

# UBL

## Healthy Payouts Likely to Continue

Equity Research | Commercial Banks | Thursday, 24 February, 2022

We initiate our coverage on United Bank Limited (UBL) with a Justified P/B based Dec-22 TP of Rs.175 which provides an upside potential of 18%. A dividend yield of 14%, if incorporated gives a total return of 32%

Recent financial performance has beaten the market expectations due to higher non-markup income and the reversal of the provision

Going forward, the concentration of investments in short maturities to reap benefits of interest rate cycle in our view. Furthermore, some foreign investment could also be expected amid reclassification to MSCI FM Index

### Recent Financial Performance has Beaten Market Expectations

UBL announced its CY21 result where the bank reported earnings of Rs30.9bn (EPS: Rs25.23) as compared to Rs20.9bn (EPS: PkR17.07) during SPLY, up by 48% YoY. We note that this growth is attributed to higher non-markup income and the reversal of the provision. Non-markup income has increased by 37% YoY in CY21 mainly due to the increase in gain on securities, dividend, and fee & commission income. Going forward, we expect the earnings to grow at a 5-year CAGR of 10% amid a higher interest rate environment.

### Concentration of Investments in Short Maturities to Reap Benefits

The Gross Investments to Deposit ratio of the bank stands at around 88% which is the highest in the industry whereas most of the investments are parked in short-term securities. Therefore, we expect the re-pricing would reap the benefits of the interest rate cycle and expand the NIMs of the bank going forward.

### Healthy Payouts Likely to Continue Amid Adequate Capital Buffer

UBL has announced a higher than the expected dividend of Rs6 in 4QCY21 taking the total payout during CY21 to Rs18. This healthy payout is attributed to the higher Capital Adequacy Ratio (CAR) of the bank which stands at around 22%, way beyond the regulatory requirement of 12.5%. Considering the rise in risk-weighted assets, we expect the CAR to remain above 20% going forward. Therefore, the payout policy of distributing more than 50% of its earnings to remain intact in the future as well.

### MSCI Reclassification to FM is a Key Positive

To recall, MSCI reclassified Pakistan Index from its Emerging Market Index (EMI) to Frontier Markets Index (FMI) on 30<sup>th</sup> November 2021. UBL was one of the securities included in the small-cap index. Therefore, we expect the bank to garner more interest from the foreign investors now amid the increased weight of the Pakistan index (1.9%) in the MSCI FM index as compared to 0.02% in the MSCI EM index.

### Valuation

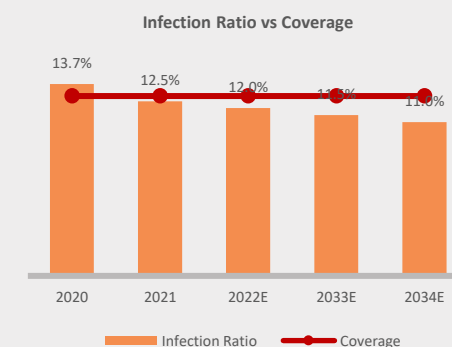
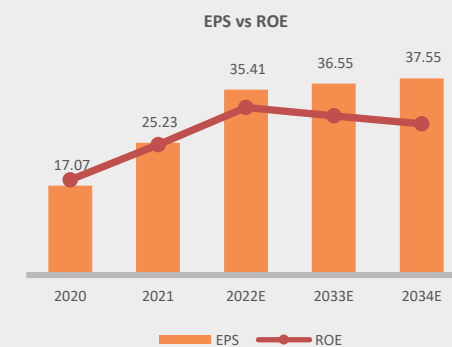
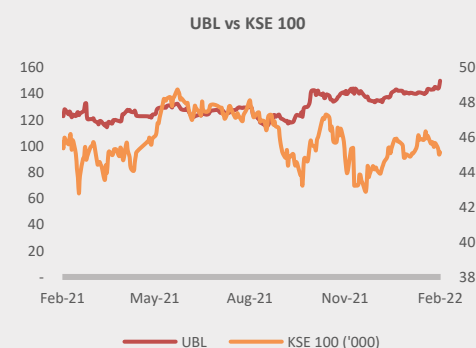
UBL is currently trading at CY22E PE of 4.18x. Furthermore, the scrip is trading at a CY22E P/B of 0.84x which offers a discount of 16% relative to its historical 3-year average of 0.99x. We have a **BUY** stance on the scrip with a Justified P/B based Dec-22 TP of Rs.175 which provides an upside potential of 18%. Furthermore, it also offers a dividend yield of 14% which makes the total return of 32%.

### Key Risks to Valuation

- More than expected rise in NPLs
- Less than expected growth in deposits

#### Key Statistics

Symbol	UBL
TP - Dec 22	175.00
LDCEP	148.00
Upside	18%
Free Float (mn)	490
Market Cap. (Rs.mn)	181,179



Sources: ACPL Research, Company Financials, PSX

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## Financial Projections

Rupees' millions	2019	2020	2021E	2022E	2023E	2024E	2025E
Mark-up / Return / Interest earned	153,676	152,003	147,974	211,379	242,426	257,871	283,110
Mark-up / Return / Interest expensed	-91,902	-77,044	-76,216	-99,428	-127,003	-139,603	-153,464
<b>Net Mark-up / Interest Income</b>	<b>61,774</b>	<b>74,959</b>	<b>71,759</b>	<b>111,951</b>	<b>115,423</b>	<b>118,267</b>	<b>129,646</b>
Fee and commission income	13,787	11,097	13,064	13,325	13,592	13,864	14,141
Dividend income	1,538	1,270	2,034	2,222	2,428	2,656	2,905
Foreign exchange income	4,526	3,685	3,992	4,324	4,684	5,075	5,497
(Loss) / gain on securities	2	411	3,758	1,820	2,001	2,200	2,419
Other income	1,758	644	511	404	320	254	201
<b>Total non-markup / interest income</b>	<b>21,676</b>	<b>17,094</b>	<b>23,379</b>	<b>22,096</b>	<b>23,026</b>	<b>24,048</b>	<b>25,164</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	-40,209	-40,061	-42,745	-53,619	-55,379	-56,926	-61,924
Workers' Welfare Fund	-740	-865	-1,022	-1,569	-1,620	-1,666	-1,812
Other charges	-40	-167	-199	-284	-325	-346	-380
<b>Profit Before Provisions</b>	<b>42,462</b>	<b>50,961</b>	<b>51,172</b>	<b>78,576</b>	<b>81,124</b>	<b>83,378</b>	<b>90,694</b>
Provisions / (reversal of provisions)	-8,220	-16,768	955	-5,411	-5,607	-5,789	-5,950
Extraordinary / unusual items	0	0	0	0	0	0	0
<b>Profit before income tax</b>	<b>34,242</b>	<b>34,192</b>	<b>52,127</b>	<b>73,164</b>	<b>75,516</b>	<b>77,589</b>	<b>84,744</b>
Income tax expense	-15,108	-13,294	-21,245	-29,819	-30,778	-31,622	-34,539
<b>Profit for the year</b>	<b>19,134</b>	<b>20,899</b>	<b>30,882</b>	<b>43,345</b>	<b>44,739</b>	<b>45,967</b>	<b>50,206</b>
<b>EPS</b>	<b>15.63</b>	<b>17.07</b>	<b>25.23</b>	<b>35.41</b>	<b>36.55</b>	<b>37.55</b>	<b>41.01</b>

## Horizontal Analysis

Horizontal Analysis	2019	2020	2021E	2022E	2023E	2024E	2025E
Mark-up / Return / Interest earned	35.8%	-1.1%	-2.7%	42.8%	14.7%	6.4%	9.8%
Mark-up / Return / Interest expensed	61.3%	-16.2%	-1.1%	30.5%	27.7%	9.9%	9.9%
<b>Net Mark-up / Interest Income</b>	<b>9.9%</b>	<b>21.3%</b>	<b>-4.3%</b>	<b>56.0%</b>	<b>3.1%</b>	<b>2.5%</b>	<b>9.6%</b>
Fee and commission income	-1.0%	-19.5%	17.7%	2.0%	2.0%	2.0%	2.0%
Dividend income	-26.3%	-17.5%	60.2%	9.2%	9.3%	9.4%	9.4%
Foreign exchange income	30.6%	-18.6%	8.3%	8.3%	8.3%	8.3%	8.3%
(Loss) / gain on securities	-100.0%	18610.3%	813.3%	-51.6%	9.9%	9.9%	9.9%
Other income	66.8%	-63.4%	-20.8%	-20.8%	-20.8%	-20.8%	-20.8%
<b>Total non-markup / interest income</b>	<b>-13.5%</b>	<b>-21.1%</b>	<b>36.8%</b>	<b>-5.5%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>4.6%</b>
<b>Non mark-up / interest expenses</b>							
Operating expenses	3.6%	-0.4%	6.7%	25.4%	3.3%	2.8%	8.8%
Workers' Welfare Fund	-134.1%	16.8%	18.1%	53.5%	3.3%	2.8%	8.8%
Other charges	-65.1%	317.8%	18.7%	42.8%	14.7%	6.4%	9.8%
<b>Profit Before Provisions</b>	<b>-4.7%</b>	<b>20.0%</b>	<b>0.4%</b>	<b>53.6%</b>	<b>3.2%</b>	<b>2.8%</b>	<b>8.8%</b>
Provisions / (reversal of provisions)	-36.4%	104.0%	-105.7%	-666.4%	3.6%	3.2%	2.8%
<b>Profit before income tax</b>	<b>37.2%</b>	<b>-0.1%</b>	<b>52.5%</b>	<b>40.4%</b>	<b>3.2%</b>	<b>2.7%</b>	<b>9.2%</b>
Income tax expense	55.1%	-12.0%	59.8%	40.4%	3.2%	2.7%	9.2%
<b>Profit for the year</b>	<b>25.7%</b>	<b>9.2%</b>	<b>47.8%</b>	<b>40.4%</b>	<b>3.2%</b>	<b>2.7%</b>	<b>9.2%</b>
<b>EPS</b>	<b>25.7%</b>	<b>9.2%</b>	<b>47.8%</b>	<b>40.4%</b>	<b>3.2%</b>	<b>2.7%</b>	<b>9.2%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		2019	2020	2021E	2022E	2023E	2024E	2025E
Yield on Earning Assets	%	8.84	7.89	6.51	7.89	8.26	8.03	8.05
Interest Cost	%	5.55	4.26	3.09	4.17	4.84	4.84	4.84
Net Interest Margin	%	3.29	3.63	3.42	3.72	3.42	3.19	3.21
Operating Cost to Income	%	49.12	44.64	46.21	41.38	41.41	41.41	41.42
Return on Equity	%	11.32	11.35	15.57	19.76	18.58	17.51	17.52
Return on Assets	%	1.01	1.02	1.19	1.53	1.44	1.35	1.35
<b>Balance Sheet Analysis</b>		<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Deposits Growth	%	7.39	11.80	20.00	10.00	10.00	10.00	10.00
CASA to Deposits	%	71.02	74.70	74.70	74.70	74.70	74.70	74.70
Advances to Deposits	%	43.34	32.33	41.50	41.31	41.12	40.93	40.75
Investments to Deposits	%	57.28	68.81	67.72	67.24	66.82	66.43	66.07
PIBs to Investments	%	49.91	51.94	51.94	51.94	51.94	51.94	51.94
T Bills to Investments	%	31.21	31.25	31.25	31.25	31.25	31.25	31.25
Gross Infection Ratio	%	10.95	13.72	12.50	12.00	11.50	11.00	10.50
Provisioning Coverage	%	82.63	85.81	85.81	85.81	85.81	85.81	85.81
Net Infection Ratio	%	2.10	2.24	1.59	1.53	1.47	1.42	1.36
Capital Adequacy Ratio	%	18.94	24.43	21.40	21.58	21.61	21.53	21.45
Leverage Ratio	%	5.25	5.57	4.72	4.76	4.76	4.73	4.70
<b>Operational Analysis</b>		<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Market Share - Deposits	%	10.03	9.18	9.74	9.49	9.23	8.99	8.75
Market Share - Advances	%	8.62	7.17	7.62	7.41	7.22	7.02	6.84
Market Share - Investments	%	9.64	9.81	10.26	9.92	9.60	9.29	8.99
No. of Branches		1362	1356	1356	1356	1356	1356	1356
<b>Investment Ratios</b>		<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Dividend Per Share		12.00	12.00	18.00	21.00	22.00	23.00	25.00
Dividend Yield	%	8.11	8.11	12.16	14.19	14.86	15.54	16.89
Dividend Cover	x	1.30	1.42	1.40	1.69	1.66	1.63	1.64
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	35.41	36.55	37.55	41.01
Book Value Per Share		138.11	150.36	162.07	179.16	196.66	214.46	234.05
Price to Earnings	x	9.47	8.67	5.87	4.18	4.05	3.94	3.61
Price to Book Value	x	1.07	0.98	0.91	0.83	0.75	0.69	0.63

Source: ACPL Research, Company Financials

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<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

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

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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