

United Arab Bank (UAB)

Profit driven by strong income growth and effective cost management

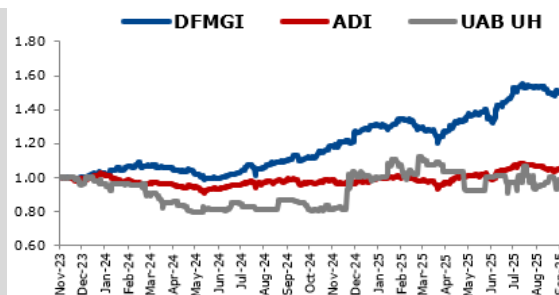
Current Price
AED 1.20

Target Price
AED 1.25

Upside/Downside (%)
+4.2%

Rating
HOLD

- The bank raised AED 1.03 Bn through right issue in 3Q25, resulting in an improvement in its CET1 ratio to 18.5% and CAR to 22.8% in 3Q25.
- Net funded income increased 35.6% YOY to AED 151 Mn in 3Q25, supported by a strong growth in average interest-earning assets, partially offset by a decline in asset yield.
- Loan & advances rose 31.2% YOY and 5.2% QOQ to AED 14.1 Bn in 3Q25.
- Customer deposits increased 5.8% on YTD basis to AED 14.4 Bn in 3Q25 due to growth in CASA and non-CASA deposits.
- The Bank recorded impairment reversal of AED 3 Mn in 3Q25 compared to a reversal of AED 5 Mn in 3Q24.



Stock Information

Market Cap (AED, Mn)	3,712.59
Paid Up Capital (Mn)	3,093.83
52 Week High	1.39
52 Week Low	0.97
3M Avg. daily value(AED)	711,361

3Q25 Result Review (AED, Mn)

Total Assets	24,465
Total Liabilities	20,506
Total Equity	3,959
Total Deposits	14,369
Net Profit	108

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	6.54
Price-to-Book Ratio (x)	1.09
Book Value (AED)	1.10
Return-on Equity (%)	14.88

Stock Performance

5 Days	-7.69%
1 Months	-1.64%
3 Months	-2.44%
6 Months	-6.18%
1 Year	20.51%
Month to Date (MTD%)	-1.64%
Quarter to Date (QTD%)	-1.64%
Year to Date (YTD%)	-4.12%

3Q25 Net Profit slightly exceeded our forecast

United Arab Bank PJSC ("UAB"/ "The Bank") net profit grew 46.2% YOY to AED 108 Mn in 3Q25, higher than our estimates of AED 103 Mn. The growth in net profit is mainly due to a substantial rise in net interest income and non-funded income, partially mitigated by higher operating & tax expenses and lower impairment reversal.

P&L Highlights

UAB's interest income grew 9.7% YOY to AED 331 Mn in 3Q25, driven by a strong growth in average interest-earning assets, partially offset by a decline in asset yield. Interest expenses fell 5.4% YOY to AED 181 Mn in 3Q25 owing to a lower cost of funds on YOY basis, partially offset by a growth in average interest-bearing liabilities. Fees and commissions income increased 9.4% YOY to AED 25 Mn in 3Q25, while exchange income grew 45.7% YOY to AED 14 Mn. Similarly, other non-funded income more than doubled from AED 8 Mn in 3Q24 to AED 17 Mn in 3Q25. Non-funded income rose from AED 41 Mn in 3Q24 to AED 56 Mn in 3Q25 due to the Bank's strategic efforts to increase cross-selling and higher foreign exchange income, coupled with higher investment gain. Thus, operating income rose 36.4% YOY to AED 207 Mn in 3Q25. Operating expenses increased 21.5% YOY to AED 91 Mn in 3Q25, 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, the cost-to-income ratio decreased from 49.6% in 3Q24 to 44.1% in 3Q25. The Bank recorded impairment reversal of AED 3 Mn in 3Q25 compared to a reversal of AED 5 Mn in 3Q24, driven by prudent risk management and continued focus on maintaining strong asset quality. Tax expenses increased 46.0% YOY to AED 11 Mn in 3Q25 in line with growth in profit before tax.

Balance Sheet Highlights

UAB's total assets grew 22.2% YOY and 2.3% QOQ to AED 24.5 Bn in 3Q25, mainly due to an increase in lending books and high-quality investments. Net advances grew strongly 31.2% YOY and 5.2% QOQ to AED 14.1 Bn in 3Q25, due to strong growth in Islamic financing and across all the key sectors. The Bank's investment portfolio grew 30.4% YOY and 12.0% QOQ to AED 7.4 Bn in 3Q25, as UAE efficiently deployed surplus liquidity into high-quality assets to enhance overall portfolio yields. Similarly, customer deposits increased 19.4% YOY and declined 7.9% QOQ to AED 14.4 Bn in 3Q25 due to growth in CASA and non-CASA deposits on YOY basis. While on a QOQ basis, both CASA and non-CASA deposits declined in 3Q25, accounting for 34% of the total deposits.

Target Price and Rating

We maintain our HOLD rating on UAB, with a revised target price of AED 1.25. UAB's profitability grew 46.2% YOY in 3Q25, supported by a robust growth in net funded and non-funded income and disciplined cost control. The Bank's loans & advances increased 31.2% YOY and 5.2% QOQ to AED 14.1 Bn, driven by an increase in lending across key sectors and a rise in Islamic financing, indicating strong credit demand. Similarly, the Bank's investment portfolio expanded 30.4% YOY and 12.0% QOQ to AED 7.4 Bn in 3Q25, driven by the strategic deployment of surplus liquidity into high-quality assets aimed at improving yield performance. This growth highlights the Bank's focus on enhancing income diversification and maximizing returns from its liquid resources. UAB also recorded strong growth in non-funded income in 9M25 through enhanced cross-selling, FX income, investment and property-related gain. We expect the Bank to maintain this momentum going forward, using new strategies. Despite higher growth in operating income, the Bank maintained its cost focus as the cost-to-income ratio declined from 49.5% in 9M24 to 46.2% in 9M25. However, deposits declined by 7.9% QOQ to AED 14.4 Bn in 3Q25 due to a decline in CASA and non-CASA deposits. CASA deposits as a percentage of total deposits fell from 36.5% in 2Q25 to 34.4% in 3Q25. Decline in CASA deposit during a declining interest rate scenario will negatively impact NIMs. UAB's asset quality weakened in 3Q25, with an increase in the NPL ratio from 2.2% in 2Q25 to 3.1% in 3Q25. The increase in the NPL ratio is due to the addition of fresh slippages of AED 225.4 Mn and write-off of AED 98.0 Mn loans in 3Q25. While the stage 2 loans as a percentage of gross loans declined from 3.4% in 2Q25 to 2.6% in 3Q25. In addition, the provision coverage declined from 148.0% in 2Q25 to 82.0% in 3Q25, indicating a reduced buffer against potential loan losses. To strengthen its capital base, the bank raised AED 1.03 Bn through a rights issue in 3Q25, which was fully subscribed, resulting in an improvement in its CET1 ratio to 18.5% and CAR to 22.8% in 3Q25. UAB's stable resource ratio and eligible liquid asset ratio stood at 81% and 14%, respectively in 3Q25, both above the regulatory requirement, thus reflecting the Bank's continued resilience in maintaining a well-balanced funding mix and sufficient liquidity buffers. The bank launched the "Jaywan Prepaid Card" in partnership with Network International, IDEMIA, and Al Etihad Payments to promote digital payments and financial inclusion, reflecting the Bank's focus on innovation and profitable growth. Thus, based on these factors, we assigned a HOLD rating on the stock.

UAB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NA	37.32	16.93	10.25	8.69	7.93
PB	1.80	1.73	1.75	1.50	1.31	0.93
BVPS	0.705	0.733	0.727	0.844	0.971	1.358
EPS	NM	0.034	0.075	0.124	0.146	0.160
DPS	NA	NA	NA	NA	NA	NA
Dividend Yield	NA	NA	NA	NA	NA	NA

FABS Estimates & Co Data

UAB – P&L

AED Mn	3Q24	2Q25	3Q25	3Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	302	337	331	350	-5.3%	9.7%	-1.6%	1,193	1,264	6.0%
Funded expense	-191	-179	-181	-191	-5.2%	-5.4%	1.1%	-726	-689	-5.0%
Net funded income	111	158	151	159	-5.3%	35.6%	-4.6%	467	575	23.2%
Fees & commissions	22	26	25	27	-10.3%	9.4%	-6.7%	91	102	12.0%
Exchange income	10	11	14	11	27.9%	45.7%	30.5%	34	48	40.0%
Other non-funded income	8	13	17	12	40.6%	108.8%	33.6%	14	56	NM
Total non-funded income	41	50	56	51	10.4%	38.5%	11.8%	139	206	48.1%
Total operating income	152	208	207	210	-1.5%	36.4%	-0.6%	606	781	28.9%
Total operating expenses	-75	-89	-91	-92	-1.2%	21.5%	2.1%	-318	-361	13.5%
Pre provision profit	77	119	116	118	-1.7%	51.0%	-2.7%	288	420	45.9%
Impairment	5	-2	3	-4	NM	NM	-242.6%	43	14	-67.6%
Profit before tax	81	117	118	114	4.3%	46.2%	1.5%	331	434	31.2%
Tax expense	-7	-11	-11	-10	4.2%	46.0%	1.1%	-30	-39	31.0%
Net profit	74	106	108	103	4.3%	46.2%	1.6%	301	395	31.2%

FABS estimate & Co Data

UAB - KPI

	3Q24	2Q25	3Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	73.3%	75.9%	72.9%	-42	-303	77.0%	73.6%	-343
NIM	2.4%	2.8%	2.6%	24	-19	2.5%	2.6%	9
NIS	1.8%	2.4%	2.1%	31	-30	2.0%	2.2%	20
Fees & comms/OI	14.8%	12.6%	11.9%	-292	-77	15.0%	13.0%	-196
Exchange income/OI	6.5%	5.3%	6.9%	44	165	5.7%	6.2%	49
Cost to income	49.6%	42.9%	44.1%	-542	119	52.5%	46.2%	-627
Impairment/PPP	-5.9%	1.7%	-2.5%	338	-427	-14.9%	-3.3%	1,157
NP/OI	48.6%	51.0%	52.1%	351	113	49.7%	50.6%	90
Cost of risk- calculated	-0.2%	0.1%	-0.1%	8	-14	-0.4%	-0.1%	29
Loan-to-deposit – calculated	89.4%	86.0%	98.2%	882	1,220	84.9%	98.0%	1,310
NPL – calculated	4.1%	2.2%	3.1%	-101	89	3.9%	2.5%	-135
Coverage – calculated	125.2%	148.0%	82.0%	-4,321	-6,595	117.7%	130.0%	1,226
CET 1	13.8%	12.1%	18.5%	470	640	12.7%	19.0%	626
Capital adequacy	18.8%	16.3%	22.8%	400	650	17.4%	23.1%	564
ROAE	14.2%	18.1%	14.9%	66	-322	16.1%	14.8%	-134
ROAA	1.5%	1.7%	1.8%	33	12	1.5%	1.7%	16

FABS estimate & Co Data

UAB - Key B/S items

AED mn	3Q24	4Q24	1Q25	2Q25	3Q25	YOY Ch.
Net advances	10,754	11,526	12,472	13,418	14,112	31.2%
QOQ change	3.1%	7.2%	8.2%	7.6%	5.2%	
Total assets	20,016	21,461	23,429	23,921	24,465	22.2%
QOQ change	1.0%	7.2%	9.2%	2.1%	2.3%	
Customer deposits	12,031	13,577	14,942	15,601	14,369	19.4%
QOQ change	-0.8%	12.9%	10.1%	4.4%	-7.9%	
Total equity	2,577	2,551	2,659	2,781	3,959	53.6%
QOQ change	6.9%	-1.0%	4.2%	4.6%	42.4%	

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	1.23	70.0%	0.86
Relative Valuation (RV)	1.29	30.0%	0.39
Weighted Average Valuation (AED)			1.25
Current market price (AED)			1.20
Upside/Downside (%)			+4.2%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.1%. Cost of equity is calculated by using a 10-year government bond yield of 4.9%, a beta of 0.60 and an equity risk premium of 5.4%. 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)	122
Terminal value (AED, Mn)	224
Book Value of Equity (as of Sep 2025)	3,408
FV to Common shareholders (AED, Mn)	3,824
No. of shares (Mn)	3,094
Current Market Price (AED)	1.20
Fair Value per share (AED)	1.23

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Profit	395	314	307	310	308	286
(-) Equity Charge	-163	-273	-278	-278	-273	-268
Excess Equity	232	41	29	32	35	19
Discounting Factor	0.99	0.91	0.84	0.78	0.72	0.67
Present Value of Excess Equity	57¹	37	25	25	25	12

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local peers to value UAB and it is valued using the PB multiple. It is valued at a 2026 PB multiple of 1.2x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F
Sharjah Islamic Bank	2,519	NM	9.1	NM	1.1
Commercial Bank of Dubai	7,801	8.4	10.3	1.6	1.6
Emirates NBD	46,943	7.2	7.3	1.2	1.1
Mashreq Bank	13,003	6.5	6.7	1.3	1.2
RAK Bank	4,271	5.9	7.9	1.1	1.2
Average		7.0x	8.3x	1.3x	1.2x
Median		6.8x	7.9x	1.3x	1.2x
Max		7.5x	9.1x	1.4x	1.2x
Min		6.3x	7.3x	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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