

United Arab Bank

Decline in loan and deposit overshadows improvement in profitability

Rating : REDUCE

First Look Note – 1Q23

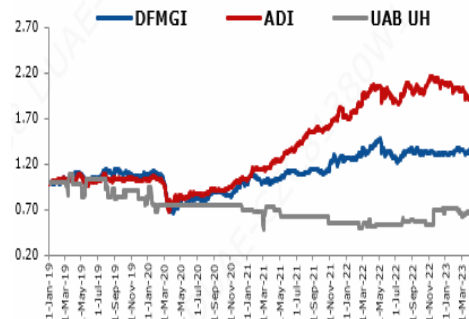
Sector: Banking

Recommendation

Current Price (24-Apr-23)	0.83
Target Price	0.76
Upside/Downside (%)	-8.4%

Stock Information

Market Cap (mm)	1,691.29
Paid Up Capital (mm)	2,062.55
52 Week High	0.86
52 Week Low	0.62
3M Avg. daily value (AED)	71,208



Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	8.43
Price-to-Book Ratio (x)	1.13
Book Value (AED)	0.73
Return-on Equity (%)	11.86
Earning Per Share (AED)	0.10
Beta	0.30

Stock Performance

5 Days	1.23%
1 Months	2.50%
3 Months	-3.53%
6 Months	26.15%
1 Year	25.77%
Month to Date (MTD)	2.50%
Quarter to Date (QTD)	2.50%
Year to Date (YTD)	-3.53%

1Q23 Net Profit higher than our estimates

United Arab Bank PJSC ("UAB"/ "The Bank") net profit rose 18.1% YOY to AED 55 Mn in 1Q23, higher than our estimate of AED 46 Mn. The increase in net profit is primarily driven by an increase in net funded income and decline in provision expense partially offset by growth in operating expenses.

P&L highlights

UAB's funded income rose significantly from AED 114 Mn in 1Q22 to AED 208 Mn in 1Q23 mainly due to a growth in asset yield partially offset by decrease in loan book. Net advances declined 6.5% YOY to AED 7.4 Bn in 1Q23. While asset yield rose 47 bps QOQ to 6.3% in 1Q23. Funded expenses grew significantly from AED 47 Mn in 1Q22 to AED 116 Mn in 1Q23 mainly due to higher benchmark rates. Resultantly, net funded income rose 37.5% YOY to AED 92 Mn in 1Q23. NIMs of the Bank fell 22 bps QOQ to 2.8% in 1Q23 due to higher benchmark rates. Fees and commission income increased 18.5% YOY to AED 15 Mn in 1Q23 while exchange income rose 61.0% YOY to AED 7 Mn in 1Q23. Other non-funded income declined 74.2% YOY to AED 8 Mn in 1Q23 resulting in a 38.5% YOY fall in total non-funded income to AED 31 Mn in 1Q23. Total operating income rose 5.0% YOY to AED 123 Mn in 1Q23. Operating expenses rose 12.1% YOY to AED 66 Mn in 1Q23. Thus, cost-to-income ratio rose from 50.0% in 1Q22 to 53.4% in 1Q23. Impairments declined significantly from AED 28 Mn in 1Q22 to AED 2 Mn in 1Q23 owing to the Bank's enhanced focus on remediation and recoveries, as well as the emphasis on higher quality assets.

Balance sheet highlights

United Arab Bank's total assets grew 2.9% YOY to AED 14.4 Bn in 1Q23. Net advances declined 6.5% YOY to AED 7.4 Bn in 1Q23. Similarly, customer deposits fell significantly 17.6% YOY to AED 8.3 Bn in 1Q23 mainly due to declining current accounts and term deposits. CASA deposits declined from AED 3.1 Bn in 4Q22 to AED 2.9 Bn in 1Q23. Thus, CASA ratio declined from 35.9% in 4Q22 to 35.2% in 1Q23.

Target price and rating

We maintain our REDUCE rating on United Arab Bank (UAB) with a target price of AED 0.76. The bank's net advances declined 6.5% YOY to AED 7.4 Bn in 1Q23. Likewise, the Bank's deposits also witnessed a significant decline of 17.6% YOY to AED 8.3 Bn in 1Q23. The deposits fell faster than advances leading the Bank to rely on other sources to fund its advances. Resultantly, the Bank's total funding base also declined 2.3% QOQ to AED 11.6 Bn in 1Q23. Cost of fund rose from 3.1% in 4Q22 to 4.0% in 1Q23. NIMs declined from 3.0% in 4Q22 to 2.8% in 1Q23. Cost-to-income ratio also increased from 45.3% in 4Q22 to 53.4% in 1Q23 mainly due to increase in operating expenses. Moreover, UAB continued with its prudent provisioning approach to proactively managed problem loans which improved its asset quality in 1Q23. NPL ratio declined from 8.2% in 4Q22 to 7.8% in 1Q23. Stage 2 loans also declined from AED 636 Mn in 4Q22 to AED 592 Mn in 1Q23 indicating signs of improvement. Coverage against NPLs increased from 94.3% in 4Q22 to 102.0% in 1Q23. While provision coverage ratio including

collateral stood at 175% in 1Q23. UAB's cost of risk significantly declined from 2.2% in 4Q22 to 0.1% in 1Q23. The bank's capitalization improved with a CAR of 19.3%, Tier 1 ratio of 18.1%, and CET 1 ratio of 13.3% in 1Q23. Thus, considering the abovementioned factors, we maintain our REDUCE rating to the stock.

UAB- Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	22.17	NA	NA	24.39	11.06	9.09
P/B (x)	0.68	0.79	1.18	1.13	1.14	1.01

FABS Estimates & Co Data
UAB- P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Interest income	114	189	208	187	11.3%	83.6%	10.2%	584	747	27.8%
Interest expense	-47	-92	-116	-93	25.3%	149.6%	26.9%	-263	-386	46.8%
Net interest income	67	97	92	94	-2.5%	37.5%	-5.6%	322	361	12.3%
Fees and commissions	12	8	15	9	66.0%	18.5%	82.5%	47	53	12.0%
Exchange income	5	5	7	5	53.7%	61.0%	56.8%	19	20	2.0%
Other non-funded inc.	33	40	8	32	-73.2%	-74.2%	-78.5%	113	116	3.0%
Total non-funded inc.	50	52	31	45	-32.4%	-38.5%	-41.4%	179	189	5.3%
Total operating inc.	117	150	123	140	-12.2%	5.0%	-18.1%	501	550	9.8%
Total operating exp.	-58	-68	-66	-63	4.3%	12.1%	-3.4%	-252	-264	4.8%
Pre provision profit	58	82	57	77	-25.6%	-2.1%	-30.3%	249	286	14.8%
Impairment	-28	-46	-2	-30	-92.1%	-91.4%	-94.8%	-94	-97	3.4%
Profit for the period	30	36	55	46	18.1%	80.2%	53.4%	155	188	21.8%

FABS estimate & Co Data
UAB- KPIs

	1Q22	4Q22	1Q23A	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	57.2%	65.0%	75.0%	1,773	995	64.2%	65.7%	148
NIM	1.9%	3.0%	2.8%	85	-22	2.4%	2.8%	44
NIS	1.8%	2.7%	2.3%	58	-40	2.2%	2.5%	34
Fees & comms/OI	10.7%	5.4%	12.1%	137	665	9.4%	9.6%	19
Trading/OI	4.0%	3.2%	6.1%	210	289	3.9%	3.6%	-27
Cost to income	50.0%	45.3%	53.4%	337	812	50.3%	48.0%	-228
Impairment/PPP	47.9%	56.5%	4.2%	-4,373	-5,225	37.9%	34.1%	-376
NP/OI	26.0%	23.8%	44.6%	1,861	2,080	30.9%	34.3%	337
ROAE	10.7%	22.4%	23.9%	1,323	152	10.3%	11.8%	155
ROAA	1.1%	2.2%	2.5%	144	34	1.1%	1.4%	29

FABS estimate & Co Data
UAB- Key BS items

AED mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
Net advances	7,884	8,374	7,788	7,604	7,369	-6.5%
QOQ change	-4.0%	6.2%	-7.0%	-2.4%	-3.1%	
Total assets	14,021	14,748	14,066	14,080	14,426	2.9%
QOQ change	-7.6%	5.2%	-4.6%	0.1%	2.5%	
Customer deposits	10,120	10,517	9,241	8,569	8,339	-17.6%
QOQ change	-2.8%	3.9%	-12.1%	-7.3%	-2.7%	
Total equity	1,501	1,402	1,383	1,499	2,068	37.8%
QOQ change	-0.7%	-6.6%	-1.3%	8.4%	37.9%	

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	0.82	70.0%	0.57
Relative Valuation	0.63	30.0%	0.19
Weighted Average Valuation (AED)			0.76
Current market price (AED)			0.83
Upside/Downside (%)			-8.5%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.2%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.00 and equity risk premium of 3.9%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 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)	43
Book Value of equity (as of March 2023)	1,502
FV to Common shareholders (AED, Mn)	1,684
No. of share (Mn)	2,063
Current Market Price (AED)	0.83
Fair Value per share (AED)	0.82

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	190	195	199	193	183
(-) Equity charge	-138	-154	-171	-178	-180
Excess Equity	52	41	28	15	4
Discounting Factor	0.95	0.88	0.81	0.75	0.69
Present Value of Excess Equity	49	36	23	11	3

2) Relative Valuation:

We have used local peers to value UAB and it is valued using the PB multiple. We have applied a discount to the peer's valuation multiple since it has always traded at discount. We expect this discount in valuation to maintain due to lower return on assets and no dividend paid. It is valued at PB multiple of 0.8x as compared to peer valuation of 0.9x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Sharjah Islamic Bank	1,644	0.9x	0.9x	10.9x	10.3x	4.5%	4.9%
Commercial Bank of Dubai	3,686	1.1x	1.0x	0.0x	0.0x	7.0%	6.4%
Emirates NBD	22,700	0.9x	0.8x	6.4x	6.1x	5.5%	6.0%
Mashreq Bank	5,325	0.8x	0.8x	6.1x	6.5x	5.1%	6.2%
RAK bank	2,054	0.8x	0.8x	6.5x	7.1x	7.7%	7.6%
Average		0.91x	0.85x	5.96x	6.01x	6.0%	6.2%
Median		0.90x	0.82x	6.35x	6.53x	5.5%	6.2%
Max		0.94x	0.90x	6.47x	7.14x	7.0%	6.4%
Min		0.80x	0.76x	6.06x	6.06x	5.1%	6.0%

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"