March 11, 2009

Pakistan Market

MORNING BRIEFING

UBL: 2008 EPS likely at Rs10.9, final cash Rs1.5

KSE100 Index Closing 5662.02 ↓ (-86.08)

The board of directors of United Bank Limited (UBL) is scheduled to announce full year 2008 results on March 12, 2008. We expect UBL to post earnings of Rs11.1bn (EPS Rs10.9) versus earnings of Rs8.4bn (EPS Rs8.3), a substantial growth of 32%YoY. In today's note we discuss our earnings expectations for UBL along with our stance on the scrip.

2008E EPS of Rs10.9 (excluding impairment)

UBL is expected to post earnings of Rs11.0bn (EPS of Rs10.9) in 2008 versus earnings of Rs8.4bn (diluted EPS of Rs8.3) last year – a handsome growth of 32%YoY. The spike in earnings is mainly led by a sharp rise in both net interest and non interest income. On the back of higher spreads and strong advances growth UBL net interest income is expected to rise to Rs28.0bn, up 16%YoY. Moreover, increased levels of trade & foreign exchange activity are expected to raise the bank's non interest income by 22% to Rs11.0bn. We expect fee income to grow by 16% to Rs6.0bn, while income from foreign currency dealings is expected to jump 80% to Rs6.0bn.

In addition to substantial growth in both NII and non interest income, earnings growth would be supported by fall in provisions for non performing loans (NPLs). After recognizing provisions for NPLs of Rs5.5bn (Rs3.3bn were as a direct consequence of FSV), UBL's provisions for NPLs are expected to fall by 13% to Rs4.8bn. Along with its full year results, the bank is expected to announce a final cash dividend of Rs1.5/share thus taking the full year dividend to Rs3.0 per share. Moreover, a 10-15% bonus issue cannot be ruled out.

EPS to fall to Rs8.7-9.0 with full impairment

UBL like its contemporaries has also been affected by recent crash in stock market. It has a significant equity investment portfolio classified as Available for Sale (AFS) and accounted for under IAS 39 which has been affected by the stock market crash. With relaxation by SECP on recognition of impairment losses for AFS investment UBL could defer recognition of impairment loss. However recent banking results show that banks have encouragingly being forthcoming in recognizing provisions for impairment upfront. According to our calculations, total impairment loss based on Dec 31, 2008 prices would range between Rs3.0-3.5bn. Hence recognition of impairment loss would reduce reported earnings by Rs1.9-2.2 per share to Rs8.7-9.0 per share.

Outlook: 'Buy' maintained

Despite the risk of rising NPLs and falling net interest margins going forward, UBL remains our preferred pick in the banking sector giving its attractive multiples & business diversification. The bank trades at 2008E PE and PBV of 4.9x and 1.0x, respectively. Moreover it also offers 2008E ROE of 20% and dividend yield of 7%.

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United Bank Limited	
Market Price: Rs42.70	**Kats Code:** UBL
Market Cap: Rs43.2bn (US$536.2mn)	**Bloomberg Code:** UBL PA
1-yrs Avg. Daily Volume: 2.0mn shares, Rs186.2mn (US$2.3mn)	**Reuters Code:** UBL.KA
1-year High/Low: Rs210.80/28.55	

Also in focus

26k tons/day of demand for FO projected by PSO

According to the local newspaper report, PSO is foreseeing 25.6k tons per day of furnace oil (FO) demand by thermal power plants for March-April 2009. Last year average FO sales during Mar-June 2008 stood at 21k tons. Higher demand of FO this year is anticipated due to rising demand for oil based electricity, we believe. During 8MFY09, furnace oil sales showed a marginal growth of 1%YoY. Sales of furnace oil by PSO, on the other hand, grew by 5% during the same period as private OMCs have taken a back seat in FO business due to non-payment of dues by WAPDA. We maintain our 'Buy' stance on PSO.

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