

August 19, 2010

Pakistan Market

UBL: 1H2010 takeaways/ 'Buy' reiterated

MORNING BRIEFING



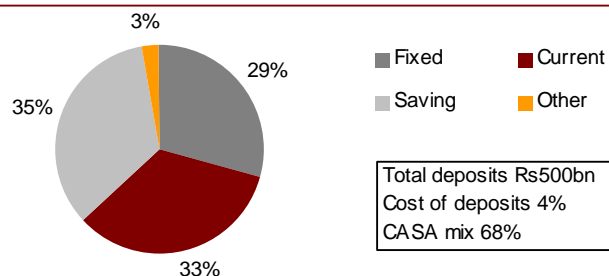
KSE100 Index: Closing 9,705.00 ↑ (+27.11)

United Bank Limited (UBL) reported slightly lower than expected earnings of Rs5.2bn (EPS Rs4.25) in 1H2010, primarily owing to a one off tax adjustment of Rs394mn (in 2Q). Key highlights of its performance include growth in interest income from declining cost of funds & lower non interest income due to absence of derivative gains. Moreover, provisioning for NPLs declined on a QoQ basis. The bank also held a conference call yesterday, and details intimated, verified our view of its low risk strategy helping it to generate decent returns. We currently maintain our full year earning estimates, expecting the bank to report an EPS of Rs8.6 and Rs10.5 in 2010 and 2011, respectively. The scrip currently trades at 2010E PBV and PE of 1.0x and 6.4x respectively, and we reiterate our 'Buy' call on the scrip with a target price of Rs75.

NII, lower loan losses drive profit growth

Net Interest Income (NII) of the bank grew 5%YoY in 1H2010, driven by improved cost of funds (down to 4.4% in 1H). The bank continued with its strategy to shed expensive deposits (down by Rs21bn in 1H) and focus on low cost CASA deposits (share up to 68% in June from 67% in Dec), while it maintained a cautious approach in building its loan book (gross advances down 2% in 1H).

Deposit mix - June 2010 (Rs bn)



Source: UBL

Non Interest income on the other hand, dipped 24% to Rs4.7bn in 1H2010 primarily due to absence of derivative gains and lower gains on sale of securities. Fee income registered strong growth of 8.2% to Rs3.1bn.

Provisioning expense in 1H2010 declined by 37%YoY to Rs3.4bn. In 2Q alone, loan losses stood at Rs1.7bn – lowest in the last six quarters. Encouragingly, NPL build up slowed in 2Q as Rs705mn were added to the non performing category, compared to Rs1.9bn in the previous quarter.

Financial highlights - UBL

(Rs mn)	1H2010	1H2009	Δ%
Mark-up interest earned	28,480	31,628	-10%
Mark-up interest paid	(11,965)	(15,944)	-25%
Net interest income	16,515	15,684	5%
Provisions/write offs/reversal	(4,094)	(6,703)	-39%
	12,421	8,981	38%
Non interest income	4,728	6,209	-24%
Operating expenditures	(8,584)	(8,421)	2%
Profit before tax	8,566	6,769	27%
Taxation	(3,365)	(2,481)	36%
Profit After Taxation	5,201	4,288	21%
Earning per share (EPS)	4.25	3.50	21%

Source: Company accounts

Conference call takeaways

The management reiterated its view of adhering to a cautious approach in the second half of the calendar year. They expect the corporate loan book to remain somewhat flat, while it foresees growth in certain areas in the retail segment. It mentioned demand coming in from textiles (mainly spinners), power and oil & gas sectors. As far as the agribusiness is concerned, the bank's direct exposure stands relatively low at Rs4bn; while it also carries an exposure of Rs50bn in commodity financing.

Moreover, as far as the discount rate hike is concerned, the management does not anticipate any significant pressure on asset quality, at least in the short term. It also remained

hopeful of a reversal of the tax charge – relating to disallowed expense (for tax purposes) in one of its international operations.

Recommendation: 'Buy' reiterated

The bank continues to display a strong operating performance in a difficult environment, via its careful strategy of concentration on CASA deposits and careful lending. The scrip trades at a 2010E PBV and PE of 1.0x and 6.4x. Moreover, it also offers a 2010E dividend yield of 6.4%. We reiterate our 'Buy' call on UBL – our top pick in the sector.

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United Bank Limited	
Market Price:	Kats Code:
Rs54.90	UBL
Market Cap:	Bloomberg Code:
Rs67.2bn (US\$784.6mn)	UBL PA
1-yrs Avg. Daily Volume:	Reuters Code:
1.8mn shares, Rs105.1mn (US\$1.2mn)	UBL.KA
1-year High/Low:	
Rs69.05/43.05	

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