

AHL Brief Note: Commercial Banks

United Bank Limited

Corporate Briefing Takeaways

Management Conference Call

UBL senior management held an analyst briefing today to discuss financial performance of 3QCY24 and the future outlook.

Brief Takeaways

- To recall, UBL reported its 3QCY24 earnings at PKR 18.7bn (EPS: PKR 15.3), surging up by 27% YoY | 26% QoQ. For 9MCY24, total earnings amounted to PKR 48.2bn, marking a 16% YoY increase. The rise in earnings on YoY basis is fueled by a jump in non-funded income and provisioning reversal. The bank also announced a cash dividend of PKR 11.0/share in 3QCY24 along with the result taking total payout for 9MCY24 to PKR 33.0/share
- UBL disclosed that its gross Advance-to-Deposit Ratio (ADR) has risen to 50% as of now, though it stood at 25.7% in Sep'24. This increase was primarily due to PASSCO lending (~PKR 200bn), some other lending, and the reduction of high-cost deposits. The bank is focused on a tailored lending approach, emphasizing company-specific evaluations rather than sector-specific criteria.
- The bank is gradually reducing its OMO borrowing, which decreased by PKR 1trn in 3QCY24. Moreover, the management noted that the bank participated in the government's T-bill buybacks.
- The Bank does not have a specific Capital Adequacy Ratio (CAR) target but aims to sustain profitability and dividend stability.
- UBL's investment portfolio is heavily weighted in government securities, holding PKR 3.3bn in T-bills at a yield of 20.5%, PKR 1.2bn in fixed-rate PIBs at 15.9%, and PKR 1.6bn in floating-rate PIBs at 20.9%, totaling PKR 5.99bn with an average yield of 19.7%.
- The bank also has an unrealized gain of PKR 52bn (net of tax) on its investment portfolio, which it anticipates will bolster Net Interest Income (NII) and capital gains.
- UBL's deposits grew by 21% YoY to PKR 2.8trn, largely attributable to branch network expansion.
- The management also shared that they are transitioning all operations in Baluchistan and KPK to Islamic banking and are in active discussions with the SBP to facilitate this shift.
- The bank's effective tax rate increased due to an additional charge related to the divestment of its UK subsidiary.
- The bank is in ongoing discussions with the SBP about the potential acquisition of Silk Bank.
- The SBP granted UBL a temporary concession on its leverage ratio, currently below the required level, set to expire on 1st Jan'25. Management expects the leverage ratio to meet regulatory standards by Dec'24, driven by strong equity, improved profitability, and substantial T-Bill maturities.
- UBL sustained a strong payout ratio during the high-interest-rate period, backed by proceeds from its UK operations sale and record-high yields.
- Management anticipates the policy rate to bottom out around 12%-13%, after which they expect the SBP to hold steady.

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