

Equity Research | Commercial Banks | Thursday, 20 October, 2022

UBL has announced its 9M CY22 result where it posted a profit after tax of Rs18.76bn (EPS: Rs15.33) as compared to a profit after tax of Rs22.76bn (EPS: Rs18.59) in the same period last year, down by 17.6% YoY amid surge in provisional charge.

The company has posted a net interest income of Rs72.774bn against Rs53.689bn in SPLY, recording a growth of 35.5% YoY. We note that this increase is attributed to the increased interest earned.

Non-interest income has increased by 28.0% YoY to Rs22.12bn as compared to Rs17.28bn during SPLY, mainly due to the increase in other income and foreign exchange income which has grown by 144.7% YoY and 197.9% YoY respectively.

Furthermore, the operating cost to income ratio has decreased to 39.8% as compared to 44% during SPLY. Moreover, the effective taxation has jumped to 63% as compared to 42.1% SPLY due to super tax imposed by the government.

UBL is currently trading at CY23E PE of 3.98x. Furthermore, the scrip is trading at a CY23E P/B of 0.61x which offers a discount of 13% relative to its historical 3-year average of 0.70x. We recommend our investors to **BUY** the scrip with a Justified PB Jun-23 TP of Rs.140 which provides an upside potential of 23%. Furthermore, it also offers an attractive dividend yield of 16% which makes a total return of 39%.

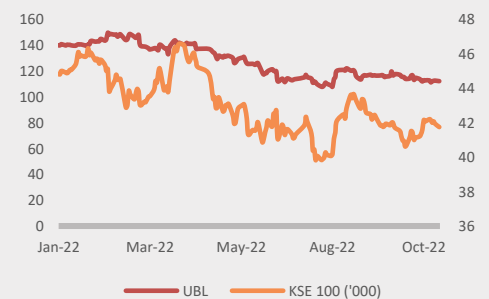
Rupees' millions	3QCY22	3QCY21	YoY	9M CY22	9M CY21	YoY
Interest earned	73,459	41,307	77.8% ▲	176,306	109,058	61.7% ▲
Interest expensed	-45,791	-22,707	101.7% ▲	-103,533	-55,369	87.0% ▲
Net Interest Income	27,668	18,601	48.7% ▲	72,774	53,689	35.5% ▲
Fee and commission income	3,937	3,117	26.3% ▲	11,692	9,722	20.3% ▲
Dividend income	214	540	60.4% ▼	1,474	1,421	3.7% ▲
Foreign exchange income	3,016	1,367	120.6% ▲	7,631	2,562	197.9% ▲
(Loss) / gain on securities	92	721	87.2% ▼	667	3,266	79.6% ▼
Other income	184	74	150.1% ▲	659	269	144.7% ▲
Non-Interest Income	7,418	5,854	26.7% ▲	22,119	17,283	28.0% ▲
Operating expenses	-13,683	-11,003	24.4% ▲	-37,772	-31,202	21.1% ▲
Workers' Welfare Fund	-334	-258	29.5% ▲	-1,033	-775	33.4% ▲
Other charges	-2	-46	96.1% ▼	-18	-86	79.3% ▼
Profit Before Provisions	21,068	13,147	60.3% ▲	56,069	38,910	44.1% ▲
Provisions	-4,651	327	1321.6% ▲	-5,416	415	1206.6% ▲
Profit Before Taxation	16,417	13,474	21.8% ▲	50,653	39,324	28.8% ▲
Taxation	-9,517	-5,711	66.7% ▲	-31,891	-16,564	92.5% ▲
Profit After Taxation	6,900	7,763	11.1% ▼	18,762	22,760	17.6% ▼
Closing Period: 02 Nov 2022 to 04 Nov 2022						
Earnings Per Share	5.64	6.34	11.1% ▼	15.33	18.59	17.6% ▼
Dividend	4.00	4.00	-	13.00	12.00	8.3% ▲
Bonus	0%	0%		0.00	0.00	
Operating Cost to Income	-39.0%	-45.0%	6.0% ▼	-39.8%	-44.0%	4.2% ▼
Effective Taxation	-58.0%	-42.4%	15.6% ▲	-63.0%	-42.1%	20.8% ▲

Source: ACPL Research, Company Financials

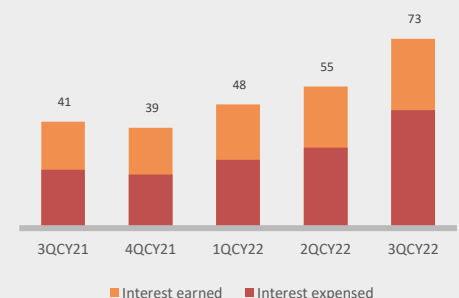
Key Statistics

Symbol	UBL
TP - Jun 23	140
LDCP	114.12
Upside	23%
Free Float (mn)	489
Market Cap. (Rs.mn)	138,565

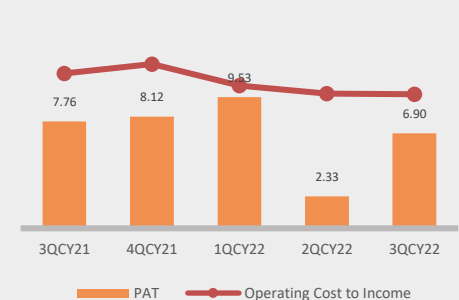
UBL vs KSE 100



Interest Earned vs Expensed (Rs'bn)



PAT (Rs'bn) vs Operating Cost To Income



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	2020	2021	2022E	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	152,003	147,974	237,290	284,258	299,553	299,107	297,755
Mark-up / Return / Interest expensed	-77,044	-76,216	-140,168	-187,558	-207,980	-205,693	-202,168
Net Mark-up / Interest Income	74,959	71,759	97,123	96,700	91,573	93,415	95,586
Fee and commission income	11,097	13,064	15,507	16,322	17,180	18,084	19,034
Dividend income	1,270	2,034	2,008	1,830	1,918	2,011	2,110
Foreign exchange income	3,685	3,992	10,298	11,328	12,461	13,707	15,078
(Loss) / gain on securities	411	3,758	831	889	951	1,017	1,088
Other income	644	511	950	1,120	1,320	1,557	1,836
Total non-markup / interest income	17,094	23,379	29,593	31,489	33,830	36,375	39,146
Non mark-up / interest expenses							
Operating expenses	-40,061	-42,745	-50,446	-51,032	-49,923	-51,669	-53,637
Workers' Welfare Fund	-865	-1,022	-1,380	-1,396	-1,365	-1,413	-1,467
Other charges	-167	-199	-24	-29	-30	-30	-30
Profit Before Provisions	50,961	51,172	74,867	75,733	74,084	76,677	79,598
Provisions / (reversal of provisions)	-16,768	955	-7,768	-11,934	-4,442	-4,587	-4,731
Extraordinary / unusual items	0	0	0	0	0	0	0
Profit before income tax	34,192	52,127	67,098	63,799	69,642	72,090	74,867
Income tax expense	-13,294	-21,245	-42,245	-28,709	-31,339	-32,441	-33,690
Profit for the year	20,899	30,882	24,853	35,089	38,303	39,650	41,177
EPS	17.07	25.23	20.30	28.66	31.29	32.39	33.64

Horizontal Analysis

Horizontal Analysis	2020	2021	2022E	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	-1.1%	-2.7%	60.4%	19.8%	5.4%	-0.1%	-0.5%
Mark-up / Return / Interest expensed	-16.2%	-1.1%	83.9%	33.8%	10.9%	-1.1%	-1.7%
Net Mark-up / Interest Income	21.3%	-4.3%	35.3%	-0.4%	-5.3%	2.0%	2.3%
Fee and commission income	-19.5%	17.7%	18.7%	5.3%	5.3%	5.3%	5.3%
Dividend income	-17.5%	60.2%	-1.3%	-8.8%	4.8%	4.9%	4.9%
Foreign exchange income	-18.6%	8.3%	158.0%	10.0%	10.0%	10.0%	10.0%
(Loss) / gain on securities	18610.3%	813.3%	-77.9%	7.0%	7.0%	7.0%	6.9%
Other income	-63.4%	-20.8%	86.0%	17.9%	17.9%	17.9%	17.9%
Total non-markup / interest income	-21.1%	36.8%	26.6%	6.4%	7.4%	7.5%	7.6%
Non mark-up / interest expenses							
Operating expenses	-0.4%	6.7%	18.0%	1.2%	-2.2%	3.5%	3.8%
Workers' Welfare Fund	16.8%	18.1%	35.0%	1.2%	-2.2%	3.5%	3.8%
Other charges	317.8%	18.7%	-87.9%	19.8%	5.4%	-0.1%	-0.5%
Profit Before Provisions	20.0%	0.4%	46.3%	1.2%	-2.2%	3.5%	3.8%
Provisions / (reversal of provisions)	104.0%	-105.7%	-913.1%	53.6%	-62.8%	3.3%	3.1%
Profit before income tax	-0.1%	52.5%	28.7%	-4.9%	9.2%	3.5%	3.9%
Income tax expense	-12.0%	59.8%	98.8%	-32.0%	9.2%	3.5%	3.9%
Profit for the year	9.2%	47.8%	-19.5%	41.2%	9.2%	3.5%	3.9%
EPS	9.2%	47.8%	-19.5%	41.2%	9.2%	3.5%	3.9%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2020	2021	2022E	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	7.89	5.98	8.73	9.89	9.87	9.33	8.74
Interest Cost	%	4.26	3.24	5.59	7.00	7.28	6.74	6.21
Net Interest Margin	%	3.63	2.73	3.14	2.88	2.59	2.59	2.53
Operating Cost to Income	%	44.64	46.21	40.92	40.92	40.92	40.92	40.92
Return on Equity	%	11.35	15.09	11.71	15.38	15.55	14.98	15.19
Return on Assets	%	1.02	1.18	0.86	1.15	1.19	1.17	1.14
Balance Sheet Analysis		2020	2021	2022E	2023E	2024E	2025E	2026E
Deposits Growth	%	11.80	6.75	6.75	6.75	6.75	6.75	6.75
CASA to Deposits	%	74.70	78.95	78.95	78.95	78.95	78.95	78.95
Advances to Deposits	%	32.33	36.91	46.36	46.63	46.50	46.37	46.24
Investments to Deposits	%	68.81	85.47	83.52	81.90	80.37	78.95	77.61
PIBs to Investments	%	51.94	49.85	49.85	49.85	49.85	49.85	49.85
T Bills to Investments	%	31.25	35.79	32.33	32.33	32.33	32.33	32.33
Gross Infection Ratio	%	13.72	11.81	12.16	13.00	12.70	12.40	12.10
Provisioning Coverage	%	85.81	86.85	86.33	86.33	86.33	86.33	86.33
Net Infection Ratio	%	2.24	1.75	1.49	1.59	1.55	1.52	1.49
Capital Adequacy Ratio	%	24.43	21.54	20.42	20.69	21.07	21.37	20.61
Leverage Ratio	%	5.57	4.02	3.73	3.79	3.87	3.93	3.75
Operational Analysis		2020	2021	2022E	2023E	2024E	2025E	2026E
Market Share - Deposits	%	9.18	8.35	7.76	7.21	6.71	6.23	5.80
Market Share - Advances	%	7.17	7.18	6.67	6.20	5.76	5.36	4.98
Market Share - Investments	%	9.81	10.68	9.72	8.86	8.09	7.38	6.75
No. of Branches		1356	1349	1349	1349	1349	1349	1349
Investment Ratios		2020	2021	2022E	2023E	2024E	2025E	2026E
Dividend Per Share		12.00	18.00	17.00	18.00	19.00	20.00	21.00
Dividend Yield	%	10.52	15.77	14.90	15.77	16.65	17.53	18.40
Dividend Cover	x	1.42	1.40	1.19	1.59	1.65	1.62	1.60
Retention Ratio	%	34.84	34.68	15.00	37.89	37.89	37.89	37.89
Payout Ratio	%	65.16	65.32	85.00	62.11	62.11	62.11	62.11
No. of Shares	('m)	1224	1224	1224	1224	1224	1224	1224
Earnings Per Share		17.07	25.23	20.30	28.66	31.29	32.39	33.64
Book Value Per Share		150.36	167.17	173.31	186.35	201.17	216.26	221.48
Price to Earnings	x	6.68	4.52	5.62	3.98	3.65	3.52	3.39
Price to Book Value	x	0.76	0.68	0.66	0.61	0.57	0.53	0.52

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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