

March 17, 2009

Pakistan Market**UBL: Conference call/2008 detailed accounts****MORNING BRIEFING**

KSE100 Index Closing 6063.54 ↑ (+313.07)

United Bank Limited (UBL) yesterday held an analyst call to discuss key highlights of 2008 results. The bank had posted an EPS of Rs8.2 down 1%YoY, with 10% bonus and final dividend of Rs1 per share. In today's note, we discuss the 2008 results in detail along with major takeaways from the conference call.

NII up 17%, non interest income rose by 16%

UBL's net interest income (NII) rose by 17% to Rs28.1bn at the back of 24% advances growth. Net interest spreads remained strong, while advances growth outpaced 20% deposit growth resulting in a 200bps increase in Advances to Deposit Ratio (ADR). Moving ahead, given falling KIBOR and higher deposit cost due to 5% minimum rate on saving deposits the management expect spreads and net interest margins to contract by 120bps and 50bps respectively. Moreover, given management's approach to focus on asset quality, advances growth is likely to remain in single digits skewed towards the energy sector.

Similar to NII, non interest income also posted decent growth of 16% to Rs10.4bn, mainly driven by strong exchange and fee income. Increased trade commissions, income generated from remittances and high corporate finance fees helped fee income to rise by 22% to Rs6.3bn. Moreover, volatility in Rupee helped exchange gain income to jump a massive 120% to Rs1.8bn. Looking ahead we expect relative stability in Rupee to reduce exchange gain income while lower levels of trade and corporate finance activities would affect fee income. Management however, remains bullish on the Investment banking business in the Middle East and expects it to negate possible slowdown in fee income locally.

More focus on asset quality; NPLs at Rs28bn

UBL which is generally regarded one of better banks as far as non performing loans (NPLs) are concerned saw a 26% rise in NPLs in 2008 as local economy slowed down. Provisions for NPLs rose by 7% to Rs5.9bn (excluding reversal due regulation change on FSV). NPL coverage ratio in the mean

time fell to 67% in Dec 2008 from 77% in Dec 2007, as change in FSV regulation resulted in Rs1.4bn reversal of provisions. Going forward UBL plans to reduce exposure to the consumer sector, while added focus will given on asset quality to ensure lower quantum of new NPLs. We however believe that 2009 will be another year of strong growth in NPLs, which would ultimately hurt overall profitability.

Rs2.2bn impairment loss dent earnings

One major highlight in 2008 results was the recognition of Rs2.2bn (Rs1.7/share) impairment loss on available for sale investments. While total diminution in value Rs4.1bn, only Rs2.2bn was recognized in P&L, as management felt that it was prudent to partially recognize the amount and avail the relaxation given by State Bank. Hence the remaining amount of Rs1.9bn would be recognised in P&L on a quarterly basis in 2009 adjusted for price movements. Anticipating some recovery in equity markets, we expect UBL to recognize around 60% of the amount as impairment loss in 2009.

Future outlook: Downgrade to 'Hold'

UBL's international operations have been a major earnings contributor in recent years with Rs2.7bn (30% of total profits) coming from international business in 2008. The key question remains whether the international operations can continue to contribute at the same levels, given the changing economic dynamics in the Middle East. While management expects returns from Middle East operations to remain reasonably steady, risk of higher NPLs on profitability cannot be ignored.

Moreover, UBL plans to raise Rs6.5bn capital in 2009 to further strengthen capital adequacy. The issue is likely to be a combination of Tier 1 and Tier 2, though no details on the exact quantum of each have been provided. After incorporating the detail results we have downgraded our stance on UBL from 'Buy' to 'Hold'. The bank currently trades at 2009E PE and PBV of 5.8x and 1.0x, respectively.

farhan.rizvi@js.com

92 (21) 111-574-111(Ext. 3096)

United Bank Limited**Market Price:**

Rs44.46

Market Cap:

Rs45.0bn (US\$559.3mn)

1-yrs Avg. Daily Volume:

2.0mn shares, Rs179.3mn (US\$2.2mn)

1-year High/Low:

Rs168.90/28.55

Kats Code:

UBL

Bloomberg Code:

UBL PA

Reuters Code:

UBL.KA

Also in focus**Oil hovering around US\$45-47/bbl**

During last few trading sessions, crude oil (WTI grade) is trading in the band of US\$45-47 per barrel on NYMEX (currently at US\$47). So far in this fiscal year (FY09), average price of WTI crude oil stands at US\$75 per barrel while that of Arab light, which is the benchmark crude for local E&Ps and refineries, is US\$70 per barrel, 7% discount to WTI crude oil price.

JS Global Capital Limited

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

Research:

Tel: +92 (21) 2799005

Fax: +92 (21) 2800163

js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 2799541-44

Fax: +92 (21) 2800165

tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 2799513

Fax: +92 (21) 2800166

junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21)2799005

Fax: +92 (21) 2800166

azhar.iqbal@js.com

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