

November 12, 2009
Pakistan Market

UBL: Conference call takeaways

MORNING BRIEFING



KSE100 Index: Closing 8916.18 ↑ (+153.78)

United Bank Limited (UBL) conducted a conference call yesterday to discuss its nine months (Jan-Sep) 2009 performance and outlook for the next 3-6 months. To recall, the bank had posted earnings of Rs6.4bn (EPS Rs5.72) in 9M2009 as compared to earnings of Rs8.8bn (EPS Rs7.94) in 9M2008, down 28%YoY. In third quarter alone, the company posted earnings of Rs2.1bn (EPS Rs1.87), down 36%YoY. The bank stated that it continues to remain in a consolidation phase, making efforts to improve its balance sheet and to enhance profitability in the long term.

Advances down 2.9%, Deposits drop 6.4%

Gross advances as of Sep 2009 stood at Rs379bn, down 2.9% YTD, which was worse than industry average growth of 0.4%. According to the management, the decline was due to a combination of slowdown in the economy and bank's risk aversion strategy; where by funds were diverted towards high yielding risk free government securities. Consequently, UBL's market share in advances fell to 9%, from 9.2% in Dec 2008. Investments, however, rose by 15.1% to Rs134bn.

In line with the advances growth trend, deposits were also down by 6.4%, as the management continued with its strategy of shedding high cost fixed deposits. Thus, Rs37bn worth of fixed deposits were retired, current deposits of Rs8bn were accumulated. Resultantly, the CASA ratio improved to 65% in Sep 2009 from 59% in Dec 2008 while cost of deposits fell to 4.4% (5.5% in Dec 2008).

NPLs acceleration slows but still on the higher side

NPLs continue to remain a point of concern for both local and international operations of UBL. Though the pace of NPL accretion slowed to Rs2.3bn in 3Q2009 (Rs4.8bn in 2Q2009), Gross NPL ratio remained high at 10%. Resultantly, provisions for NPLs stood at Rs2.7bn in 3Q2009 while the total for 9M2009 amounted to Rs9.4bn, up 142%YoY. According to the management, NPL build up will continue its downward trend; however, significant improvement is unlikely in the next 1-2 quarters.

Intl. operations showing signs of improvement

The management was of the view that its international operations have been picking up again, witnessing increased activity in the corporate and retail sectors. However, real estate continues to remain a concern - with improvement expected in the early part of next year. NPL's coverage ratio for international operations stood at 89%, while cost of deposits continues to come down on a MoM basis. The bank continues to adopt a cautious approach in the Middle East region, whilst looking for opportunities to target new markets.

FSV benefit minimal; Reclassification favourable

The management does not expect to gain much from the increase in FSV benefit by 10% to 40% and inclusion of industrial property in the benefit stream. However, relaxation with regards to reclassification of restructured accounts is expected to prove beneficial. Since calculations are at an early stage, the management was unable to quantify the probable benefit. They however estimate 30-40% of corporate advances to be eligible for reclassification.

Table: 9M2009 Financial highlights (YoY)

(Rs mn)	9M2009	Δ%	3Q2009	Δ%
Markup interest earned	46,528	26%	14,668	6%
Markup interest paid	22,339	38%	6,352	2%
Net Interest Income	24,189	16%	8,315	9%
Provisions & write off	(9,395)	142%	(2,691)	101%
Net mark up income after prov	14,795	-13%	5,624	-10%
Fee income & brokerage income	4,397	-6%	1,482	-10%
Other non interest income	3,569	-15%	464	-62%
Net mark up + Non mark up income	22,760	-12%	7,570	-17%
Admin expenses & other charges	(12,808)	6%	(4,387)	2%
Profit before tax	9,952	-28%	3,183	-34%
Taxation	(3,584)	-27%	(1,103)	-31%
Profit after tax	6,367	-28%	2,080	-36%
EPS	5.72		1.87	

Source: Company Accounts

Outlook: 'Hold' maintained

As the 9M2009 results were inline with our expectation, we maintain our 'Hold' stance on the scrip which currently trades at 2009E PE and PBV of 7.3x and 1.2x, respectively. We expect full year earnings to arrive at Rs7.8, up 3%YoY.

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Also in focus

Remittances up 32% to US\$3.1 bn in 4MFY10

As per the latest numbers, remittances by overseas Pakistanis rose by 32% to US\$3.1bn in the first four months of the current fiscal year. However, on a monthly basis, remittances recorded a decline of 6% to US\$758mn. Higher inflows in the month of September were due to the festive season of Eid. Now with Eid-ul-Adha approaching, we could expect a healthy rise in the remittances for the month of November as well. Looking at the recent record remittances, we believe full year numbers are expected to cross the US\$8bn mark in FY10.

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