

# Flash Note

Thursday, 18 October 2018

## Commercial Banks

### United Bank Limited (UBL)

#### Higher interest and provisioning expense dragged quarter profitability; 9M EPS 7.9/share down by 49%

- United Bank Limited (UBL) displayed disappointing result for 3QCY18 whereby earnings clocked in at PKR 2.83/share down by ~40%, taking 9MCY18 total profitability to PKR 7.9/share (down by 49%), considerably below ours and market consensus.
- Additionally, the bank announced a PKR 2.0/share cash dividend (below market consensus), taking 9MCY18 total payout to PKR 8.0/share (PKR 9.0/share in 9MCY17)
- Total revenue of the bank declined by 3%QoQ to PKR 13.8bn owing to a +34% growth in interest expense, compared to +14% growth in interest earned. Non-interest income of the bank grew by +24%YoY in 9MCY18, thanks to decent growth of +14% in fee income and higher capital gains. The combined effect of lower net interest income and higher non-interest income resulted in a mere 5%YoY growth in total revenue during 9MCY18 (down by 10%QoQ). More pain for the bank came from +8%YoY growth in operating expenses during 9MCY18 (cost-to-income ratio up by 200ps to 52%) and provision charge under non-performing debt, which rose to PKR 6.9bn compared to PKR 0.04bn last year same period.

Exhibit:

#### UBL Result Highlights

PKRmn (Period end=Dec)	3QCY18	3QCY17	YoY	9MCY18	9MCY17	YoY	2QCY18	QoQ
Interest Earned	29,720	28,475	4%	83,885	78,158	7%	26,018	14%
Interest Expensed	15,892	14,307	11%	42,001	35,976	17%	11,817	34%
<b>Net Interest Income</b>	<b>13,828</b>	<b>14,168</b>	<b>-2%</b>	<b>41,883</b>	<b>42,182</b>	<b>-1%</b>	<b>14,201</b>	<b>-3%</b>
Fee Income	3,263	2,855	14%	9,990	8,763	14%	3,781	-14%
Capital Gain & Div. Income	371	240	55%	6,072	5,367	13%	2,064	-82%
<b>Non-Interest Income</b>	<b>5,133</b>	<b>3,769</b>	<b>36%</b>	<b>12,443</b>	<b>10,044</b>	<b>24%</b>	<b>6,977</b>	<b>-26%</b>
Total Revenue	18,961	17,936	6%	61,303	58,297	5%	21,178	-10%
Operating Expenses	9,948	9,020	10%	29,090	26,867	8%	10,436	-5%
Pre-Provisioning Profits	9,013	8,916	1%	21,471	20,167	6%	10,742	-16%
Provision (Rev.) / Charge	2,779	501	4.55x	6,973	43	162.x	2,208	26%
Pre-Tax Profits	5,892	8,415	-30%	9,960	19,571	-49%	6,535	-10%
Extraordinary Item	342	-	n.m.	8,747	-	n.m.	2,000	-83%
Taxation	2,431	2,560	-5%	6,762	12,288	-45%	2,909	-16%
<b>Profit After Tax</b>	<b>3,461</b>	<b>5,856</b>	<b>-41%</b>	<b>9,732</b>	<b>19,100</b>	<b>-49%</b>	<b>3,626</b>	<b>-5%</b>
EPS (PKR)	2.8	4.8		7.9	15.6		3.0	
DPS (PKR)	2.0	3.0		8.0	9.0		3.0	
BVPS (PKR) Est.	123.8	124.5					123.9	
<b>Key Ratio</b>								
Cost-To-Income Ratio	52%	50%		47%	46%		49%	
Effective Tax Rate	41%	30%		68%	63%		45%	
Non-II / Total Income	27%	21%		20%	17%		33%	

SOURCE: IGI Research, Company accounts, PSX

No. of shares (mn): 1224.18

#### Analyst

Saad Khan

[saad.khan@igi.com.pk](mailto:saad.khan@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 810

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## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

### Stock Exchange Office

Room # 134, 3rd Floor, PSX Building,  
Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2,  
Fax: (+92-21) 32429607

### Lahore Office

Shop # G-009, Ground Floor,  
Packages Mall  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road  
Tel: (92-992) 408243 - 44

### Peshawar Office

2nd Floor, The Mall Tower,  
35 The Mall Peshawar Cantt.  
Tel: (92-91) 5253035, 5278448

### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

### Abbottabad Office

Ground Floor, Al Fatah Shopping Center,  
Opp. Radio Station, Mansehra Road  
Tel: (+92-99) 2408243 - 44

### Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,  
Mubarik Pura  
Tel: (+92-52) 3258437, 3258762

IGI Finex Securities Limited

### Research Analyst(s)

Research Identity Number: BRP009

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