

UNITED BANK LIMITED

3QCY21 Earnings Review: Strong non-core income and provision reversals continue to lift earnings

Wednesday, October 20, 2021

United Bank Limited (UBL) announced its 3QCY21 results today reporting above expected earnings of PKR 7.8Bn (EPS: PKR6.3), ↑66/2% YoY/QoQ respectively. Along with the result, the bank announced an interim dividend of PKR 4.0/sh. Key highlights of the result are summarized below:

- Net Interest Income (NII) dipped by 3% on a YoY basis primarily due to low interest rates however, balance sheet expansion limited the overall decline. On a sequential basis, NII improved by 2%. Hereon, we expect NIMs expansion to remain limited at least in the near term as interest rates go up and assets re-price with a lagged impact however, the bank's greater exposure to short term investments and floating rate bonds will likely cushion the top-line.
- Non-funded income underwent a sharp increase of 43/4% YoY/QoQ respectively to close at PKR 5.9Bn. The higher than expected figure was a resultant of sizable increase in fee income (up 17% YoY), dividend income (↑379% YoY) and higher capital gains (↑571% YoY) respectively. Fee income sustained the PKR 3.0Bn mark for the fourth quarter running which we expect is on the back of improved card related fee, commission on bancassurance and revenue from investment banking. Furthermore, forex income clocked-in at PKR 1.4Bn (↑13% YoY) surpassing the PKR 1.0Bn for the first time since the SQLY. Higher capital gains can be attributed to the shorter duration of the investments book and greater exposure to floating rate PIBs.
- Provisioning reversals again turned out to be a positive surprise in the result having closed at PKR 327Mn against a massive charge of PKR 5.5Bn booked in Sep-20. We expect the reversals to relate to the strong domestic franchise of the bank which continues to perform well while ongoing deferral/restructuring schemes in the Middle East have delayed any provisioning charge for the time-being.
- Admin expenses surged past PKR 11.0Bn in 3Q, recording an increase of 11/6% YoY/QoQ respectively. Effective tax rate continued to remain on the higher side having clocked-in at 42.4% in 3Q due to lower than prescribed ADR levels (30.1% in 2QCY21).

UBL vs. KSE-100 Index



%	3M	6M	12M
Absolute	2	12	18
Relative to KSE	9	14	17

Source: PSX, BMA Research

United Bank Limited — (PSX: UBL, Bloomberg: UBL.PA): Earnings Snapshot

(PKR Mn)	3QCY21	3QCY20	YoYΔ%	2QCY21	QoQΔ%	9MCMY21	YoYΔ%
Net interest income	18,601	19,091	-3%	18,231	2%	53,689	-8%
Non-interest income	5,854	4,104	43%	5,646	4%	17,283	33%
Fee income	3,117	2,664	17%	3,564	-13%	9,722	24%
FX income	1,367	1,211	13%	710	92%	2,562	-13%
Gain on securities	756	113	571%	679	11%	3,309	366%
Operating expenses	11,003	9,887	11%	10,346	6%	31,202	7%
Provisions - net	(327)	5,457	N.M	-441	-26%	(415)	N.M
Profit before taxation	13,474	7,643	76%	13,685	-2%	39,324	49%
Profit after taxation	7,763	4,669	66%	7,593	2%	22,760	42%
EPS	6.3	3.8		6.2		18.6	
DPS	4.0	-		4.0		12.0	

Source: Company Accounts, BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

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