

United Arab Bank (UAB)

UAB's operational performance underscores the success of its strategic transformation initiatives

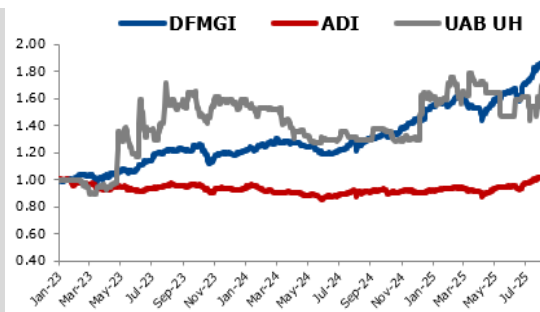
Current Price
AED 1.17

Target Price
1.23

Upside/Downside (%)
+5%

Rating
HOLD

- Net funded income increased 42.8% YOY to AED 158 Mn in 2Q25, supported by a rise in interest income, a decline in interest expenses, and a one-off boost from a net interest income adjustment following the adoption of Credit Risk Management Standards introduced by the CBUAE.
- The Bank is raising AED 1.03 Bn through a rights issue, increasing the share capital to AED 3.09 Bn to strengthen capital adequacy.
- Net advances rose 28.6% YOY and 7.6% QOQ to AED 13.4 Bn in 2Q25.
- UAB's customer deposits increased 28.6% YOY and 4.4% QOQ to AED 15.6 Bn in 2Q25, with CASA deposits accounting for 36.0% of total customer deposits.



2Q25 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit grew 51.1% YOY to AED 106 Mn in 2Q25, higher than our estimates of AED 65 Mn. The growth in net profit is mainly due to a one-off in interest income, coupled with a rise in non-funded income, partially offset by higher operating expenses, impairments, and tax charge.

P&L Highlights

UAB's interest income grew 14.0% YOY to AED 337 Mn in 2Q25, driven by a strong growth in net advances, asset yield, and a one-time adjustment to net interest income following the implementation of Credit Risk Management Standards issued by the CBUAE. Interest expenses decreased 3.2% YOY to AED 179 Mn in 2Q25 owing to a significant rise in customer deposits and lower cost of funds. UAB's net funded income rose 42.8% YOY to AED 158 Mn in 2Q25. Fees and commissions income increased 33.5% YOY to AED 26 Mn in 2Q25 alongside exchange income, that grew 67.6% YOY to AED 11 Mn. Similarly, other non-funded income rose from AED 0.1 Mn in 2Q24 to AED 13 Mn in 2Q25. Non-funded income almost doubled from AED 26 Mn in 2Q24 to AED 50 Mn in 2Q25 due to focus on improving cross-selling abilities and gains in FX. Operating expenses increased 26.3% YOY to AED 89 Mn in 2Q25, driven by investments in talent and enhancements to products and systems to strengthen the Bank's operations along with non-discretionary regulatory expenses while maintaining discipline in discretionary spending. Thus, cost to income ratio decreased from 51.7% in 2Q24 to 42.9% in 2Q25. The Bank recorded an impairment charge of AED 2 Mn in 2Q25, compared to a reversal of AED 11 Mn in 2Q24. Tax expenses increased 52.4% YOY to AED 11 Mn in 2Q25 in line with growth in profit before tax.

Stock Information

Market Cap (AED, Mn)	3,619.78
Paid Up Capital (Mn)	3,093.83
52 Week High	1.39
52 Week Low	0.97
3M Avg. daily value(AED)	131,040

2Q25 Result Review (AED, Mn)

Total Assets	23,921
Total Liabilities	21,140
Total Equity	2,781
Total Deposits	15,601
Net Profit	106

Financial Ratios

Dividend Yield (12m)	#N/A N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	6.95
Price-to-Book Ratio (x)	1.08
Book Value (AED)	1.08
Return-on Equity (%)	18.10

Stock Performance

5 Days	-1.68%
1 Months	2.63%
3 Months	2.45%
6 Months	-5.83%
1 Year	16.43%
Month to Date (MTD%)	-11.36%
Quarter to Date (QTD%)	-6.40%
Year to Date (YTD%)	-6.52%

Balance Sheet Highlights

UAB's total assets grew 20.7% YOY and 2.1% QOQ to AED 23.9 Bn in 2Q25, mainly due increase in lending book and high-quality investments. Net advances grew strongly 28.6% YOY and 7.6% QOQ to AED 13.4 Bn in 2Q25. The Bank's investment portfolio grew 27.3% YOY to AED 6.6 Bn in 2Q25, despite a 2.9% QOQ decline, as liquidity was efficiently deployed into high-quality assets to support yield enhancement. Similarly, customer deposits increased substantially 28.6% YOY and 4.4% QOQ to AED 15.6 Bn in 2Q25, in line with lending growth. CASA deposits account grew 29.3% YOY to AED 5.7 Bn in 2Q25, accounting for 36% of the total deposits.

Target Price and Rating

We assign a Hold rating on UAB with a revised target price of AED 1.23, taking into account the rights issue currently being undertaken by the Bank. The process is expected to lead to a capital increase, which could strengthen UAB's capital adequacy and support future growth plans. The additional capital may allow the Bank to expand its loan portfolio and gradually increase investment activities. In the near term, however, the rights issue may have a dilutive impact on existing shareholders, while the positive effects on lending and investments are likely to materialize progressively over time. UAB's operational performance underscores the success of its strategic transformation initiatives. Consistent efforts and focus enabled the Bank to record positive retained earnings in 2Q25, effectively wiping out its previously accumulated losses. UAB recorded strong growth in net interest income due to a significant rise in advances and improvement in asset yield, coupled with the one-off adjustment following the adoption of Credit Risk Management Standards introduced by the CBUAE. The Bank efficiently deployed liquidity in high-quality assets to enhance yield on investments. As per our calculation, the Bank's NIMs increased 32 bps YOY and 59 bps QOQ to 2.8% in 2Q25 primarily due to an improvement in asset yield and a one-time gain in interest income. Proficient execution of a robust lending pipeline continued to drive growth in net loans, advances, and Islamic financing, with lending increasing 28.6% YOY and 7.6% QOQ to AED 13.4 Bn in 2Q25. The Bank remains focused on optimizing funding costs to build a favorable mix between deposits and borrowings, aligned with asset growth. UAB's proactive risk management and sustained recovery efforts have significantly improved asset quality over the past three years. As a result, the NPL ratio declined to 2.2% in 2Q25, down from 3.9% at 4Q24 and 11.6% in 4Q21. Meanwhile, provision coverage stood firm at 148% excluding collaterals, and 204% including collaterals in 2Q25. UAB's liquidity moderated in 2Q25, with the loan-to-deposit ratio increasing from 83.5% in 1Q25 to 86.0% in 2Q25 owing to solid growth in advances. CASA deposits constituted 36% of the total deposit in 2Q25 compared to 34% in 4Q24. Moreover, the Bank maintained a healthy capitalization with a CET 1 ratio of 12.1% and CAR of 16.3% in 2Q25. Additionally, UAB is considering a rights issue of AED 1.03 Bn, offering one share for every two shares held, which will increase total share capital to up to AED 3.09 Bn, strengthening the Bank's capital adequacy. However, the Bank is not expected to pay any dividend in the near future. Thus, considering these factors, we assigned a HOLD rating on the stock.

UAB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NA	34.38	15.60	9.44	8.01	7.64
PB	1.66	1.60	1.61	1.39	1.20	0.87
EPS	NM	0.034	0.075	0.124	0.146	0.153
BVPS	0.705	0.733	0.727	0.844	0.971	1.350

FABS Estimates & Co Data

UAB – P&L

AED Mn	2Q24	1Q25	2Q25	2Q25F	VAR	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	296	290	337	294	14.5%	14.0%	16.1%	1,193	1,256	5.3%
Funded expense	-185	-173	-179	-161	10.9%	-3.2%	3.4%	-726	-718	-1.1%
Net funded income	111	117	158	133	18.8%	42.8%	34.7%	467	538	15.4%
Fees & commissions	20	25	26	27	-1.1%	33.5%	4.9%	91	104	15.0%
Exchange income	7	11	11	10	7.0%	67.6%	1.7%	34	42	22.0%
Other non-funded income	0	12	13	4	NM	NM	5.4%	14	45	NM
Total non-funded income	26	48	50	41	23.9%	90.4%	4.3%	139	191	37.5%
Total operating income	137	165	208	173	20.0%	51.9%	25.9%	606	730	20.5%
Total operating expenses	-71	-88	-89	-88	1.0%	26.3%	2.0%	-318	-336	5.6%
Pre provision profit	66	78	119	85	39.7%	79.4%	52.8%	288	394	36.9%
Impairment	11	34	-2	-13	-84.6%	NM	NM	43	21	NM
Profit before tax	77	112	117	72	63.0%	51.2%	4.5%	331	415	25.5%
Tax expense	-7	-10	-11	-6	63.5%	52.4%	4.3%	-30	-37	25.3%
Net profit	70	102	106	65	62.9%	51.1%	4.5%	301	378	25.5%

FABS estimate & Co Data

UAB - KPI

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	80.7%	70.9%	75.9%	-487	499	77.0%	73.8%	-325
NIM	2.5%	2.2%	2.8%	32	59	2.5%	2.3%	-19
NIS	1.9%	1.8%	2.4%	52	61	2.0%	2.0%	0
Fees & comms/OI	14.4%	15.2%	12.6%	-174	-253	15.0%	14.3%	-68
Exchange income/OI	4.8%	6.5%	5.3%	50	-126	5.7%	5.7%	7
Cost to income	51.7%	53.0%	42.9%	-873	-1,004	52.5%	46.0%	-647
Impairment/PPP	-16.6%	-43.6%	1.7%	1,830	4,534	-14.9%	-5.3%	959
NP/OI	51.3%	61.4%	51.0%	-28	-1,040	49.7%	51.7%	206
Cost of risk- calculated	-0.4%	-1.1%	0.1%	48	114	-0.4%	-0.2%	24
Loan-to-deposit – calculated	86.0%	83.5%	86.0%	-2	254	84.9%	84.5%	-40
NPL – calculated	4.5%	3.4%	2.2%	-237	-122	3.9%	3.0%	-85
Coverage – calculated	124.6%	117.6%	148.0%	2,338	3,032	117.7%	122.0%	426
CET 1	13.0%	12.6%	12.1%	-90	-46	12.7%	16.8%	408
Capital adequacy	18.0%	17.1%	16.3%	-170	-76	17.4%	20.4%	301
ROAE	15.9%	17.0%	18.1%	221	106	16.1%	14.2%	-193
ROAA	1.6%	1.6%	1.7%	10	8	1.5%	1.5%	1

FABS estimate & Co Data

UAB - Key B/S items

AED mn	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch.
Net advances	10,435	10,754	11,526	12,472	13,418	28.6%
QOQ change	9.4%	3.1%	7.2%	8.2%	7.6%	
Total assets	19,813	20,016	21,461	23,429	23,921	20.7%
QOQ change	10.6%	1.0%	7.2%	9.2%	2.1%	
Customer deposits	12,129	12,031	13,577	14,942	15,601	28.6%
QOQ change	13.8%	-0.8%	12.9%	10.1%	4.4%	
Total equity	2,411	2,577	2,551	2,659	2,781	15.3%
QOQ change	2.0%	6.9%	-1.0%	4.2%	4.6%	

FABS estimate & Co Data

Valuation:

We use the Residual Income and Relative Valuation (RV) method to value UAB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.16	70.0%	0.81
Relative Valuation (RV)	1.39	30.0%	0.42
Weighted Average Valuation (AED)			1.23
Current market price (AED)			1.17
Upside/Downside (%)			+5%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.0%. Cost of equity is calculated by using a 10-year government bond yield of 5.1%, a beta of 0.60 and an equity risk premium of 4.9%. Government bond yield is calculated after adding Abu Dhabi's 10-year CDS spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	146
Terminal value (AED, Mn)	190
Book Value of Equity (as of Jun 2025)	3,261
FV to Common shareholders (AED, Mn)	3,597
No. of shares (Mn)	3,094
Current Market Price (AED)	1.17
Fair Value per share (AED)	1.16

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	378	286	275	272	268
(-) Equity Charge	-268	-271	-268	-260	-252
Excess Equity	110	15	7	12	16
Discounting Factor	0.97	0.90	0.83	0.77	0.71
Present Value of Excess Equity	107	13	6	9	11

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value UAB and it is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.3x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F
Sharjah Islamic Bank	2,660	NM	9.1	NM	1.1
Commercial Bank of Dubai	8,127	8.9	10.9	1.7	1.7
Emirates NBD	45,056	7.3	7.4	1.2	1.1
Mashreq Bank	13,438	6.7	6.9	1.3	1.2
RAK Bank	4,408	6.1	8.2	1.1	1.2
Average		7.2x	8.5x	1.4x	1.3x
Median		7.0x	8.2x	1.3x	1.2x
Max		7.7x	9.1x	1.4x	1.2x
Min		6.5x	7.4x	1.2x	1.1x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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