UBL: 2009 review/ Conference call takeaways

KSE100 Index: Closing 10088.45 ↑ (+62.46)

United Bank Limited (UBL) held its conference call yesterday to discuss the financial results for 2009 and outlook for the current year. To recall, the bank posted above consensus unconsolidated earnings of Rs9.2bn (EPS Rs8.26) against profits of Rs8.3bn (EPS Rs7.49) last year, while also paying out a 25% cash dividend and 10% bonus shares. The positive impact of top line growth in the year was marred by higher provisions, however strong 4Q Non Interest Income helped the company to post 36% QoQ earnings growth. Going forward, the management expects to rebuild its loan book in 2010– although cautiously, with growth expected to come from the recovering textile sector.

Earnings up 10% despite higher provisioning

Earnings of the bank grew 10%YoY despite higher provisioning expense. Similar to other large banks, Net Interest Income (NII) of UBL reflected strong growth of 17% in 2009. NII rose because of higher yields on earning assets, and a 46bps jump in NIMs to 6.3% in 2009. NII came in at Rs32.7bn from Rs27.9bn last year, an increase of 17%YoY.

Provisions for NPLs were up 113%YoY while gross NPL ratio rose to 10.2% in 2009 from 7.1% to 2008. Although accretion slowed in 2H2009, shifting to higher provision categories led to the substantial rise in provisions- also visible via the increased coverage of 71% (67% in 2008). Moreover, the bank also booked an impairment loss worth Rs1.5bn on its investments.

Similar to NII, Non Interest Income displayed strong performance –especially in the 4Q (up 90%QoQ), as it grew 9%YoY to Rs11.7bn. This was mainly attributable to strong derivative income of Rs1.7bn (up 200%YoY) and recovery in income from dealing in foreign currency (~Rs800mn in 4Q).

Advances down 2.2%, deposits up 1.7%

Gross advances of the bank dropped by 2.2% to Rs382bn owing to a combination of slowdown in the U.A.E economy and the banks risk aversion strategy, with funds being directed towards high yielding risk free government securities (investments up 17%). Consequently, the bank's share in total advances fell to 8.8% from 9.2% in 2008. According to the management, the bank has again started looking into new growth areas (textile being a key target) although adhering to stricter lending parameters.

Total deposits on the other hand rose by 1.7% to Rs492bn in 2009.The bank successfully pursued its plan of shedding high cost deposits, which decreased by ~Rs27bn; while it was also able to raise new low cost deposits in the range of ~Rs36bn. As a result, CASA of the bank jumped to 67% from 59% in 2008.

U.A.E slowdown hits Int'l operations

International operations of the bank faced a setback in 2009, as both deposits (down 14%) and advances (down 9%) shrunk in 2009. The slowdown in U.A.E, the major international market for UBL, was the key reason behind the dip in performance. Interestingly, the bank has not recorded provisions on its US$20mn exposure to Dubai World- a decision on its rescheduling is expected to come in April. Overall, the bank expects 2010 to be a better year for its int'l operations, with the management also exploring new markets like Qatar.

Outlook: 'Hold' maintained

After adopting a cautious approach in 2009, the bank is set to concentrate on growing its books again–amid heightened parameters. Consumer sector too will be an area of focus in the current year. However, concerns over provisions on international front remain a short term risk. We maintain our 'Hold' stance on the scrip which currently trades at 2010E PE and PBV of 7.6x and 1.1x.

mustufa.bilwani@js.com
92 (21) 111-574-111 (ext. 3100)

Also in focus

Shark-1 has turned out to be a dry hole

As per our discussion with industry participants, drilling on offshore well (Shark -1 well) is now over and the well has turned out to be a dry hole. We expect the drilling cost to stand in the vicinity of US$45mn. Since PPL has a 30% stake in the venture, we expect PPL to book one time expense of around Rs1.1bn in its 3rd quarter results leading to one time EPS decline of ~Rs0.74 However the stock is still trading at FY11F PE of 6.1x, hence we maintain 'Buy' on PPL.

Foreign investment drops 46% in 8MFY10

According to the figures released by the State Bank, net foreign investment dropped by 46% to US$1.02bn in 8MFY10 compared to US$1.89bn in the same period last year. Out of the total foreign investment, the foreign direct investment fell by 53% (8MFY10) to US$1.32bn primarily due to lack of major transactions and security issues prevalent in the country. The foreign portfolio investment during the first 8MFY10 stands at a net outflow of US$295.2mn which incorporates the Sukkuk payment as compared with a net outflow of US$902.3mn in the corresponding period last year.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:	Equity Sales:
Tel: +92 (21) 32799005	Tel: +92 (21) 32799513
Fax: +92 (21) 32800163	Fax: +92 (21) 32800166
js.research@js.com	junaid.iqbal@js.com
Fixed Income Sales:	**Corporate Finance:**
Tel: +92 (21) 32799541-44	Tel: +92 (21) 32799005
Fax: +92 (21) 32800165	Fax: +92 (21) 22800163
tariq.usman@js.com	azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS