

United Arab Bank (UAB)

Impairment reversals and net funded income growth lifted earnings

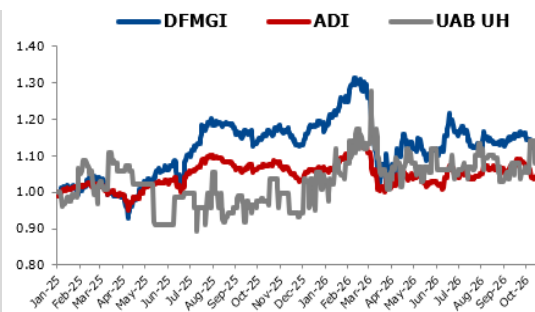
Current Price
AED 1.30

Target Price
AED 1.60

Upside/Downside (%)
+23%

Rating
BUY

- Net advances and Islamic financing increased 11.9% YOY and 3.0% QOQ to AED 15.8 Bn in 3Q26, with YTD lending growth primarily driven by financial institution clients and local corporates.
- CASA deposits increased 61.1% YOY to AED 8.0 Bn in 3Q26, accounting for 43.6% of total deposits.
- The Bank's calculated NIM declined 1 bps YOY but improved 17 bps QOQ to 2.6% in 3Q26.
- Asset quality improved significantly, with the reported NPL ratio declining to 0.5% in 3Q26 from 2.7% in 2Q26.
- Capitalisation remained robust, with CET1 and CAR ratios of 16.8% and 20.7%, respectively in 3Q26, remaining above regulatory requirements.



Stock Information

Market Cap (AED, Mn)	4,021.97
Paid Up Capital (Mn)	3,093.83
52 Week High	1.60
52 Week Low	1.07
3M Avg. daily value(AED)	1,250,869

3Q26 Result Review (AED, Mn)

Total Assets	28,365
Total Liabilities	24,362
Total Equity	4,003
Total Deposits	18,284
Net Profit	132

Financial Ratios

Dividend Yield (12m)	2.60
Dividend Pay-out (%)	25.00
Price-Earnings Ratio(x)	9.72
Price-to-Book Ratio (x)	1.16
Book Value (AED)	1.12
Return-on Equity (%)	13.28

Stock Performance

5 Days	-13.33%
1 Months	-1.52%
3 Months	-8.45%
6 Months	-3.70%
1 Year	2.36%
Month to Date (MTD%)	-2.26%
Quarter to Date (QTD%)	-2.26%
Year to Date (YTD%)	0.00%

3Q26 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit increased 22.7% YOY to AED 132 Mn in 3Q26, higher than our estimates of AED 109 Mn. The increase in net profit was primarily driven by higher net funded income and net impairment reversals, partially offset by higher operating and tax expenses along with lower non-funded income.

P&L Highlights

UAB's interest income increased 9.9% YOY to AED 364 Mn in 3Q26, supported by continued growth in the lending and investments portfolio, partially offset by a decline in asset yield. Interest expenses rose 4.9% YOY to AED 190 Mn in 3Q26, owing to a rise in customer deposits and medium-term borrowings, partially offset by a decline in the cost of funds and deposits & balances due to banks. Consequently, net funded income grew 15.8% YOY to AED 174 Mn in 3Q26. Fees and commissions income increased 5.9% YOY to AED 26 Mn in 3Q26, while foreign exchange income declined 8.0% YOY to AED 13 Mn in 3Q26. Other non-funded income decreased 20.6% YOY to AED 14 Mn in 3Q26. Thus, non-funded income declined 5.8% YOY to AED 53 Mn in 3Q26. As a result, operating income increased 9.9% YOY to AED 227 Mn in 3Q26, with net funded income accounting for 76.7% and non-funded income contributing 23.3% to total operating income. Operating expenses increased 21.5% YOY to AED 111 Mn in 3Q26. Consequently, the cost-to-income ratio increased to 48.8% in 3Q26 from 44.1% in 3Q25. The Bank recorded net impairment reversals of AED 29 Mn in 3Q26, compared to a reversal of AED 3 Mn in 3Q25, supported by successful resolutions of delinquent loans. Tax expenses increased 22.9% YOY to AED 13 Mn in 3Q26, in line with the increase in profit before tax.

Balance Sheet Highlights

UAB's total assets increased 15.9% YOY and 2.2% QOQ to AED 28.4 Bn in 3Q26, driven by growth in the lending portfolio and high-quality liquid investments. Net advances and Islamic financing rose 11.9% YOY and 3.0% QOQ to AED 15.8 Bn in 3Q26, with YTD lending growth primarily driven by financial institution clients and local corporates. The Bank's investment portfolio grew 22.8% YOY and 9.8% QOQ to AED 9.1 Bn in 3Q26, supported by the deployment of liquidity into high-quality assets to enhance yields. Similarly, customer deposits increased 27.2% YOY and 0.6% QOQ to AED 18.3 Bn in 3Q26, supported by strategic initiatives across corporate and personal banking segments aimed at increasing CASA deposits and optimising funding costs. CASA deposits rose 61.1% YOY to AED 8.0 Bn, accounting for 43.6% of total customer deposits in 3Q26.

Target Price and Rating

We maintain our BUY rating on UAB, with a target price of AED 1.60. The Bank reported a 22.7% YOY increase in net profit to AED 132 Mn in 3Q26, supported by higher net funded income and net impairment reversals following successful resolutions of delinquent loans, partially offset by higher operating and tax expenses and lower non-funded income. The Bank continued to invest in people, products, processes and systems, with management focusing on accelerating innovation and digital transformation, improving operational efficiency and strengthening governance and risk management frameworks to support long-term growth. UAB's net advances and Islamic financing increased 11.9% YOY and 3.0% QOQ to AED 15.8 Bn in 3Q26, with YTD lending growth primarily driven by financial institution clients and local corporates. Similarly, the Bank's investment portfolio expanded 22.8% YOY and 9.8% QOQ to AED 9.1 Bn in 3Q26, supported by the deployment of liquidity into high-quality assets to enhance yields. The Bank's calculated NIM decreased 1 bps YOY but increased 17 bps QOQ to 2.6% in 3Q26, while the reported NIM stood at 2.71% in 3Q26 compared to 2.73% in 3Q25. The QOQ improvement in NIMs is driven by an increase in CASA deposits which rose from AED 7.2 Bn in 2Q26 to AED 8.0 in 3Q26 owing to initiatives undertaken by UAB to enhance relationship with customers. UAB's customer deposits increased 27.2% YOY and 0.6% QOQ to AED 18.3 Bn in 3Q26, supported by strategic initiatives across corporate and personal banking segments aimed at enhancing CASA deposits and optimising funding costs. CASA deposits increased 61.1% YOY to AED 8.0 Bn in 3Q26, accounting for 43.6% of total customer deposits in 3Q26, compared to 39.7% in 2Q26. UAB's asset quality improved significantly, with the reported NPL ratio declining to 0.5% in 3Q26 from 2.7% in 2Q26, following successful resolutions of delinquent accounts and write-off. Stage 2 loans as percentage of total loans fell from 0.8% in 2Q26 to 0.7% in 3Q26. The reported provision coverage ratio increased to 338% in 3Q26 from 101% in 2Q26, while reported coverage including collateral strengthened to 419% from 177% during the same period. The provision buffer will help UAB in mitigating against any unforeseen losses in the future. The Bank continued to maintain a prudent approach to risk management, closely monitoring potential signs of credit stress arising from the ongoing geopolitical crisis. Capitalisation remained robust, with the CET1 ratio and capital adequacy ratio standing at 16.8% and 20.7%, respectively, in 3Q26, compared to 17.2% and 21.1% in 2Q26. The Bank's strong capital ratios provide resilience and loss-absorption capacity against potential adverse macro-financial shocks. Similarly, the advances-to-stable-resources ratio stood at 72%, while the eligible liquid assets ratio was 15% in 3Q26, both remaining within regulatory requirements. Thus, based on these factors, we maintain our rating to BUY on the stock.

UAB - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	39.96	18.13	10.97	9.31	7.66	9.88
PB	1.86	1.87	1.61	1.40	0.96	1.19
BVPS	0.733	0.727	0.844	0.971	1.411	1.142
EPS	0.034	0.075	0.124	0.146	0.178	0.138
DPS	NA	NA	NA	NA	0.035	0.035
Dividend Yield	NA	NA	NA	NA	2.7%	2.7%

FABS Estimates & Co Data

UAB – P&L

AED Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Funded income	331	345	364	357	2.1%	9.9%	5.5%	1,291	1,434	11.0%
Funded expense	-181	-186	-190	-191	-0.7%	4.9%	2.1%	-713	-762	6.9%
Net funded income	151	159	174	166	5.4%	15.8%	9.5%	579	672	16.1%
Fees & commissions	25	27	26	29	-10.1%	5.9%	-3.4%	102	100	-2.0%
Exchange income	14	14	13	15	-14.6%	-8.0%	-7.7%	47	54	15.0%
Other non-funded income	17	28	14	29	NM	-20.6%	NM	68	72	5.0%
Total non-funded income	56	69	53	73	-28.0%	-5.8%	-23.3%	218	226	3.9%
Total operating income	207	228	227	239	-4.9%	9.9%	-0.4%	797	898	12.7%
Total operating expenses	-91	-101	-111	-104	6.6%	21.5%	9.2%	-365	-422	15.5%
Pre provision profit	116	127	116	135	-13.8%	0.8%	-8.1%	431	476	10.4%
Impairment	3	12	29	-16	NM	NM	NM	51	-8	NM
Profit before tax	118	138	145	119	21.7%	22.7%	5.0%	482	468	-2.9%
Tax expense	-11	-12	-13	-11	21.6%	22.9%	4.9%	-44	-42	-4.3%
Net profit	108	126	132	109	21.7%	22.7%	5.0%	438	426	-2.7%

FABS estimate & Co Data

UAB - KPI

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Net FI/OI	72.9%	69.8%	76.7%	389	695	72.6%	74.8%	215
NIM	2.6%	2.4%	2.6%	-1	17	2.5%	2.5%	-4
NIS	2.1%	2.0%	2.2%	8	18	2.0%	1.7%	-32
Fees & comms/OI	11.9%	11.8%	11.4%	-44	-36	12.9%	11.2%	-168
Exchange income/OI	6.9%	6.3%	5.8%	-113	-46	5.9%	6.1%	12
Cost to income	44.1%	44.5%	48.8%	463	429	45.9%	47.0%	112
Impairment/PPP	-2.5%	-9.2%	-24.8%	NM	NM	-11.8%	1.7%	NM
NP/OI	52.1%	55.2%	58.2%	604	298	55.0%	47.4%	NM
Cost of risk - Calculated	-0.1%	-0.3%	-0.7%	-64	-43	-0.4%	0.1%	43
Loan-to-deposit - Calculated	98.2%	84.4%	86.4%	NM	200	81.7%	88.0%	NM
NPL - Calculated	3.1%	2.7%	0.5%	-251	-218	2.8%	0.6%	-220
Coverage excluding collateral - Calculated	82.0%	96.6%	319.0%	NM	NM	102.4%	300.0%	NM
CET 1	18.5%	17.2%	16.8%	-170	-40	17.4%	15.8%	-160
Capital adequacy	22.8%	21.1%	20.7%	-210	-40	21.5%	19.5%	-203
ROAE	14.9%	15.1%	13.3%	-160	-180	16.0%	12.1%	NM
ROAA	1.8%	1.7%	1.7%	-9	6	1.8%	1.5%	-29

FABS estimate & Co Data

UAB - Key B/S items

AED Mn	3Q25	4Q25	1Q26	2Q26	3Q26	YOY Ch.
Net advances	14,112	14,554	15,081	15,328	15,793	11.9%
QOQ change	5.2%	3.1%	3.6%	1.6%	3.0%	
Total assets	24,465	27,000	26,893	27,748	28,365	15.9%
QOQ change	2.3%	10.4%	-0.4%	3.2%	2.2%	
Customer deposits	14,369	17,809	16,652	18,166	18,284	27.2%
QOQ change	-7.9%	23.9%	-6.5%	9.1%	0.6%	
Total equity	3,959	4,032	3,842	4,039	4,003	1.1%
QOQ change	42.4%	1.8%	-4.7%	5.1%	-0.9%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.68	70.0%	1.18
Relative Valuation (RV)	1.41	30.0%	0.42
Weighted Average Valuation (AED)			1.60
Current market price (AED)			1.30
Upside/Downside (%)			+23%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.9%. Cost of equity is calculated by using a 10-year government bond yield of 5.5%, a beta of 0.60 and an equity risk premium of 4.0%. 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)	535
Terminal value (AED, Mn)	1,214
Book Value of Equity (as of Sept 2026)	3,452
FV to Common shareholders (AED, Mn)	5,201
No. of shares (Mn)	3,094
Current Market Price (AED)	1.30
Fair Value per share (AED)	1.68

Residual Income Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Net Profit	426	426	437	452	452	474
(-) Equity Charge	-275	-279	-301	-323	-347	-370
Excess Equity	151	147	136	129	105	104
Discounting Factor	0.99	0.91	0.85	0.79	0.73	0.67
Present Value of Excess Equity	37¹	134	115	101	77	70

Source: FAB Securities, ¹ Adjusted 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 2027 PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2026F	2027F	2026F	2027F
Sharjah Islamic Bank	3,418	9.8x	9.8x	1.1x	1.1x
Commercial Bank of Dubai	7,884	8.8x	NA	1.6x	NA
Emirates NBD	52,764	8.1x	7.4x	1.3x	1.1x
Mashreq Bank	17,315	NA	NA	NA	NA
RAK Bank	5,510	7.6x	6.6x	1.3x	1.2x
Average		8.6x	7.9x	1.3x	1.1x
Median		8.4x	7.4x	1.3x	1.1x
Max		9.1x	8.6x	1.4x	1.2x
Min		7.9x	7.0x	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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