

# Flash Note

Tuesday, 26 July 2016

## Commercial Banks

### UBL: Super tax drags 2QCY16 earnings by 4%QoQ, despite loan reversal

- United Bank Limited (UBL) reported its 1HCY16 earnings at PKR 14.3bn (EPS PKR 11.7) up by +12%YoY (down by 4%QoQ). Along with result, bank announced a PKR 3.0/share cash dividend, bringing 1HCY16 total payout to PKR 6.0/share.
- Bank's interest income increased by +7%YoY (+16%QoQ), owing to +7%YoY growth in interest earned relative to +6%YoY growth in interest expense.
- Higher capital gain amounting to PKR 4.52bn (PKR 2.3bn in 1HCY15) along with steady growth in fee income (+4%YoY) led to a +13%YoY growth in non-interest income.
- The bank booked in reversal worth PKR 0.87bn against advances during the 2QCY16, which kept overall provisioning charge limited to PKR 0.73bn in 1HCY16 compared to PKR 1.9bn in 1HCY15.
- In addition the bank charged additional tax of PKR ~1.7bn under Super Tax, bringing effective tax rate to 48% in 2QCY16.

#### Recommendation

The scrip is currently trading at FY16E P/B of 1.5x and P/E of 8.5x with our Dec-16 TP of PKR 205.7/share, the stock offers upside of +15% and we maintain our **'Buy'** call on the scrip.

#### Exhibit: Financial Highlights

PKRmn (Period end=Dec)	1HCY16	1HCY15	YoY	2QCY16	QoQ
Interest Income	29,330	27,287	7%	15,744	16%
Non-Interest Income	13,955	12,389	13%	5,595	-33%
Total Revenue	43,285	39,676	9%	21,338	-3%
Operating expenses	17,082	15,537	10%	8,159	-9%
Pre-provisioning Operating Profits	26,203	24,138	9%	13,179	1%
Provisioning Charge	1,431	2,004	-29%	(336)	na
Pre-Tax Profits	24,771	22,134	12%	13,516	20%
Taxation	10,477	9,412	11%	6,521	65%
Profit After Tax	14,295	12,722	12%	6,995	-4%
EPS	11.68	10.39		5.71	
DPS	6.00	6.00		3.00	
<b>Key Ratios</b>					
Cost-to-income Ratio	39%	39%		38%	
Effective tax Rate	42%	43%		48%	
Non-interest Income / Total Income	32%	31%		26%	

Source: IGI Research, Company Financials

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### Analyst Certification

The analyst<sup>^</sup> 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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Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> 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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