

DAY BREAK

Monday July 27, 2009

United Bank Limited (UBL) – Result Preview 1H CY09

UBL is due to announce its 1H CY09 financial performance in a board meeting scheduled for 28th Jul'09. We expect earnings to drop 19% YoY to PKR 4,546mn (EPS: PKR 4.08) as compared to PKR 5,594mn (EPS: PKR 5.03) during the corresponding period last year. Meanwhile, earnings for the 2Q CY09E are expected to be down by 25% to PKR 2,010mn (EPS: PKR 1.81). The slide in profitability derives from lack of revenue triggers as we forecast flat balance sheet with NIM contracting 30bps to 5.7% due to lower yields and sticky cost of funding. Moreover, heavy credits costs and lower non-interest income is likely to further aggravate the earnings decline.

Revenue growth under pressure

During the 6mo CY09E, we expect net interest income (NII) to increase by 22% YoY to PKR 16,168mn as against PKR 13,216mn; on the back higher asset yields and 24% growth in earning assets from Jun08 levels. However, going forward interest margins are likely to follow a downward trajectory, as on the asset side, yields downward adjust inline with market rates while cost of funds remain sticky owing to minimum 5% rate on PLS savings. Meanwhile, in terms of non-fund based income, we expect a sharp decline of 28% to PKR 4,363mn due to lower fee/commissions, slowdown in capital market activities and lower gains from derivatives.

High NPL provisions diluting profits

NPLs are seen as the single largest risk for UBL due to extensive exposure to consumer segment and possible weakening in its Middle East operations. During 1Q CY09, the firm trend of rising NPLs continued as UBL's NPLs rose by 15% to PKR 31,963mn. Consequently, the Gross & Net NPL ratio rose by 140bps and 110bps respectively to 8.2% and 3.2% YoY respectively. We expect asset quality pressures to persist in the near term and provisioning expense during 1H CY09 is likely to surge 98% to PKR 5,045mn as compared to PKR 2,544mn last year.

Easing pressure on operating cost front

UBL is putting in stringent cost control efforts in a bid to partially offset revenue declines by utilizing moderation in wage inflation, employee rationalization and limiting expansion and renovation of branch networks. In the first quarter, total non-markup expenses increase by a modest 7% while the cost/income ratio remained under control at 40%. During 1H CY09, we expect operating costs to increase by only 8%, to PKR 8,404mn as compared to PKR 7,809mn last year.

Recommendation

The result expectations provide a rich illustration of the difficult environment in which banks find themselves with hefty NPL provisioning diluting earnings. For UBL, notwithstanding the near term margins and NPL pressures; our favorable outlook is based on the premise that downside risks are priced in and the scrip offers positive risk-return. At current price, the stock quotes at 5.52x CY09E earnings and 0.87x CY09E book value; we maintain a BUY stance with a target price of PKR 55 per share.

UBL - Financial Highlights (PKR mn)						
	1H CY09E	1H CY08A	chg	2Q CY09E	2Q CY08A	chg
Net Interest Income	16,168	13,216	22%	8,104	6,821	19%
Non Interest Income	4,363	6,034	-28%	2,257	3,061	-26%
Provision Expense	5,045	2,544	98%	2,816	1,348	109%
Operating Expense	8,404	7,809	8%	4,406	4,077	8%
Profit Before Tax	7,083	8,897	-20%	3,140	4,457	-30%
Profit After Tax	4,546	5,594	-19%	2,010	2,693	-25%
EPS	4.08	5.03	-19%	1.81	2.42	-25%

Source: Company Reports & IGI Research

Daily Summary

Equities

	KSE100	Turnover All Shares (mn)	Market Cap All Shares (PKR bn)
24.07.09	7,783.40	193.05	2,294.54
23.07.09	7,863.86	213.67	2,315.34
Change	(80.46)	(20.62)	(20.80)

Board Meetings

Date	Time	Company
28.07.09	9:30	Engro Chemical
28.07.09	11:00	United Bank Limited

Forex (PKR/USD)

Bid	Offer	O/N	6-month
82.50	82.55	9.88	11.43

Money Market Repo (%)

Scrip	Volume	Chg.	Rate (PKR)	Chg.
MLCF	15.89	2.04	6.05	0.23
DGKC	15.75	4.60	38.28	-0.34
AICL	13.36	6.42	105.34	4.61
FCCL	9.30	-7.02	8.07	-0.12
ANL	8.97	-0.15	27.17	-0.01

Commodity Prices

	Price	Change
WTI (USD/bbl)	66.55	0.54
Gold (USD/oz)	951.35	2.20

SCRA

	Balance (USD mn)	Net flow (USD mn)
24.07.09	0.86	2.44

Source: KSE, SBP, Bloomberg & IGI Research

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