

United Bank – Sanguine earnings due to voluminous asset led growth

UBL top line remained awesome i.e. Rs49.52bn in 1HCY16 as against Rs 46.4bn reported in the same period last year.

Thus big bank reported EPS of 11.68/sh as against Rs10.39/sh last year thus showing visible 12.4% growth.

From shareholders perspective, UBL maintained dividend spree by giving cumulative Rs6/sh during 1HCY16 (2Q cash dividend Rs3/sh) translating payout ratio of around 51%-57% during various periods.

The growth in earnings, despite lower benchmark rates, is attributed to:

- Quarterly increase in net interest earned i.e. Rs26bn against Rs23.5bn reported in the corresponding same period last year. UBL’s existing loan book increased to Rs496bn as against Rs455.4bn reported as at Dec 31, 2015.
- UBL ADR remained 43% since Dec 31, 2015 wherein IDR increased noticeably to 73% from 68% reported as at Dec 31, 2015; extent of PIB placement in AFS increased
- Also obvious reversal of Rs875mn giving healthy impact on core net interest earned after netting off provisions.
- Non-core income also increased to Rs13.9bn as against Rs12.3bn reported in same period last year which is mainly due to gain on sale of securities i.e.4.5bn (after tax per share impact comes out to Rs2.4/sh)

Moreover, costs over remunerative deposits have decreased in obvious terms despite increase in deposit base to Rs1.14 trillion (Rs417.6bn comprises non-remunerative deposits for customers alongside Rs11.9bn for financial institutions). This delineates decrease in cost of liabilities in real terms. UBL is operating with 1318 inland bank branches.

UBL likely to provide Rs9bn only against NPLs during the course of coming years (Rs37.6bn already provided hence chances of reversal could be higher in coming quarters).

Valuations compelling for big bank

UBL is yielding expected book value of Rs135 (expected PBV 1.4x against big bank target PBV of 2x). **UBL also outline CY16PE of 9.6x.** UBL is also in the MSCI Emerging Market provisional list.

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Valuations

Price **Rs 201**
Chg **1.80+**

CY15 EPS **Rs 21.02**
CY16E EPS **Rs 21.0**

CY15 PE **9.5x**
CY16E PE **9.6x**

UBL relative index ~ outperformance



Analyst

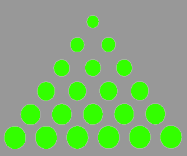
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