



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ UBL: Price correction warrants a Buy

CY17 is shaping up to be a slow year for UBL as reflected by 8.5%YoY lower earnings in 1HCY17. While pressure on NIMs was anticipated, continued weakness in the non-funded income segment has come as a surprise. In this regard, the segment's contribution to total income has gone down to 31% during 1HCY17 vs. 34% in 1HCY16. We expect the deceleration to persist (contribution to come down to 28% by CY20F) where factors like: 1) slowdown in the traditionally strong fee and commission income (last 5yr CAGR of 13.1% vs. 5yr forward CAGR of 4.8%) and 2) lower gains utilization are anticipated to linger on. Adjusting for the same, our revised CY17F/CY18F earnings estimates now stand at PkR22.3/24.3 per share, bringing down our TP to PkR250.8/sh (previously at PkR270.3/sh). UBL has corrected 12% in the last two months with price hovering at 11m low. CAR concerns are valid (CY19F buffer at 44bps), however we anticipate no immediate threat on this front. Expecting earnings to rebound from CY18F, we feel time is opportune for taking position in the stock Trading at a forward PB/PE of 1.3x/8.2x, our TP offers 25% upside.

#### KSE100 - Index

Current 45,998.81  
Previous 45,979.70  
Chg. 0.04%

#### Mkt Cap. (PkRbn/US\$bn)

Current 9,543 / 90.55  
Previous 9,532 / 90.44  
Chg. 0.12%

#### Daily Turnover (mn)

Current 213.72  
Previous 205.79  
Chg. 3.9%

#### Value Traded (PkRmn/US\$mn)

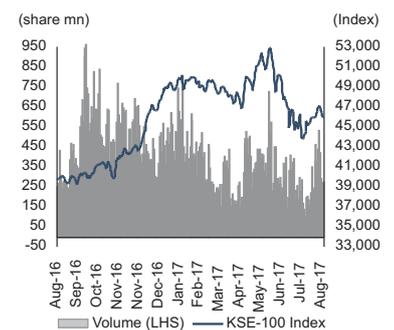
Current 13,763 / 130.58  
Previous 8,833 / 83.81  
Chg. 55.8%

AKD Daily

Thursday, Aug 10, 2017

### News and Views

- While addressing public rally towards his hometown, former PM Nawaz Sharif has said that general public rejected SC decision of his ouster in Panama leaks case. Nawaz Sharif will continue his rally today (Thursday) towards Lahore after short stay in Rawalpindi.
- Consortium of Russian companies (Inter Rao and Himmash Apparat) has agreed to setup a medium sized refinery in Kohat district of KPK. In this regard, MOU has been signed between the Russian firms and KPOGCL.
- Finance Minister Ishaq Dar has directed the federal secretaries for a probe into the recent sugar price hike in the retail market. With sugar supply shortage, retail price went up to PkR70/kg from PkR46/kg two weeks ago.



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## UBL: Price correction warrants a Buy

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**Non-interest income on a downtrend:** Non-interest income - one of the bank's key strength area - declined by 12.6%YoY in 1HCY17 with contribution to total income coming down to 31% in 1HCY17 from 34% same period last year. In this regard, capital gains utilization was down 16%YoY/33%QoQ. More concerning was the decline in fee and commission income (down 7%YoY) with commission from remittances being impacted the most (down by 21%YoY). Citing no major improvement in remittances as such, this persistent decline in the fee income segment alters our outlook on the bank's non-funded income. We now anticipate a 3yr forward CAGR of 3% (vs. 5% previously) with contribution from the same to total income coming down to 28% by CY20F.

**CAR concerns are valid but not immediate:** With CAR buffer expected to diminish over time (+44bps in CY19F), concerns on UBL's 1) dividend paying capacity and 2) limiting participation in CPEC led advances growth have sprung up. While concerns remain, we do not see any immediate threat expecting UBL to continue paying dividends (CY18F DPS at PkR13). However, with capital injection and dividend curtailment off card, RWA management will become crucial to CAR management. In this regard, UBL's continuous push into risk-free securities (govt. securities to assets ratio at 43% vs. peer average at 47%) is to come in handy, allowing UBL to keep RWA under manageable level.

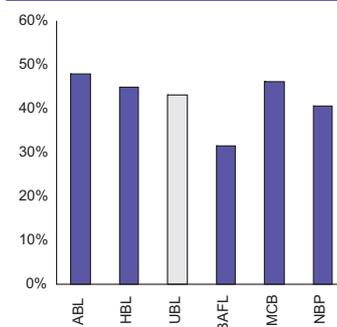
**Investment Perspective:** Trading at 11month low, UBL's stock price has undergone steep correction in the last two months. Expecting earnings to rebound from CY18F led by interest rate recovery and likely higher loan growth, we feel time is opportune for taking position in the stock. Trading at a forward PB/PE of 1.3x/8.2x, our TP offers 25% upside.

### UBL: Earnings & TP Revision

(PkR/sh)	CY17F	CY18F	TP
New	22.31	24.32	250.8
Old	22.98	26.1	270.3
Change	-3%	-7%	-7%

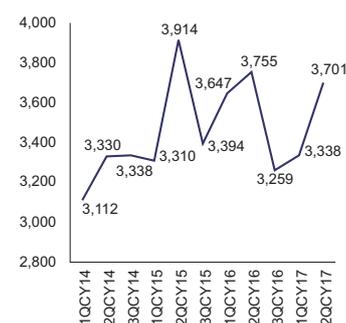
Source: AKD Research

### Risk free assets have room to grow



Source: Co. Reports & AKD Research

### Fee, Commission Income (PkR bn)



Source: Co. Reports & AKD Research



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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