

Equity Research | Commercial Banks | Wednesday, 22 February, 2023

UBL has announced its CY22 result where it posted a profit after tax of Rs32.06bn (EPS: Rs26.19) as compared to a profit after tax of Rs30.88bn (EPS: Rs25.23) in the same period last year, up by just 3.8% YoY amid surge in provisional charge.

The company has posted a net interest income of Rs103.21bn against Rs71.76bn in SPLY, recording a growth of 43.8% YoY. We note that this increase is attributed to the increased interest earned.

Non-interest income has increased by 47.3% YoY to Rs34.44bn as compared to Rs23.38bn during SPLY, mainly due to the increase in other income and foreign exchange income which has grown by 13.78x YoY and 110.8% YoY respectively.

Furthermore, the operating cost to income ratio has decreased to 38% as compared to 44.9% during SPLY. Moreover, the effective taxation has jumped to 53.1% as compared to 40.8% SPLY due to super tax imposed by the government.

UBL is currently trading at CY23E PE of 2.75x. Furthermore, the scrip is trading at a CY23E P/B of 0.54x which offers a discount of 14% relative to its historical 3-year average of 0.63x. We recommend our investors to **BUY** the scrip with a Justified PB Dec-23 TP of Rs.130 which provides an upside potential of 27%. Furthermore, it also offers an attractive dividend yield of 24% which makes a total return of 51%.

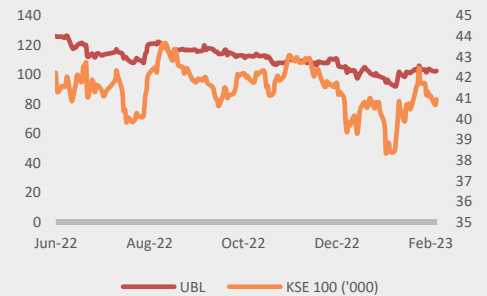
Rupees' millions	4QCY22	4QCY21	YoY	CY22	CY21	YoY
Interest earned	74,372	38,916	91.1% ▲	250,679	147,974	69.4% ▲
Interest expensed	-43,937	-20,847	110.8% ▲	-147,469	-76,216	93.5% ▲
Net Interest Income	30,436	18,069	68.4% ▲	103,209	71,759	43.8% ▲
Fee and commission income	4,179	3,342	25.1% ▲	15,871	13,064	21.5% ▲
Dividend income	620	613	1.2% ▲	2,093	2,034	2.9% ▲
Foreign exchange income	783	1,430	45.2% ▼	8,414	3,992	110.8% ▲
(Loss) / gain on securities	-201	492	140.8% ▼	466	3,758	87.6% ▼
Other income	6,890	241	2755.5% ▲	7,549	511	1378.7% ▲
Non-Interest Income	12,323	6,096	102.2% ▲	34,443	23,379	47.3% ▲
Operating expenses	-14,512	-11,543	25.7% ▲	-52,284	-42,745	22.3% ▲
Workers' Welfare Fund	-306	-247	23.9% ▲	-1,339	-1,022	31.1% ▲
Other charges	-31	-113	72.4% ▼	-49	-199	75.4% ▼
Profit Before Provisions	27,910	12,262	127.6% ▲	83,979	51,172	64.1% ▲
Provisions	-10,253	541	1795.6% ▲	-15,669	955	1540.1% ▲
Profit Before Taxation	17,657	12,803	37.9% ▲	68,310	52,127	31.0% ▲
Taxation	-4,356	-4,681	6.9% ▼	-36,247	-21,245	70.6% ▲
Profit After Taxation	13,301	8,122	63.8% ▲	32,063	30,882	3.8% ▲
Closing Period: 22 Mar 2023 to 29 Mar 2023						
Earnings Per Share	10.87	6.63	63.8% ▲	26.19	25.23	3.8% ▲
Dividend	9.00	6.00	50.0% ▲	22.00	18.00	22.2% ▲
Bonus	0%	0%		0.00	0.00	
Operating Cost to Income	-33.9%	-47.8%	13.8% ▼	-38.0%	-44.9%	6.9% ▼
Effective Taxation	-24.7%	-36.6%	11.9% ▼	-53.1%	-40.8%	12.3% ▲

Source: ACPL Research, Company Financials

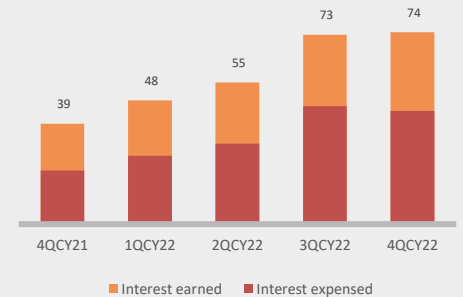
Key Statistics

Symbol	UBL
TP - Dec 23	130
LDCP	102.47
Upside	27%
Free Float (mn)	489
Market Cap. (Rs.mn)	134,843

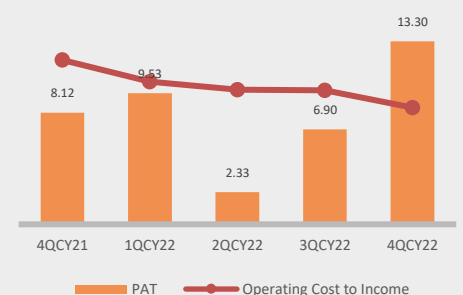
UBL vs KSE 100



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	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	152,003	147,974	250,679	305,699	365,945	369,619	373,110
Mark-up / Return / Interest expensed	-77,044	-76,216	-147,469	-175,799	-221,711	-226,252	-230,241
Net Mark-up / Interest Income	74,959	71,759	103,209	129,901	144,235	143,367	142,869
Fee and commission income	11,097	13,064	15,871	16,794	17,771	18,804	19,898
Dividend income	1,270	2,034	2,093	2,452	2,569	2,694	2,827
Foreign exchange income	3,685	3,992	8,414	5,049	5,301	5,566	5,844
(Loss) / gain on securities	411	3,758	466	-889	998	1,067	1,141
Other income	644	511	7,549	1,887	1,982	2,081	2,185
Total non-markup / interest income	17,094	23,379	34,443	25,293	28,620	30,212	31,895
Non mark-up / interest expenses							
Operating expenses	-40,061	-42,745	-52,284	-58,947	-65,655	-65,930	-66,381
Workers' Welfare Fund	-865	-1,022	-1,339	-1,251	-1,394	-1,399	-1,409
Other charges	-167	-199	-49	-122	-146	-148	-149
Profit Before Provisions	50,961	51,172	83,979	94,873	105,659	106,101	106,825
Provisions / (reversal of provisions)	-16,768	955	-15,669	-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	68,310	82,939	101,217	101,514	102,094
Income tax expense	-13,294	-21,245	-36,247	-37,323	-45,548	-45,681	-45,942
Profit for the year	20,899	30,882	32,063	45,617	55,670	55,833	56,152
EPS	17.07	25.23	26.19	37.26	45.47	45.61	45.87

Horizontal Analysis

Horizontal Analysis	2020	2021	2022	2023E	2024E	2025E	2026E
Mark-up / Return / Interest earned	-1.1%	-2.7%	69.4%	21.9%	19.7%	1.0%	0.9%
Mark-up / Return / Interest expensed	-16.2%	-1.1%	93.5%	19.2%	26.1%	2.0%	1.8%
Net Mark-up / Interest Income	21.3%	-4.3%	43.8%	25.9%	11.0%	-0.6%	-0.3%
Fee and commission income	-19.5%	17.7%	21.5%	5.8%	5.8%	5.8%	5.8%
Dividend income	-17.5%	60.2%	2.9%	17.1%	4.8%	4.9%	4.9%
Foreign exchange income	-18.6%	8.3%	110.8%	-40.0%	5.0%	5.0%	5.0%
(Loss) / gain on securities	18610.3%	813.3%	-87.6%	-290.6%	-212.3%	7.0%	6.9%
Other income	-63.4%	-20.8%	1378.7%	-75.0%	5.0%	5.0%	5.0%
Total non-markup / interest income	-21.1%	36.8%	47.3%	-26.6%	13.2%	5.6%	5.6%
Non mark-up / interest expenses							
Operating expenses	-0.4%	6.7%	22.3%	12.7%	11.4%	0.4%	0.7%
Workers' Welfare Fund	16.8%	18.1%	31.1%	-6.6%	11.4%	0.4%	0.7%
Other charges	317.8%	18.7%	-75.4%	150.3%	19.7%	1.0%	0.9%
Profit Before Provisions	20.0%	0.4%	64.1%	13.0%	11.4%	0.4%	0.7%
Provisions / (reversal of provisions)	104.0%	-105.7%	-1740.1%	-23.8%	-62.8%	3.3%	3.1%
Profit before income tax	-0.1%	52.5%	31.0%	21.4%	22.0%	0.3%	0.6%
Income tax expense	-12.0%	59.8%	70.6%	3.0%	22.0%	0.3%	0.6%
Profit for the year	9.2%	47.8%	3.8%	42.3%	22.0%	0.3%	0.6%
EPS	9.2%	47.8%	3.8%	42.3%	22.0%	0.3%	0.6%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		2020	2021	2022	2023E	2024E	2025E	2026E
Yield on Earning Assets	%	7.89	5.98	8.73	10.63	12.06	11.51	10.92
Interest Cost	%	4.26	3.24	5.59	6.57	7.76	7.42	7.07
Net Interest Margin	%	3.63	2.73	3.14	4.07	4.30	4.09	3.85
Operating Cost to Income	%	44.64	46.21	38.99	38.87	38.87	38.87	38.87
Return on Equity	%	11.35	15.09	15.04	19.73	22.09	20.44	20.13
Return on Assets	%	1.02	1.18	1.11	1.50	1.73	1.64	1.55
Balance Sheet Analysis		2020	2021	2022	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	20.52	20.94	21.52	21.97	21.13
Leverage Ratio	%	5.57	4.02	3.76	3.85	3.98	4.08	3.89
Operational Analysis		2020	2021	2022	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	2022	2023E	2024E	2025E	2026E
Dividend Per Share		12.00	18.00	22.00	25.00	31.00	31.00	31.00
Dividend Yield	%	11.71	17.57	21.47	24.40	30.25	30.25	30.25
Dividend Cover	x	1.42	1.40	1.19	1.49	1.47	1.47	1.48
Retention Ratio	%	34.84	34.68	15.00	32.17	32.17	32.17	32.17
Payout Ratio	%	65.16	65.32	85.00	67.83	67.83	67.83	67.83
No. of Shares	('m)	1224	1224	1224	1224	1224	1224	1224
Earnings Per Share		17.07	25.23	26.19	37.26	45.47	45.61	45.87
Book Value Per Share		150.36	167.17	174.20	188.84	205.85	223.16	227.91
Price to Earnings	x	6.00	4.06	3.91	2.75	2.25	2.25	2.23
Price to Book Value	x	0.68	0.61	0.59	0.54	0.50	0.46	0.45

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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