



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



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### Today's Daily

#### ■ UBL: Looking beyond the challenges

UBL has not had a perfect start to CY18 where an unfavorable pension case decision by SC alongwith potential investor concerns on the bank's NYC operations have been key hurdles – limiting CYTD return to 1.8%. While regulatory/legal challenges hang in the balance, operational outlook beyond CY18F seems well in shape with the bank evidently focusing on targeting growth via 1) continuous expansion of loan book (+13% growth over the next 3yrs), 2) timely restructuring of the investment portfolio (PIB contribution scaled down to 49.6% from 70.7% in the same period last year) and 3) steps to arrest fee income decline (3%YoY/27%QoQ growth in fee income after 4%YoY dip in 9MCY17). Throwing effective CA mobilization (C/A portfolio growing by 17%YoY) and adequacy on the capital front (CY17 CAR: 15.4%; +30bps) in the mix and the bank has a proficient working combination. Asset quality however continues to pinch the bank particularly in relation to its foreign portfolio (overseas NPL addition of PkR11.2bn during CY17). With a 3yr forward NPAT CAGR of 15.3% and Tier-1 ROE crossing 20% over our investment horizon, UBL is currently available at an attractive CY18F/CY19F PB of 1.35x/1.29x. While price performance can remain limited until clarity on NY operations come through, we feel MPS in Mar'18 can be a key checkpoint where a further rate hike can resurrect investor interest in the sector and UBL particularly.

#### KSE100 - Index

Current 43,407.72  
Previous 43,618.07  
Chg. -0.48%

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

Current 9,065 / 81.99  
Previous 9,066 / 82.00  
Chg. -0.01%

#### Daily Turnover (mn)

Current 198.43  
Previous 152.32  
Chg. 30.3%

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

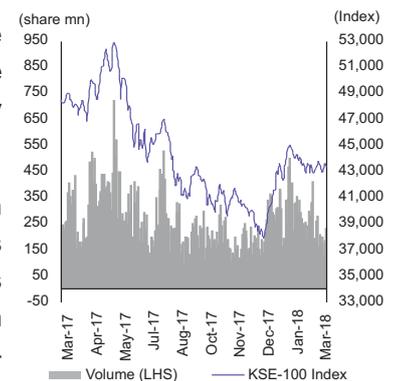
Current 6,792 / 61.43  
Previous 6,762 / 61.15  
Chg. 0.4%

AKD Daily

Thursday, Mar 15, 2018

#### News and Views

- The GoP during proceedings of foreign funds and undeclared offshore assets case has confirmed the expected launch of an amnesty in the current month allowing repatriation of undeclared assets at concessionary tax rates.
- Media reports suggest that the National Transmission and Dispatch Company is undergoing a severe financial crunch having halted payments to its counterparties, suppliers and vendors. In related news, members of the PPIB stated that the GoP was working to upgrade transmission network while approving extensions for financial close of the Lahore-Matiari and Thar coal transmission lines.
- Banking sector deposits continued to climb resting at PkR11.9trn up 11.6%YoY at the end of Feb'18 according to figures released by the SBP.



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**CY17 remained a slow year:** UBL posted consolidated NPAT of PkR26.2bn (EPS: PkR21.39) in CY17 vs. NPAT of PkR27.7bn (EPS: PkR22.70) in CY16, ending 6% YoY lower. Key CY17 result highlights included: (i) flattish NII in CY17/4QCY17, (ii) provisioning charge of PkR2.7bn, up 73%YoY in CY17, (iii) 3%YoY decline in non-interest income while the same was up 35%QoQ on account of healthy growth in fee income (+27%QoQ) and (iv) total expenses were up 7%YoY. Sequentially, we saw 8%QoQ increase in earnings on the back of lower expenses (down 2%QoQ), higher non-interest income (+35%QoQ) and lower tax rate (27% in 4QCY17). Alongside the result, UBL also announced a higher than expected final interim dividend of PkR4.0/sh taking total payout to PkR13.0/sh (payout ratio: 61%).

**CY18F outlook:** Earnings performance for UBL is likely to remain subdued during the year particularly on account of the one-off impact of revision in the bank's pension obligation after SC raised minimum pension rate to PkR8,000/mth. While this regulatory change should lead to earnings declining by 11%YoY, the bank otherwise remains sound from a fundamental viewpoint (ex- pension adjustment earnings to have ended flat). In this regard, our 3yr forward NPAT CAGR stands at a strong 15.3% with key drivers including: 1) continuous expansion of loan book (avg. 13% growth

UBL: Earnings and TP revision

(PkR/sh)	CY18F	CY19F	TP
New	19.10	24.65	243.6
Old	21.39	23.94	238.7
Change	-10.7%	3.0%	2.1%

Source: AKD Research



over the next 3yrs), 2) timely restructuring of the investment portfolio (PIB contribution scaled down to 49.6% from 70.7% in the same period last year) and 3) steps to arrest fee income decline (3%YoY/27%QoQ growth in fee income after 4%YoY dip in 9M CY17).

**Asset quality concerns to not wither soon:** Asset quality deterioration continued to be a concern this year with net provisioning expense increasing by 73%YoY to PkR2.7bn. NPL stock has risen to PkR52.9bn (NPL ratio of 8.4% in Dec'17) vs. PkR46.1bn in Dec'16 with coverage standing at 76%. International book in this regard has been the focal point with overseas NPL increasing by PkR11.2bn. Going forward, provisions can possibly remain on the higher side given an increasing interest rate environment, struggling GCC economies and the bank's aggressive push towards advances.

**Investment Perspective:** UBL has lost 2% since the unfavorable pension case outcome. This along with concerns on the bank's NY operations created further uncertainty. While the management sees no potential compliance irregularity in this regard (already restricted its operations in New York to trade transactions majorly done via correspondent banks), price performance can remain limited until further clarity comes through. That said, Mar'18 MPS remains a key checkpoint where further rate hike can resurrect investor interest in the sector and UBL particularly. Our revised TP of PkR243.6/sh offers 26% upside with a D/Y of 7.3%.



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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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