

AHL Brief Note: Commercial Banks

United Bank Limited

Divestment to strengthen sustained dividend prospects

- UBL has finalized the sale of its 55% stake in United National Bank Ltd UK (UNBL UK) to Bestway Group, having obtained all the necessary regulatory approvals.
- To recall, during its board meeting on September 11th, 2023, UBL's board approved the "Indicative Offer" from Bestway Group (BG) to acquire UBL's entire 55% shareholding in UNBL UK, a subsidiary. This transaction was contingent upon regulatory approvals from both Pakistan and the UK.
- The decision to divest up to 55% of UBL's shares in UNBL UK marks a significant strategic move. As of June 30th, 2023, the Risk Weighted Assets (RWA) of UNBL UK stood at PKR 339.2bn, which had resulted in a 200bps reduction in UBL's consolidated Capital Adequacy Ratio (CAR).
- This divestment is expected to positively impact UBL's CAR by removing UNBL UK's risk-weighted assets, totaling PKR 339bn, from UBL's balance sheet. Additionally, with UBL's anticipated higher profitability, it is projected that the bank will maintain a CAR exceeding 16%, compared to 14.8% recorded in 1HCY23.
- It is pertinent to note that the improved CAR provides UBL with the capacity to sustain its recent dividend payouts. UBL distributed PKR 44/share in CY23 and PKR 11/share in the 1QCY24, indicating that the bank is likely to continue offering higher dividends to its shareholders following the sale of UNBL UK.
- **Recommendation:** UBL remains one of our top picks in the banking sector. We currently have a BUY rating on the stock, with a target price of PKR 322 per share by Jun'25.

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