

# Flash Note

Thursday, 27 July 2017

## Commercial Banks

### UBL: Lower capital gains and Incorporation of super-tax drags down quarterly earning

- United Bank Limited (UBL) reported unconsolidated earnings for the 2QCY17 of PKR 5.99bn (or PKR 4.89/share) down by +17%QoQ (or down by 14%YoY) bringing 1HCY17 total unconsolidated earnings to PKR 13.2bn (or PKR 11.68/share), down by 7%YoY.
- The bank announced a cash dividend of PKR 3.0/share, bringing 1HCY17 total cash dividend to PKR 6.0/share.
- During the quarter, lower capital gains realised (PKR 1.5bn versus PKR 2.3bn realized in 1QCY17), offset the impact of rise witnessed in net interest income (interest income up by +8%QoQ) and rising fee income (up by +12%QoQ). As a result, overall non-funded income portion to total revenue base decreased to 30% compared to 31% in 1QCY17.
- In addition to lower capital gain realization, super-tax incorporation also dented the bottom-line.

Exhibit:

### UBL Result Highlights

PKRmn (Period end=Dec)	2QCY17	2QCY16	YoY	1QCY17	QoQ	1HCY17	1HCY16	YoY
Interest Earned	25,795	26,101	-1%	23,888	8%	49,683	49,525	0%
Interest Expensed	11,492	10,358	11%	10,176	13%	21,668	20,194	7%
<b>Net Interest Income</b>	<b>14,303</b>	<b>15,744</b>	<b>-9%</b>	<b>13,712</b>	<b>4%</b>	<b>28,015</b>	<b>29,330</b>	<b>-4%</b>
Fee Income	3,121	3,211	-3%	2,787	12%	5,908	6,386	-7%
Capital Gain & Div. Income	2,241	1,768	27%	2,887	-22%	5,128	6,034	-15%
<b>Non-Interest Income</b>	<b>6,070</b>	<b>5,595</b>	<b>9%</b>	<b>6,276</b>	<b>-3%</b>	<b>12,346</b>	<b>13,955</b>	<b>-12%</b>
Total Revenue	20,373	21,338	-5%	19,988	2%	40,361	43,285	-7%
Operating Expenses	9,110	8,159	12%	8,736	4%	17,846	17,082	4%
Pre-Provisioning Profits	11,263	13,179	-15%	11,251	0%	22,514	26,203	-14%
NPL (Rev.) / Prov.	(553)	(336)	n.m.	96	-679%	(458)	1,431	-132%
Pre-Tax Profits	11,816	13,516	-13%	11,156	6%	22,972	24,771	-7%
Taxation	5,827	6,521	-11%	3,901	49%	9,728	10,477	-7%
<b>Profit After Tax</b>	<b>5,989</b>	<b>6,995</b>	<b>-14%</b>	<b>7,255</b>	<b>-17%</b>	<b>13,244</b>	<b>14,295</b>	<b>-7%</b>
EPS (PKR)	4.89	5.71		5.93		10.82	11.68	
DPS (PKR)	3.00	3.00		3.00		6.00	6.00	
BVPS (PKR)	127.82	123.79		125.93		127.82	123.79	

#### KEY RATIOS

Cost-To-Income Ratio	45%	38%		44%		44%	39%
Effective Tax Rate	49%	48%		35%		42%	42%
Non-Il / Total Income	30%	26%		31%		31%	32%

SOURCE: IGI Research, Company accounts, PSX notifications

#### Recommendation

With a forward CY17/CY18 P/B of 1.6x/1.5x and dividend yield of 5.1%/6%, we recommend "BUY" call with our Dec-17 target price of PKR 267/share, offering +24% upside from its last closing.

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