

## United Arab Bank (UAB)

Strong recoveries and increased lending boosted profitability

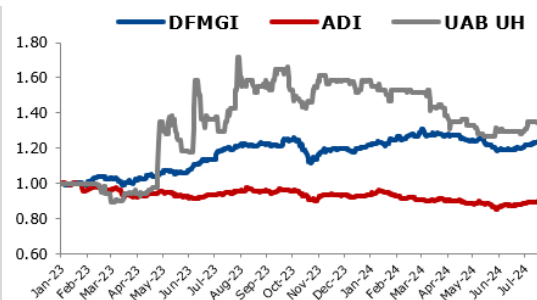
**Current Price**  
AED 1.12

**Target Price**  
AED 1.10

**Upside/Downside (%)**  
-1.8%

**Rating**  
HOLD

- UAB's net advances grew 37.6% YOY and 9.4% QOQ to AED 10 Bn in 2Q24, while the investment portfolio grew 2% on a 2024 YTD basis to AED 5 Bn in 2Q24.
- NIMs declined 52 bps YOY and 64 bps QOQ to 2.5% in 2Q24, while cost-to-income rose from 45.8% in 2Q23 to 51.7% in 2Q24
- Non-core income declined 46.9% YOY and 16.1% QOQ to AED 26 Mn in 2Q24.
- Asset quality improved as NPLs declined from 4.8% in 1Q24 to 4.5% in 2Q24, while coverage declined from 127% in 1Q24 to 125% in 2Q24.



### Stock Information

Market Cap (AED, mn)	2,310.06
Paid Up Capital (mn)	2,062.55
52 Week High	1.45
52 Week Low	1.08
3M Avg. daily value(AED)	29,352

### 2Q24 Result Review (AED, mn)

Total Assets	19,813
Total Liabilities	17,402
Total Equity	2,411
Total Deposits	12,129
Net Profit	70

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.45
Price-to-Book Ratio (x)	1.24
Book Value (AED)	0.90
Return-on Equity (%)	15.89

### Stock Performance

5 Days	0.00%
1 Months	1.82%
3 Months	-0.88%
6 Months	-13.85%
1 Year	-23.29%
Month to Date (MTD%)	1.82%
Quarter to Date (QTD%)	1.82%
Year to Date (YTD%)	-17.04%

### 2Q24 Net Profit in-line with our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit grew 6.8% YOY to AED 70 Mn in 2Q24, in-line with our estimate of AED 71 Mn. The growth in net profit is mainly due to an increase in net funded income and reversals in impairments partially offset by a decline in non-funded income, an increase in operating expenses, and income tax expense.

### P&L Highlights

UAB's funded income grew 31.3% YOY to AED 296 Mn in 2Q24 driven by an increase in net advances and other interest earnings assets. On the other hand, funded expenses grew significantly 48.0% YOY to AED 185 Mn in 2Q24 mainly due to higher costs of funds. Thus, net funded income grew 10.4% YOY to AED 111 Mn in 2Q24. UAB's NIMs declined 52 bps YOY and 64 bps QOQ to 2.5% in 2Q24. The Bank's total non-funded income declined 46.9% YOY to AED 26 Mn in 2Q24 primarily due to the non-recurrence of one-off items realized in 1H23 from the sale of fixed assets. Fee and commission income declined 6.6% YOY to AED 20 Mn in 2Q24. However, exchange income rose 1.3% YOY to AED 7 Mn in 2Q24. In addition, other non-funded income declined significantly from AED 22 Mn in 2Q23 to AED 0.13 Mn in 2Q24. Total operating income declined 8.6% YOY to AED 137 Mn in 2Q24. UAB's operating expenses grew 3.0% YOY to AED 71 Mn in 2Q24. Resultantly, the cost-to-income ratio grew from 45.8% in 2Q23 to 51.7% in 2Q24. The Bank recorded a reversal in impairments of AED 11 Mn in 2Q24 compared to impairments charges of AED 15 Mn in 2Q23. UAB incurred tax expenses of AED 7 Mn in 2Q24 due to the introduction of corporate tax in UAE.

## Balance Sheet Highlights

United Arab Bank's total assets grew 37.1% YOY and 10.6% QOQ to AED 20 Bn in 2Q24 mainly due to growth in cash balance, due from banks, net advances and other assets. Net advances grew strongly 37.6% YOY and 9.4% QOQ to AED 10 Bn in 2Q24 mainly due to the strong demand. The Bank's investment portfolio grew 24.4% YOY and declined 1.6% QOQ to AED 5 Bn in 2Q24. In addition, customer deposits grew 44.2% YOY and 13.8% QOQ to AED 12 Bn in 2Q24 due to strong growth in CASA deposits. CASA deposits account for 36.3% of total customer deposits as of 2Q24 compared to 34.5% in 1Q24. The Bank's liquidity improved as the loan-to-deposit ratio declined from 89.5% in 1Q24 to 86.0% in 2Q24.

## Target Price and Rating

We maintain our HOLD rating on United Arab Bank (UAB) with a target price of AED 1.10. UAB recorded a growth in profitability owing to an increase in core income and reversals in impairments in 2Q24. UAB's total assets rose 37.1% YOY and 10.6% QOQ to AED 20 Bn in 2Q24 due to an increase in lending activity and investment portfolio. The Bank's investment portfolio grew 2% on a 2024 YTD basis to AED 5 Bn primarily due to the deployment of liquidity to increase asset yield. The Bank recorded a reversal of impairments of AED 11 Mn owing to strong recoveries in 2Q24. UAB remains focused on prudently managing risk and maintaining high asset quality despite a growth in total assets. The Bank's asset quality improved as reported NPLs declined from 4.8% in 1Q24 to 4.5% in 2Q24. Provision coverage marginally declined from 127% in 1Q24 to 125% in 2Q24, whereas provision including collateral stood at 190% in 2Q24 compared to 194% in 1Q24. Capitalization also stood strong with a CET 1 ratio stood at 13.0%, and CAR of 18.0% in 2Q24. Furthermore, UAB's net advances grew strongly 37.6% YOY and 9.4% QOQ to AED 10 Bn in 2Q24. The Bank further expects strong growth in net advances owing to the strong business pipeline. Customer deposits grew strongly 44.2% YOY and 13.8% QOQ to AED 12 Bn in 2Q24 due to strong growth in CASA deposits. However, NIMs declined 52 bps YOY and 64 bps QOQ to 2.5% in 2Q24 owing to higher cost of funds. The Bank should further focus on lowering its funding cost in order to boost its margins. Thus, considering these factors, we maintain our HOLD rating on the stock.

### UAB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	NA	NA	32.91	14.93	9.05	8.41
PB	1.07	1.59	1.53	1.54	1.33	1.14

FABS Estimates & Co Data

### UAB - P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	225	305	296	309	-4.4%	31.3%	-3.0%	922	1,334	44.8%
Funded expense	-125	-172	-185	-175	5.4%	48.0%	7.2%	-527	-795	50.9%
<b>Net funded income</b>	<b>100</b>	<b>132</b>	<b>111</b>	<b>134</b>	<b>-17.3%</b>	<b>10.4%</b>	<b>-16.2%</b>	<b>395</b>	<b>540</b>	<b>36.6%</b>
Fees & commissions	21	23	20	23	-15.6%	-6.6%	-13.9%	77	88	15.0%
Exchange income	6	6	7	7	-0.5%	1.3%	4.5%	28	28	2.0%
Other non-funded income	22	2	0.13	2	NM	NM	NM	77	15	-80.0%
<b>Total non-funded income</b>	<b>50</b>	<b>31</b>	<b>26</b>	<b>32</b>	<b>-18.2%</b>	<b>-46.9%</b>	<b>-16.1%</b>	<b>182</b>	<b>132</b>	<b>-27.3%</b>
<b>Total operating income</b>	<b>150</b>	<b>163</b>	<b>137</b>	<b>166</b>	<b>-17.5%</b>	<b>-8.6%</b>	<b>-16.2%</b>	<b>576</b>	<b>672</b>	<b>16.5%</b>
Total operating expenses	-69	-78	-71	-78	-9.3%	3.0%	-8.8%	-285	-322	13.2%
<b>Pre provision profit</b>	<b>81</b>	<b>86</b>	<b>66</b>	<b>88</b>	<b>-24.7%</b>	<b>-18.4%</b>	<b>-22.8%</b>	<b>292</b>	<b>349</b>	<b>19.8%</b>
Impairment	-15	-11	11	-10	NM	NM	NM	-36	-47	30.1%
<b>Profit before tax</b>	<b>66</b>	<b>75</b>	<b>77</b>	<b>78</b>	<b>-0.7%</b>	<b>17.4%</b>	<b>2.9%</b>	<b>255</b>	<b>302</b>	<b>18.3%</b>
Tax expense	0	-7	-7	-7	-1.2%	NM	2.2%	0	-27	NM
<b>Net profit</b>	<b>66</b>	<b>68</b>	<b>70</b>	<b>71</b>	<b>-0.7%</b>	<b>6.8%</b>	<b>3.0%</b>	<b>255</b>	<b>275</b>	<b>7.6%</b>

FABS estimate & Co Data

**UAB - KPI**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	66.9%	80.8%	80.7%	1,388	-2	68.5%	80.3%	1,183
NIM	3.0%	3.1%	2.5%	-52	-64	2.6%	3.0%	39
NIS	2.4%	2.5%	1.9%	-54	-62	2.2%	2.5%	30
Fees & comms/OI	14.1%	14.0%	14.4%	30	38	13.3%	13.1%	-17
Exchange income/OI	4.3%	3.8%	4.8%	47	95	4.8%	4.2%	-60
Cost to income	45.8%	47.5%	51.7%	583	416	49.4%	48.0%	-141
Impairment/PPP	19.0%	12.6%	-16.6%	NM	NM	12.5%	13.5%	108
NP/OI	43.9%	41.8%	51.3%	741	954	44.3%	40.9%	-338
Cost of risk – reported	0.8%	0.3%	-0.5%	NM	NM	0.4%	0.5%	6
Loan-to-deposit – calculated	90.2%	89.5%	86.0%	-416	-344	91.4%	83.5%	-790
NPL – Reported	6.7%	4.8%	4.5%	-220	-30	5.0%	5.0%	0
Coverage – Reported	110.0%	127.0%	125.0%	1,500	-200	132.0%	128.0%	-400
CET 1	13.7%	13.1%	13.0%	-70	-10	13.5%	13.4%	-16
Capital adequacy	19.6%	18.4%	18.0%	-163	-40	19.0%	17.9%	-104
ROAE	12.4%	15.1%	14.9%	249	-26	13.6%	12.8%	-82
ROAA	1.3%	1.5%	1.4%	12	-6	1.6%	1.5%	-16

FABS estimate & Co Data

**UAB - Key B/S items**

	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch.
<b>AED mn</b>						
Net advances	7,585	7,703	9,357	9,534	10,435	37.6%
QOQ change	2.9%	1.6%	21.5%	1.9%	9.4%	
Total assets	14,448	14,736	17,648	17,907	19,813	37.1%
QOQ change	0.2%	2.0%	19.8%	1.5%	10.6%	
Customer deposits	8,410	9,175	10,238	10,656	12,129	44.2%
QOQ change	0.9%	9.1%	11.6%	4.1%	13.8%	
Total equity	2,128	2,159	2,290	2,363	2,411	13.3%
QOQ change	2.9%	1.5%	6.1%	3.2%	2.0%	

FABS estimate & Co Data

## Valuation:

We use 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	1.13	70.0%	0.79
Relative Valuation (RV)	1.03	30.0%	0.31
<b>Weighted Average Valuation (AED)</b>			<b>1.10</b>
Current market price (AED)			1.12
Upside/Downside (%)			-1.85%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.95 and equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	177
Terminal value (AED, Mn)	291
Book Value of Equity (as of June 2024)	1,860
<b>FV to Common shareholders (AED, Mn)</b>	<b>2,329</b>
No. of share (Mn)	2,063
Current Market Price (AED)	1.12
<b>Fair Value per share (AED)</b>	<b>1.13</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	275	262	257	254	247
(-) Equity Charge	-182	-205	-214	-218	-218
<b>Excess Equity</b>	<b>93</b>	<b>57</b>	<b>44</b>	<b>36</b>	<b>29</b>
Discounting Factor	0.96	0.88	0.81	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>45</b>	<b>50</b>	<b>35</b>	<b>27</b>	<b>20</b>

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 2024 PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Sharjah Islamic Bank	1,980	1.1	1.0	9.4	8.7	5.3	5.8
Commercial Bank of Dubai	5,040	1.24	1.2	NA	NA	7.1	6.5
Emirates NBD	30,180	1.0	0.9	4.8	5.8	5.9	6.1
Mashreq Bank	11,420	1.3	1.2	6.5	6.8	7.2	7.2
RAKBank	2,900	0.9	0.9	5.6	6.1	6.9	7.5
Abu Dhabi Islamic Bank	16,480	0.9	0.9	8.0	8.1	6.4	6.5
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.9x</b>	<b>7.1x</b>	<b>6.5%</b>	<b>6.6%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.5x</b>	<b>6.8x</b>	<b>6.6%</b>	<b>6.5%</b>
<b>Max</b>		<b>1.2x</b>	<b>1.1x</b>	<b>8.0x</b>	<b>8.1x</b>	<b>7.0%</b>	<b>7.0%</b>
<b>Min</b>		<b>0.9x</b>	<b>0.9x</b>	<b>5.6x</b>	<b>6.1x</b>	<b>6.0%</b>	<b>6.2%</b>

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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