

Pakistan Banks

UBL PA: Asset re-pricing to augment bottom-line

We maintain our liking for United Bank Limited attributable to bank's strong core operation coupled with improvement in asset quality and generous dividend payouts on the back of healthy capital buffers. Bank has reported PAT of PKR32bn in CY22, up by 5% YoY. Similarly, Net Interest Income grew by massive 44% YoY, to clock in at PKR107.7bn vs. PKR74.7bn in SPLY. We expect NII to continue its momentum in next couple of years, mainly attributable to re-pricing of asset on the back of steep rise in policy rate and favorable deposit mix. We have a BUY stance on UBL with Jun'24 target price of PKR171/sh based on DDM & Justified P/B ratio, depicting capital upside of ~44% along with an attractive dividend yield of ~25%. To highlight, UBL is currently trading at cheap P/B of 0.6x.

Key risks to our investment thesis include i) Lower than estimated deposit growth, ii) Higher than estimated operating expenses amid inflationary pressure, iii) Domestic economic turmoil resulting in higher NPLs, iv) Challenges on foreign loan portfolio and v) Abrupt changes in regulatory regime.

Improving Net Interest Income

Bank's markup income jumped by ~21% in 1QCY23, attributable to asset re-pricing and is expected to improve further in coming quarters as the impact of 300bps hike in Mar'23 and 100bps hike in Apr'22 is yet to reflect. 70% of investment book is deployed in floater instrument while rest is fixed. As per management, ~10%-15% of fixed PIBs are expected to mature this year.

Bank's CASA ratio clocked in at ~77% in 1QCY23, while mix of current accounts stands at ~41.5% vs. 43% in preceding quarter. Management is focused toward increasing the share of current accounts in total mix, which will augment NIMs.

Improving asset quality

Bank's asset quality has improved in last few quarters. Infection ratio of domestic portfolio clocked in at ~4.5% in 1QCY23 vs. 5.1% in 1QCY22. Similarly, infection ratio for international book stands at ~18.4% in 1QCY23 vs. 18.1% in SPLY. Bank has recorded reversal of PKR946mn in international portfolio, while domestic NPLs fell by PKR370mn during 1QCY23. Overall infection ratio stands at ~10.7% at the end of 1QCY23 with coverage ratio of ~97%. Given the challenging domestic environment, possibility of NPL formation remains a key risk for the sector, however, UBL has shed its gross domestic advances by ~25% QoQ in 1QCY23. In advances portfolio, energy sector has the largest share of 21.8%, followed by ~17.2% and ~12.5% share of financial and agriculture sector, respectively.

United Bank Limited


BUY
HOLD
SELL

We recommend BUY with Jun'24 DDM & P/Bv based Target Price of PKR170.7, providing total return 72%

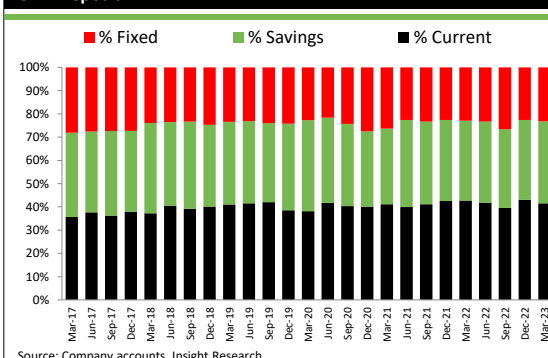
Target Price		171
Current Price		118
Market cap	PKR b	145
Market cap	US\$ b	0.51
Free Float Market cap	US\$ b	0.20
30 day Avg. turnover	PKR m	246
52 wk Range		91.5-134.0
Shares Outstanding	m	1,224
Free float	%	40%
Major Sponsors		Bestway Group
Bloomberg Ticker		UBL PA

Financials (PKR bn)	CY22	CY23F	CY24F
Net Interest Income	107.7	143.9	153.7
Non Markup Income	36.5	27.1	27.7
Provisions/ (Reversals)	17.6	13.4	17.5
Operating Expenses	57.6	64.1	71.3
Profit Before Tax	68.4	93.5	92.7
Profit After Tax	32.1	53.4	52.8

Key Ratios	CY22	CY23F	CY24F
EPS	25.8	42.9	42.4
DPS	22.0	33.0	30.0
Div. Yield	18.6%	27.9%	25.3%
P/E	4.6	2.8	2.8
BVPS	187.2	186.7	200.4
P/Bv	0.63	0.63	0.59
ROE	14.2%	23.4%	22.1%

Source: Company Accounts, Insight Research

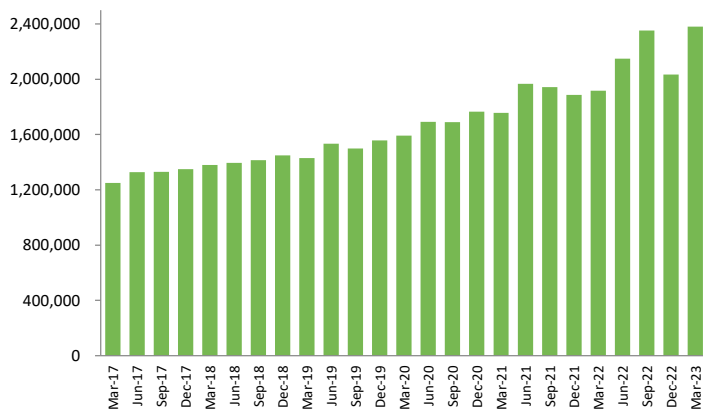
UBL: Deposit mix



Healthy payouts amid adequate capital buffer

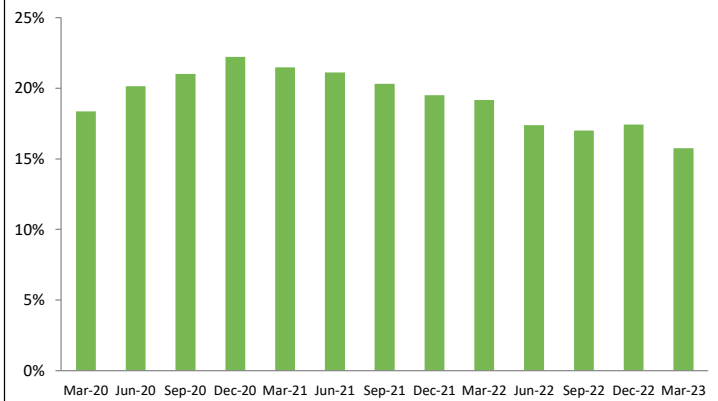
UBL has announced generous dividends in last 2 quarters with cumulative dividend of PKR20/sh. Bank enjoys a decent capital buffer as CAR stands at ~15.8% at the end of 1QCY23. We expect bank's adequacy levels to remain firm in near future amid robust profitability, which will allow the bank to maintain payout ratio of ~60%-70% in coming quarters.

UBL: Total deposits (PKRmn)



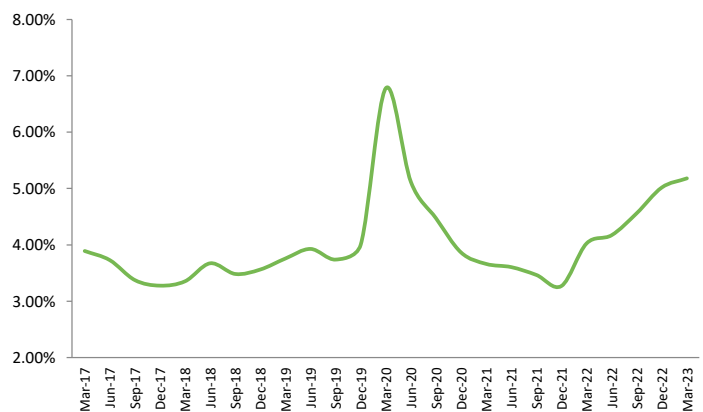
Source: Company accounts, Insight Research

UBL: Capital Adequacy Ratio



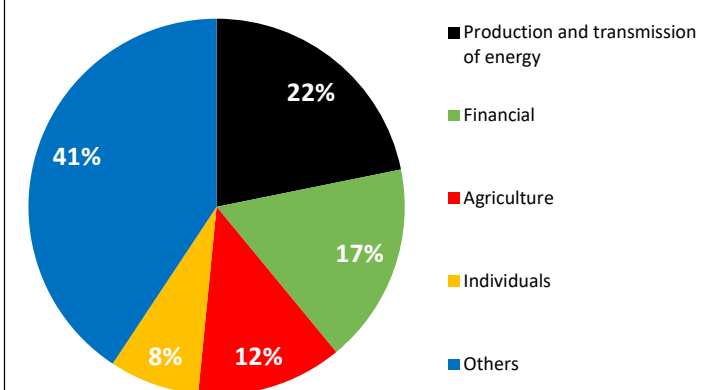
Source: Company accounts, Insight Research

UBL: Earning spread



Source: Company accounts, Insight Research

UBL: Advances mix (%)



Source: Company accounts, Insight Research

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Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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