

July 28, 2009

Pakistan Market**UBL: EPS of Rs4.0 expected in 1H2009****MORNING BRIEFING**

KSE100 Index: Closing 7711.06 ↓ (-72.34)

UBL is scheduled to announce its first half (Jan-June) 2009 results later today. We expect UBL to post earnings of Rs4.4bn (EPS of Rs3.99) in 1H2009 versus Rs5.6bn (EPS Rs5.03) in 1H2008 – a decline of 21%YoY. Higher provisions for non-performing loans and lower quantum of fee and other income are likely to be the major reasons behind the sharp decline in earnings. Due to tight Capital Adequacy situation we don't foresee any payout with the results.

Squeezing NII & surge in NPLs to hit 2Q09 profits

A combination of falling spreads and sharp decline in fee income are expected to hit UBL's topline in 2Q2009. We expect Non Interest Income (NII) to slowdown to Rs7.8bn in 2Q2009 versus Rs8.1bn in 1Q2009 a decline of 3%QoQ. Moreover, lower quantum of fee income and reduced opportunity for capital gains is expected to keep non interest income subdued at Rs2.2bn (down 28%YoY).

In a double whammy, higher provisions for NPLs, on account of both international real estate exposure and domestic consumer and textile exposure is likely to exert added pressure on the bottom line during the quarter. We expect provisions for NPLs to arrive at Rs4.0bn up a massive 120% versus Rs1.1bn in 2Q2008. As a result, earnings are expected to squeeze to Rs1.9bn (EPS Rs1.71) in 2Q2009 thus translating in to an EPS of Rs3.99 in 1H2009 (down 21%YoY).

Outlook: 'Hold' maintained

We expect provisions to continue exerting pressure on earnings as any quick recovery on the real estate, consumer and textile portfolio is easily ruled out. Moreover, spreads are likely to witness a sharp decline particularly in 2H2009 due to a sharp fall in KIBOR (6M KIBOR down 382bps since Dec 08). As a result, we expect UBL to post an EPS of Rs7.4 in 2009 down 2% from 2008. Trading at a 2009E PE and PBV of 5.9x and 0.9x, respectively, we maintain our 'Hold' stance on

the scrip at current levels. That said, lower than anticipated deterioration in asset quality remains a key upside risk to our estimates.

Table: 1H2009 Financial highlights

Rs mn	1H2009E	1H2008A	% change
Markup interest earned	32,140	23,170	39%
Marup interest paid	(16,286)	(9,954)	64%
Net Interest Income	15,854	13,216	20%
Provisions & write off	(5,004)	(2,544)	97%
Net mark up income after prov	10,850	10,672	2%
Fee income	2,625	3,051	-14%
Other non interest income	1,692	2,983	-43%
Net mark up + Non mark up income	15,167	16,706	-9%
Admin expenses & other charges	(8,243)	(7,809)	6%
Profit before tax	6,924	8,898	-22%
Taxation	(2,480)	(3,304)	-25%
Profit after tax	4,444	5,594	-21%
EPS	3.99	5.03	

Source: JS Research, Company accounts

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United Bank Limited	
Market Price: Rs43.32	Kats Code: UBL
Market Cap: Rs48.2bn (US\$583mn)	Bloomberg Code: UBL PA
1-yrs Avg. Daily Volume: 2.6mn shares, Rs123.8mn (US\$1.5mn)	Reuters Code: UBL.KA
1-year High/Low: Rs82.40/28.55	

Also in focus**Trade Policy sets 23% export growth in three years**

Yesterday the government unveiled a medium term (2009-12) trade policy. The three year frame work has envisaged an export growth of 6%, 10% and 13% for FY10, FY11 and FY12 respectively. Moreover the strategic plan focuses on reviving domestic commerce and diversifying export markets with EU, US and promoting trade in services sector. Moreover, to address the issues of the textile industry a separate textile policy would be announced soon which will cover a range of issues including exports.

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