

## United Arab Bank (UAB)

NIMs expansion and improved asset quality drove profitability

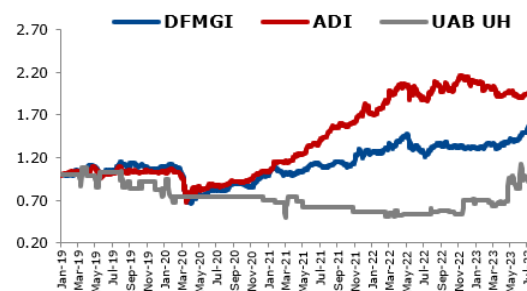
**Current Price**  
AED 1.37

**Target Price**  
AED 0.92

**Upside/Downside (%)**  
-32.8%

**Rating**  
**SELL**

- UAB's asset quality continuously improved QOQ as NPLs declined from a high of 16.7% in 2Q21 to 6.7% in 2Q23. Coverage improved from 77% in 2Q22 to 110% in 2Q23
- UAB increased its capital base by raising USD 150 Mn through additional Tier 1 capital which in turn strengthened the Bank's capital adequacy ratio
- The Bank's capitalization improved with a CAR of 19.6% in 2Q23 as compared to 13.2% in 2Q22 and CET 1 capital of 13.7% in 2Q23 as compared to 12.0% in 2Q22



### 2Q23 Net Profit exceeded our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit rose 24.4% YOY to AED 66 Mn in 2Q23, higher than our estimate of AED 51 Mn. The increase in net profit is mainly due to growth in net funded income partially offset by a decline in non-funded income and higher operating expenses.

### P&L Highlights

UAB's funded income rose 77.1% YOY to AED 225 Mn in 2Q23 mainly driven by an increase in asset yield. On the other hand, funded expenses rose significantly from AED 53 Mn in 2Q22 to AED 125 Mn in 2Q23 due to higher cost of funds owing to an increase in benchmark rates. Thus, net funded income rose 35.4% YOY to AED 100 Mn in 2Q23. The Bank's NIMs improved 19 bps QOQ to 3.0% in 2Q23. Moreover, fees and commission income rose 3.3% YOY to AED 15 Mn in 2Q23, while exchange income increased 40.4% YOY to AED 6 Mn in 2Q23. However, other operating income declined 14.0% YOY to AED 28 Mn in 2Q23. Thus, total non-funded income declined 4.2% YOY to AED 50 Mn in 2Q23. Resultantly, total operating profit rose 19.1% YOY to AED 150 Mn in 2Q23. Operating expenses increased 19.4% YOY to AED 69 Mn in 2Q23. In addition, impairments declined marginally 0.2% YOY to AED 15 Mn in 2Q23. The bank improved its underwriting portfolio in good quality assets and achieved higher recoveries in 1H23.

### Stock Information

Market Cap (AED, mm)	2,825.69
Paid Up Capital (mm)	2,062.55
52 Week High	1.49
52 Week Low	0.64
3M Avg. daily value(AED)	4,021,139

### 2Q23 Result Review (AED, mm)

Total Assets	14,448
Total Liabilities	12,320
Total Equity	2,128
Total Deposits	8,410
Net Profit	66

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	13.81
Price-to-Book Ratio (x)	1.79
Book Value (AED)	0.77
Return-on Equity (%)	12.88

### Stock Performance

5 Days	13.22%
1 Months	18.10%
3 Months	22.32%
6 Months	61.18%
1 Year	101.47%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	18.10%
Year to Date (YTD%)	61.18%

## Balance Sheet Highlights

United Arab Bank's total assets declined 2.0% YOY and rose 0.2% QOQ to AED 14.5 Bn in 2Q23. Net advances declined 9.4% YOY but increased 2.9% QOQ to AED 7.6 Bn in 2Q23. Similarly, customer deposits fell significantly 20.0% YOY but increased marginally 0.9% QOQ to AED 8.4 Bn in 2Q23. CASA deposits as a percentage of total deposits increased from 35% in 1Q23 to 39% in 2Q23. In addition, the Bank's total liquidity increased 51.8% YOY and 2.9% QOQ to SAR 2.2 Bn in 2Q23.

## Target Price and Rating

We maintain our SELL rating on United Arab Bank (UAB) with a revised target price of AED 0.92. Despite continued improvement in asset quality, the Bank deposit base continued to decline, which remains concerning. UAB's loan-to-deposit ratio rose from 80.0% in 2Q22 to 90.0% in 2Q23. The growth in advances also remained subdued and rose 2.9% QOQ after falling straight for the last three quarters. The bank's total funding base declined 6.1% YOY to AED 11.7 Bn in 2Q23. UAB's asset quality improved with an NPL ratio of 6.7% in 2Q23 as compared to 7.8% in 1Q23 due to improvement in the underwriting portfolio of higher quality assets with higher recoveries. The Bank's coverage further strengthened to 110.5% in 2Q23 as compared to 102.0% in 1Q23. Provisioning buffer will shield the Bank from unforeseen losses. Furthermore, stage 2 loans as a percentage of gross loans declined from 7.4% in 1Q23 to 6.0% in 2Q23, indicating improvement in asset quality. UAB increased its capital base by issuing USD 150 Mn in AT1 capital, strengthening the Bank's capital adequacy ratio. The Bank's capitalization improved with a CAR of 19.6% and CET 1 capital of 13.7% in 2Q23. It is trading at 2023 PB ratio of 1.75x significant premium as compared to the sector average of 1.1x. Considering these factors, we retain our SELL rating on the stock.

### UAB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	38.99	NA	NA	42.90	19.46	13.61
PB	1.19	1.39	2.07	1.99	2.01	1.75

FABS Estimates & Co Data

### UAB - P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	127	208	225	203	10.6%	77.1%	8.0%	584	894	53.0%
Funded expense	-53	-116	-125	-111	12.2%	135.3%	7.2%	-263	-480	82.5%
<b>Net funded income</b>	<b>74</b>	<b>92</b>	<b>100</b>	<b>92</b>	<b>8.7%</b>	<b>35.4%</b>	<b>9.0%</b>	<b>322</b>	<b>414</b>	<b>28.9%</b>
Fees & commissions	15	15	15	17	-9.3%	3.3%	4.3%	47	71	50.0%
Exchange income	5	7	6	8	-13.6%	40.4%	-12.8%	19	29	50.0%
Other non-funded income	32	8	28	15	86.7%	-14.0%	226.7%	113	68	-40.0%
<b>Total non-funded income</b>	<b>52</b>	<b>31</b>	<b>50</b>	<b>39</b>	<b>26.1%</b>	<b>-4.2%</b>	<b>61.6%</b>	<b>179</b>	<b>167</b>	<b>-6.7%</b>
<b>Total operating income</b>	<b>126</b>	<b>123</b>	<b>150</b>	<b>132</b>	<b>13.9%</b>	<b>19.1%</b>	<b>22.1%</b>	<b>501</b>	<b>582</b>	<b>16.2%</b>
Total operating expenses	-58	-66	-69	-64	6.6%	19.4%	4.8%	-252	-279	10.9%
<b>Pre provision profit</b>	<b>68</b>	<b>57</b>	<b>81</b>	<b>67</b>	<b>21.0%</b>	<b>18.8%</b>	<b>42.0%</b>	<b>249</b>	<b>303</b>	<b>21.5%</b>
Impairment	-15	-2	-15	-16	-2.8%	-0.2%	539.6%	-94	-81	-13.8%
<b>Net profit</b>	<b>53</b>	<b>55</b>	<b>66</b>	<b>51</b>	<b>28.3%</b>	<b>24.4%</b>	<b>20.1%</b>	<b>155</b>	<b>221</b>	<b>43.0%</b>

FABS estimate & Co Data

**UAB - KPI**

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	58.8%	75.0%	66.9%	804	-810	64.2%	71.2%	703
NIM	2.2%	2.8%	3.0%	79	19	2.4%	3.2%	86
NIS	2.0%	2.3%	2.4%	40	5	2.2%	2.9%	72
Fees & comms/OI	11.9%	12.1%	10.3%	-157	-176	9.4%	12.1%	274
Exchange income/OI	3.7%	6.1%	4.3%	66	-173	3.9%	5.0%	112
Cost to income	45.7%	53.4%	45.8%	11	-758	50.3%	48.0%	-228
Impairment/PPP	22.6%	4.2%	19.0%	-361	1,476	37.9%	26.9%	-1,100
NP/OI	42.0%	44.6%	43.9%	187	-74	30.9%	38.0%	714
ROAE	13.6%	10.0%	9.3%	-428	-76	10.3%	11.7%	147
ROAA	1.4%	1.3%	1.3%	-4	7	1.1%	1.6%	53

FABS estimate & Co Data

**UAB - Key B/S items**

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch.
<b>Net advances</b>	8,374	7,788	7,604	7,369	7,585	-9.4%
QOQ ch	6.2%	-7.0%	-2.4%	-3.1%	2.9%	
<b>Total assets</b>	14,748	14,066	14,080	14,426	14,448	-2.0%
QOQ ch	5.2%	-4.6%	0.1%	2.5%	0.2%	
<b>Customer deposits</b>	10,517	9,241	8,569	8,339	8,410	-20.0%
QOQ ch	3.9%	-12.1%	-7.3%	-2.7%	0.9%	
<b>Total equity</b>	1,402	1,383	1,499	2,068	2,128	51.8%
QOQ ch	-6.6%	-1.3%	8.4%	37.9%	2.9%	

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	0.91	70.0%	0.64
Relative Valuation (RV)	0.92	30.0%	0.28
<b>Weighted Average Valuation (AED)</b>			<b>0.92</b>
Current market price (AED)			1.37
Upside/Downside (%)			-32.8%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.95 and equity risk premium of 3.8%. 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)	135
Terminal value (AED, Mn)	168
Book Value of Equity (as of June 2023)	1,580
<b>FV to Common shareholders (AED, Mn)</b>	<b>1,883</b>
No. of share (Mn)	2,063
Current Market Price (AED)	1.37
<b>Fair Value per share (AED)</b>	<b>0.91</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	221	185	193	196	200
(-) Equity Charge	-143	-158	-174	-182	-185
<b>Excess Equity</b>	<b>78</b>	<b>26</b>	<b>19</b>	<b>14</b>	<b>15</b>
Discounting Factor	0.97	0.89	0.82	0.76	0.70
<b>Present Value of Excess Equity</b>	<b>76</b>	<b>23</b>	<b>16</b>	<b>10</b>	<b>10</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 PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Sharjah Islamic Bank	1,993	1.1	1.1	10.8	9.5	4.8	5.3
Commercial Bank of Dubai	3,823	1.1	1.0	6.4	6.9	6.7	6.5
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
Mashreq Bank	7,926	1.2	1.1	5.4	6.5	8.6	8.6
RAKBank	2,494	0.9	0.9	6.2	6.8	8.1	7.4
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.9x</b>	<b>7.3x</b>	<b>6.6%</b>	<b>6.5%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.2x</b>	<b>6.9x</b>	<b>6.7%</b>	<b>6.5%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.1x</b>	<b>6.4x</b>	<b>6.9x</b>	<b>8.1%</b>	<b>7.4%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>5.8x</b>	<b>6.8x</b>	<b>4.8%</b>	<b>5.3%</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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