

Flash Note

Tuesday, 26 April 2016

Commercial Banks

UBL: Capital Gains lifts up 1QCY16 Profitability to PKR 5.96/share

- United Bank Limited (UBL) reported its 1QCY16 earnings at PKR 7.3bn (EPS PKR 5.96) up by +2%YoY whereas profitability went up by +13%QoQ. Along with result, bank announced a PKR 3.0/share cash dividend.
- Bank's interest income recorded a decline of 8%QoQ (+3.6%YoY) as interest earned drop by 3%QoQ (+2.2%YoY) and interest expense went up by +3%QoQ (+0.4%YoY)
- The bank booked in capital gains of PKR 3.8bn (PKR 3.13/share pre-tax) compared to PKR 3.2bn booked in CY15. Resultantly, bank's total revenue increased by +13%YoY (+12%QoQ).
- However, higher provisioning charge against advances of PKR 1.6bn (we suggest this pertain to bank international operation)
- Operating expense of UBL are up by +3%QoQ(+17%YoY), bringing cost-income ratio to +41%

Recommendation

The scrip is currently trading at FY16E P/B of 1.3x and P/E of 7.1x with our Dec-16 TP of PKR 210.7/share, the stock offers upside of +33% and we maintain our **'Buy'** call on the scrip.

Exhibit: Financial Highlights

| PKRmn | 1QCY16 | 1QCY15 | YoY | 4QCY15 | QoQ |
|------------------------------------|--------|--------|------|--------|-----|
| Interest Income | 13,587 | 13,110 | 4% | 14,701 | -8% |
| Non-Interest Income | 8,360 | 6,226 | 34% | 4,844 | 73% |
| Total Revenue | 21,947 | 19,337 | 13% | 19,545 | 12% |
| Operating expenses | 8,923 | 7,649 | 17% | 8,703 | 3% |
| Pre-provisioning Operating Profits | 13,023 | 11,688 | 11% | 10,842 | 20% |
| Provisioning Charge | 1,768 | 770 | 130% | 952 | 86% |
| Pre-Tax Profits | 11,256 | 10,918 | 3% | 9,889 | 14% |
| Taxation | 3,956 | 3,791 | 4% | 3,433 | 15% |
| Profit After Tax | 7,300 | 7,127 | 2% | 6,457 | 13% |
| EPS | 5.96 | 5.82 | | 5.27 | |
| DPS | 3.00 | 3.00 | | 4.00 | |
| BVPS | 119.1 | 108.9 | 9% | 116.1 | 3% |

Source: IGI Research, Company Financials

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Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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| Recommendation | Rating System |
|----------------|--|
| Buy | If return on aforementioned security(ies) is more than 10%, from its last closing price(s) |
| Hold | If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s) |
| Sell | If return on aforementioned security(ies) is more than -10%, from its last closing price(s) |

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- Justified Price to book

Time Horizon

- Dec-16

Risk

- Changes in State Bank of Pakistan Policy Rate

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