<b>106,158</b>	<b>115,278</b>	<b>132,532</b>
Income tax expense	-13,294	-21,245	-36,247	-46,145	-47,771	-51,875	-59,640
<b>Profit for the year</b>	<b>20,899</b>	<b>30,882</b>	<b>32,063</b>	<b>50,064</b>	<b>58,387</b>	<b>63,403</b>	<b>72,893</b>
<b>EPS</b>	<b>17.07</b>	<b>25.23</b>	<b>26.19</b>	<b>40.90</b>	<b>47.69</b>	<b>51.79</b>	<b>59.54</b>

## Horizontal Analysis

Horizontal Analysis	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	-1.1%	-2.7%	69.4%	50.7%	9.5%	7.6%	9.0%
Mark-up / Return / Interest expensed	-16.2%	-1.1%	93.5%	62.0%	9.0%	4.4%	4.9%
<b>Net Mark-up / Interest Income</b>	<b>21.3%</b>	<b>-4.3%</b>	<b>43.8%</b>	<b>34.6%</b>	<b>10.4%</b>	<b>13.0%</b>	<b>15.4%</b>
Fee and commission income	-19.5%	17.7%	21.5%	9.3%	9.3%	9.3%	9.3%
Dividend income	-17.5%	60.2%	2.9%	-9.2%	-3.3%	4.7%	4.8%
Foreign exchange income	-18.6%	8.3%	110.8%	-50.0%	10.0%	10.0%	10.0%
(Loss) / gain on securities	18610.3%	813.3%	-87.6%	-1470.1%	-88.0%	10.9%	10.6%
Other income	-63.4%	-20.8%	1378.7%	-87.3%	5.0%	5.0%	5.0%
<b>Total non-markup / interest income</b>	<b>-21.1%</b>	<b>36.8%</b>	<b>47.3%</b>	<b>-47.7%</b>	<b>42.4%</b>	<b>8.9%</b>	<b>8.9%</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-0.4%	6.7%	22.3%	10.7%	14.1%	19.4%	14.5%
Workers' Welfare Fund	16.8%	18.1%	31.1%	49.6%	14.1%	8.3%	14.5%
Other charges	317.8%	18.7%	-75.4%	-83.4%	9.5%	7.6%	9.0%
<b>Profit Before Provisions</b>	<b>20.0%</b>	<b>0.4%</b>	<b>64.1%</b>	<b>15.5%</b>	<b>14.1%</b>	<b>8.3%</b>	<b>14.5%</b>
Provisions / (reversal of provisions)	104.0%	-105.7%	-1740.1%	-94.8%	456.4%	2.5%	2.2%
<b>Profit before income tax</b>	<b>-0.1%</b>	<b>52.5%</b>	<b>31.0%</b>	<b>40.8%</b>	<b>10.3%</b>	<b>8.6%</b>	<b>15.0%</b>
Income tax expense	-12.0%	59.8%	70.6%	27.3%	3.5%	8.6%	15.0%
<b>Profit for the year</b>	<b>9.2%</b>	<b>47.8%</b>	<b>3.8%</b>	<b>56.1%</b>	<b>16.6%</b>	<b>8.6%</b>	<b>15.0%</b>
<b>EPS</b>	<b>9.2%</b>	<b>47.8%</b>	<b>3.8%</b>	<b>56.1%</b>	<b>16.6%</b>	<b>8.6%</b>	<b>15.0%</b>

Source: ACPL Research, Company Financials

## Key Ratios

<b>Profitability Ratios</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Yield on Earning Assets	%	7.89	5.98	9.56	13.13	13.58	13.66	13.80
Interest Cost	%	4.26	3.24	6.02	9.05	9.15	8.86	8.61
Net Interest Margin	%	3.63	2.73	3.54	4.08	4.43	4.80	5.19
Operating Cost to Income	%	44.64	46.21	38.99	38.17	38.17	40.41	40.41
Return on Equity	%	11.35	15.09	15.34	22.92	25.49	26.29	28.12
Return on Assets	%	1.02	1.18	1.16	1.65	1.82	1.84	1.97
<b>Balance Sheet Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Deposits Growth	%	11.80	6.75	4.99	7.85	7.85	7.85	7.85
CASA to Deposits	%	74.70	78.95	80.77	80.77	80.77	80.77	80.77
Advances to Deposits	%	32.33	36.91	50.14	59.76	59.58	59.40	59.23
Investments to Deposits	%	68.81	85.47	76.98	74.82	72.52	70.38	68.39
PIBs to Investments	%	51.94	49.85	70.16	70.16	70.16	70.16	70.16
T Bills to Investments	%	31.25	35.97	10.39	10.39	10.39	10.39	10.39
Gross Infection Ratio	%	13.72	11.81	9.21	8.50	8.20	7.90	7.60
Provisioning Coverage	%	85.81	86.85	87.62	87.62	87.62	87.62	87.62
Net Infection Ratio	%	2.24	1.75	1.25	0.97	0.94	0.91	0.88
Capital Adequacy Ratio	%	24.43	21.54	19.17	18.38	18.14	17.85	17.77
Leverage Ratio	%	5.57	4.02	4.39	4.09	3.99	3.91	3.92
<b>Operational Analysis</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Market Share - Deposits	%	9.18	8.35	8.18	8.03	7.88	7.74	7.60
Market Share - Advances	%	7.17	7.18	8.51	8.35	8.20	8.05	7.90
Market Share - Investments	%	9.81	10.68	8.26	7.84	7.46	7.11	6.78
No. of Branches		1356	1341	1335	1329	1323	1317	1311
<b>Investment Ratios</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Dividend Per Share		12.00	18.00	22.00	35.00	41.00	44.00	51.00
Dividend Yield	%	8.40	12.60	15.41	24.51	28.71	30.81	35.71
Dividend Cover	x	1.42	1.40	1.19	1.17	1.16	1.18	1.17
Retention Ratio	%	34.84	34.68	15.00	15.00	15.00	15.00	15.00
Payout Ratio	%	65.16	65.32	85.00	85.00	85.00	85.00	85.00
No. of Shares	('m)	1224	1224	1224	1224	1224	1224	1224
Earnings Per Share		17.07	25.23	26.19	40.90	47.69	51.79	59.54
Book Value Per Share		150.36	167.17	170.74	178.45	187.10	196.99	211.76
Price to Earnings	x	8.37	5.66	5.45	3.49	2.99	2.76	2.40
Price to Book Value	x	0.95	0.85	0.84	0.80	0.76	0.72	0.67

Source: ACPL Research, Company Financials

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#### DEFINITION OF TERMS

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

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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
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