

# Day Break

Tuesday, 06 August 2019

## Company update

Exhibit: UBL income break-up

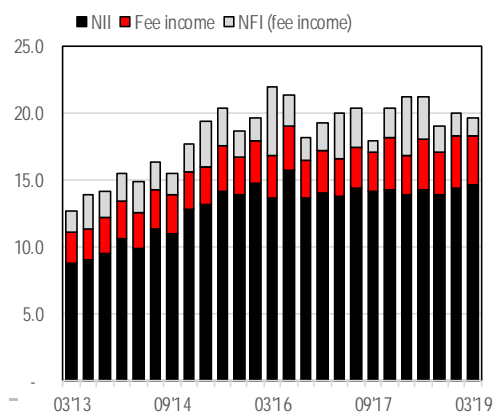


Exhibit: UBL provisions, OPEX and tax charge

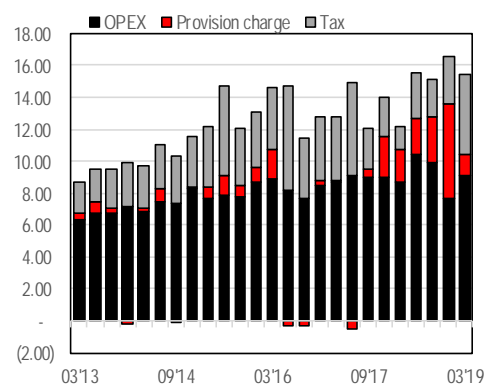
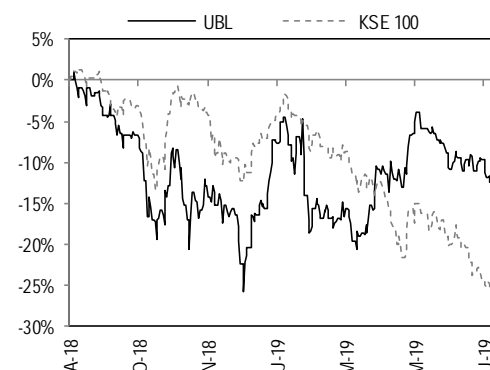


Exhibit: UBL relative performance to KSE 100



Source: PSX, Bloomberg, PBS & IGI Research

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## Commercial Banks

### UBL expecting a better EPS display in 2q (PKR 4.1/share +37% y/y) owing to higher NII and NFI

- We preview 2q 2019 EPS for UBL at PKR 4.1/share up by +37% y/y taking 1h 2019 cumulative eps to PKR 7.5/share (+46% y/y)
- In addition, we expect the bank to pay a cash dividend of PKR 3.0/share during the quarter bringing 1h total payout to PKR 5.5/share
- Improved NIMs, supportive non-funded income and subpar opex will keep pre-provisioning income growth flat during the quarter, however, higher provision charge is expected to keep bottom-line growth restricted.

### UBL: Expecting 2q EPS PKR 4.1, up by +37% y/y, on better NII and NFI; intl. provisioning to keep bottom-line gr in check

United Bank Limited's (UBL) board meeting will be held on 7th Aug-19 to announce its 2QFY19 result wherein we expect the bank to post earnings of PKR 5.0bn or EPS: PKR 4.1 for the 2Q up by +37% y/y and +20% q/q. In addition, we expect the bank to announce cash dividend of PKR 3.0 per share, taking 1h 2019 total payout to PKR 5.50 per share.

### Key highlights

- Keeping up with the 1q trend, **NIMs are expected to rise** by +~20bps in 2q (+25bps in 1q) to +4.1% following better asset yields and lower CoF owing to reduce repo borrowing.
- On NFI, recall UBL posted significant gr of +23% y/y in fee income during 1q 2019, mainly led by domestic fee, up by +17% y/y to PKR 2.9bn (~80% of total fee income). **Heading into 2q, we may see a slight slowdown in fee income** owing to lost SMS fees subsequent to fresh SBP guidelines. Nevertheless, overall NFI is still expected to post decent +12% q/q gr, supported by fee, FX and dividend income. Excluding IT costs (~20% of fee income), **operating expenses gr will remain restricted** to +5% y/y (flat y/y C/I at 49%) as the bank continues to press on its cost optimization.
- On provisioning, intl. NPLs provision has slowed down as depicted in 1q (USD 24.5mn in Dec-18, to USD 8.9mn by Mar-19), however intl. NPLs continue to build-up from USD 293 in Dec-18 to USD 302mn by Mar-19 (+3% gr.). **Given volatile PKR movement in 2q 2019 and continue rise in intl. NPL we expect provisioning charge to remain heavy** in 2q.
- On balance sheet, net loans gr slowed down significantly in 1q 2019 to 1%, we expect further slowdown in net advances of the bank as 1q 2019 CET 1 of 13.74% fell short of required 13.80% (including DSIB of +2%). On deposit side, the bank's CASA reached 78% in 1q thanks to a sharper fall (7% in 1q 2019) in term deposits. However, looking ahead we expect some buildup in term deposits which should keep cost of deposit elevated.

## Exhibit: United Bank Limited (UBL) result highlights

Period end (Dec) - PKRbn	2Q'19e	1Q'19	2H'19e	2H'18	2018	4Q'18	3Q'18	2Q'18	1Q'18	2017
Interest Income	15.6	14.7	30.2	28.1	56.2	14.4	13.8	14.2	13.9	56.4
NII Growth YoY	10%	6%	8%	0%	0%	1%	-2%	-1%	1%	-1%
Fee Income	3.9	3.6	7.5	6.7	13.9	3.9	3.3	3.8	2.9	12.6
Non-Interest Income	5.6	5.0	10.5	14.3	25.1	5.7	5.1	7.0	7.3	22.2
Total Revenue	21.2	19.6	40.8	42.3	81.3	20.0	19.0	21.2	21.2	78.6
Non-II / Total Income	0%	0%	26%	34%	0%	0%	0%	0%	0%	0%
Total Revenue Growth YoY	0%	-7%	-4%	5%	3%	-1%	6%	4%	6%	-3%
Operating Expenses	10.5	9.1	19.6	19.1	36.8	7.7	9.9	10.4	8.7	36.2
Cost-To-Income Ratio	49%	47%	48%	45%	45%	38%	52%	49%	41%	46%
PPOP	10.7	10.5	21.2	23.2	44.5	12.3	9.0	10.7	12.5	42.4
PPOP Growth YoY	0%	-16%	-9%	3%	5%	9%	1%	-5%	11%	-11%
Provisioning Charge	1.5	1.3	2.8	4.2	12.9	5.9	2.8	2.2	2.0	2.4
EO/one-offs	-	-	-	8.4	6.7	(2.0)	0.3	2.0	6.4	-
Pre-Tax Profits	9.2	9.2	18.4	19.0	31.6	6.4	6.2	8.5	10.5	39.9
Taxation	4.2	5.0	9.2	4.3	9.7	3.0	2.4	2.9	1.4	14.7
Effective Tax Rate	46%	55%	50%	23%	31%	47%	39%	34%	14%	37%
Profit After Tax	5.0	4.2	9.1	6.3	15.2	5.5	3.5	3.6	2.6	25.2
PAT Growth YoY	37%	57%	46%	-53%	-40%	-14%	-40%	-39%	-64%	-9%
EPS	4.1	3.4	7.5	5.1	12.4	4.5	2.9	3.0	2.2	20.6
DPS	3.0	2.5	5.5	6.0	11.0	3.0	2.0	3.0	3.0	13.0
BVPS	128.2	126.7	128.2	123.9	123.6	123.6	122.7	123.9	126.7	130.1

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