

United Bank Limited (UBL)

REP-091

April 6, 2018

- We initiate our coverage on UBL with a target price of Rs245 (Estimated Upside 15.56%) based on justified P/B. Stock is currently trading at CY18 and CY19 P/B 1.43x and 1.33x and P/E of 11.59x and 8.60x respectively and offers a dividend yield of 6.15%
- To benefit from the rising interest rate environment, UBL has adjusted its asset base with more focus on shorter term papers (T-bills); as of 31st Dec 2017 allocation in T-bills stood at 37% of total investments as compared to only 13% in SPLY
- UBL is raising Rs10bn via issuance of Tier-1 TFC which will create further room to enhance loan book
- International loan book will continue to hit profitability in CY18
- Limited impact of pension liability case due to prospective application

CY17 Result Highlights:

- Bank's consolidated profit declined by 6.4% to Rs26.19bn (EPS Rs 21.39/share) compared to SPLY. Increase in provisions charged on the international loan book (almost 2x compared to SPLY) and decline in non-interest income (around 4%) were major reasons for the drag.
- Despite 8.7% increase in interest income, net interest income remained flat as interest cost rose by 22% due to inflated cost of REPO borrowings.
- UBL announced final cash dividend of Rs4/share taking full year dividend payout to Rs13/share

Changing Asset Base well positioned to take benefit from rising interest rates

- UBL's conscious effort to benefit from the rising interest rate environment is well reflected in its investment portfolio; as bank's focus on shorter term T-Bills has increased substantially. As of 31st Dec 2017 allocation in T-bills stood at 37% of the bank's total investment compared to only 13% at CY16 end. Further room for shorter term paper accumulation will be created during CY18 as Rs120bn-Rs130bn of PIBs are expected to mature.
- Earlier this year SBP has inch up its policy rate by 25bps, we expect this to bode well for the bank going forward. As per our calculation this will add Rs0.17/share to our estimates

Additional capital of Rs10bn through TFC issue to further broaden capital base

- As of 31st of Dec 2017 UBL's CAR stood at 15.11% (well above SBP's requirement of 11.9% till dec-18), while Tier-1 capital was at 11.04% (also above SBP's requirement of 7.5%)
- UBL is issuing a Tier-1 instrument of Rs10bn to increase its capital base further. We believe this will help create further exposure to RWA and assist the bank in maintaining its dividend policy
- We estimate post issuance of this TFC UBL's CAR and Tier-1 ratio to remain at 15.5% and 11.71% respectively (assuming 12% increase in RWA)

International Loan Book to continue to raise concerns

- Due to deteriorating macro-economic landscape in the Middle East, we flag our concern over UBL's Middle Eastern loan book which constitutes ~27% of the overall advances.
- Management has also second this concern during the analyst briefing by stating that they expect to charge further provisions in the Middle Eastern loan book
- In our analysis, we have incorporated provisions to the tune of Rs2.2bn in CY18 which will bring overall NPL coverage ~80% (76% in CY17)

Outcome of Pension Liability case – one-off impact on earnings

- In its decision in the Pension Liability case, Supreme Court of Pakistan has directed banks to pay a minimum pension of Rs8,000/month which is to be increased 5% on an annual basis. As the application is prospective in nature, we estimate a one-off impact of Rs4.6bn (Rs3.8/share) and a recurring impact of Rs300mn (Rs0.25/share). We incorporated this in our estimates of CY18 and onwards earnings estimates

Valuation

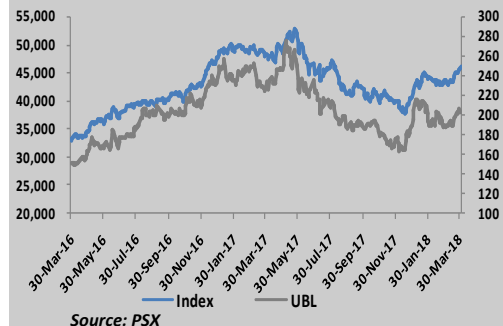
- We estimate CY18E and CY19E EPS to be Rs18.24 and Rs24.59 respectively, our earnings estimates incorporates 25bps and 50bps increase in 2HCY18 and CY19 respectively.
- UBL is currently trading at CY18E and CY19E P/B of 1.43x and 1.33x respectively. Our target price of Rs245 is based on justified P/B (assuming sustainable ROE~18.84%) and also offers a dividend yield of 6.15%

Key Risk to our estimates

- Higher than estimated increase in NPL
- Adverse outcome of ongoing investigation on NY operations
- Lower than estimated increase in interest rates

KATS Symbol	UBL
Reuters Symbol	UBL.KA
Target Price	Rs245
LDPC	Rs211.43
Outstanding Shares (mn)	1,224.18
Free Float (mn)	489.67
Market Cap (mn Rs)	258,828

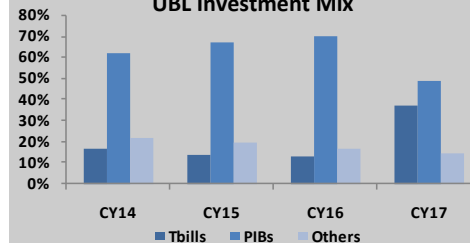
Price Performance Against KSE100 Index



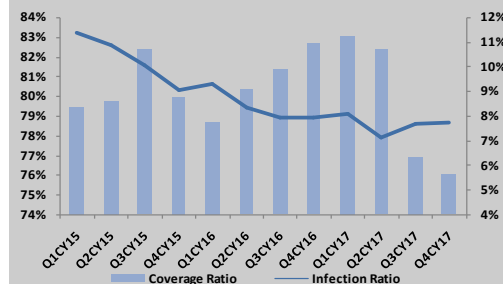
	CY17A	CY18E	CY19E
EPS (Rs)	21.39	18.24	24.59
P/E (x)	9.88	11.59	8.60
BVPS (Rs)	142.54	147.78	159.37
P/B (x)	1.48	1.43	1.33

Source: Co Financials, AS Research

UBL Investment Mix



UBL Coverage & Infection Ratio



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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price