

United Arab Bank (UAB)

Large impairment reversal boosted profitability

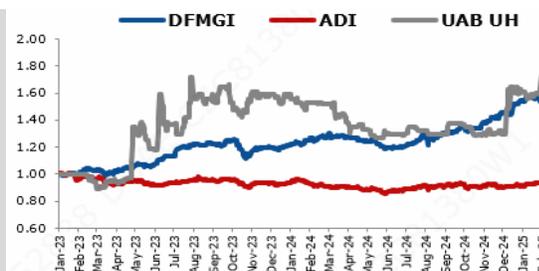
Current Price
AED 1.49

Target Price
AED 1.10

Upside/Downside (%)
-26%

Rating
SELL

- UAB's NIMs declined 31 bps YOY and 6 bps QOQ to 2.3% in 4Q24
- UAB's operating expenses increased significantly 26.9% YOY to AED 94 Mn in 4Q24. Moreover, its cost to income ratio increased significantly from 57.3% in 4Q23 to 61.3% in 4Q24.
- The Bank recorded impairment reversal of AED 38 Mn in 4Q24 compared to an impairment charge of AED 9 Mn in 4Q23.
- UAB's total non-funded income increased 39.9% YOY to AED 41 Mn in 4Q24.
- In addition, customer deposits increased 32.6% YOY and 12.9% QOQ to AED 13.6 Bn in 4Q24. CASA deposits account for 34.0% of total customer deposits as of 4Q24.



4Q24 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit grew from AED 46 Mn in 4Q23 to AED 89 Mn in 4Q24, higher than our estimate of AED 71 Mn. The growth in net profit is mainly due to an increase in net funded and non-funded income and reversal in impairment partially offset by higher operating expense and implementation of income tax owing to the introduction of corporate tax in the UAE.

P&L Highlights

UAB's funded income grew 13.5% YOY to AED 290 Mn in 4Q24 driven by an increase in net advances and other interest earnings assets partially offset by a decline in asset yield. On the other hand, funded expenses grew 14.3% YOY to AED 178 Mn in 4Q24 due to high benchmark rates. Thus, net funded income grew 12.3% YOY to AED 113 Mn in 4Q24. UAB's NIMs declined 31 bps YOY and 6 bps QOQ to 2.3% in 4Q24. Fees & commission income rose 53.3% YOY to AED 26 Mn due to an increase in business volumes, while exchange income grew 51.6% YOY to AED 12 Mn in 4Q24. The other non-funded income fell 27.1% YOY to AED 3 Mn in 4Q24. Thus, the Bank's total non-funded income increased 39.9% YOY to AED 41 Mn in 4Q24. Total operating income grew 18.5% YOY to AED 154 Mn in 4Q24. UAB's operating expenses increased significantly 26.9% YOY to AED 94 Mn in 4Q24 due to investments in products and systems. Resultantly, the cost-to-income ratio grew from 57.3% in 4Q23 to 61.3% in 4Q24. The Bank recorded a reversal in impairments of AED 38 Mn in 4Q24 compared to an impairment charge of AED 9 Mn in 4Q23. UAB incurred tax expenses of AED 9 Mn in 4Q24 due to the introduction of corporate tax in UAE.

Stock Information

Market Cap (AED, mn)	3,052.57
Paid Up Capital (mn)	2,062.55
52 Week High	1.50
52 Week Low	1.06
3M Avg. daily value(AED)	2,725,292

4Q24 Result Review (AED, mn)

Total Assets	21,461
Total Liabilities	18,910
Total Equity	2,551
Total Deposits	13,577
Net Profit	89

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	10.15
Price-to-Book Ratio (x)	1.53
Book Value (AED)	0.97
Return-on Equity (%)	16.08

Stock Performance

5 Days	2.07%
1 Months	11.28%
3 Months	30.97%
6 Months	34.55%
1 Year	13.85%
Month to Date (MTD%)	2.78%
Quarter to Date (QTD%)	8.03%
Year to Date (YTD%)	8.03%

Balance Sheet Highlights

United Arab Bank's total assets grew 21.6% YOY and 7.2% QOQ to AED 21.5 Bn in 4Q24 mainly due to growth in loans & advances, due from banks, investments, and other assets. Net advances grew strongly 23.2% YOY and 7.2% QOQ to AED 11.5 Bn in 4Q24 mainly due to the strong growth in retail mortgages, financial institutions, and transport & communications sector. The Bank's investment portfolio grew 18.0% YOY and 5.7% QOQ to AED 6.0 Bn in 4Q24 indicating efficient deployment of liquid resources amid solid asset liability management practices. In addition, customer deposits increased 32.6% YOY and 12.9% QOQ to AED 13.6 Bn in 4Q24 mainly due to innovative campaigns and convenient digital banking channels. CASA deposits account for 34.0% of total customer deposits as of 4Q24.

Target Price and Rating

We maintain our SELL rating on United Arab Bank (UAB) with a target price of AED 1.10. UAB's NIMs declined 31 bps YOY and 6 bps QOQ to 2.3% in 4Q24 owing to a decline in the asset yield coupled. The Bank's interest rate sensitivity for every 25 bps change stood at AED 1.6 Mn in 2024 compared to 2.3 Bn in 2023. UAB is likely to maintain this sensitivity going forward. UAB's profitability in 4Q24 was mainly driven by impairment reversal. Moreover, its cost to income ratio increased significantly from 57.3% in 4Q23 to 61.3% in 4Q24, reflecting its inability to control costs which is likely to impact the Bank's profitability in the long run. UAB's provision coverage fell from 125.2% in 3Q24 to 117.7% in 4Q24. Furthermore, the Bank recorded a CET 1 ratio of 12.7% and CAR of 17.4% in 4Q24. Although the bank witnessed a healthy growth in customer deposits, CASA deposits accounted for only 34.0% of total customer deposits. The majority share of time deposits indicates a costly funding base, which is likely to impact the Bank's NIMs. UAB's deposits grew more than the loan portfolio in 2024. As a result, the Bank's headline loan-to-deposit ratio declined from 89.4% in 3Q24 to 84.9% in 4Q24. Thus, considering these factors, we maintain our SELL rating on the stock.

UAB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NA	43.78	19.86	12.02	10.20	12.52
PB	2.11	2.03	2.05	1.76	1.53	1.37

FABS Estimates & Co Data

UAB - P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	256	302	290	308	-5.6%	13.5%	-3.9%	922	1,193	29.4%
Funded expense	-155	-191	-178	-182	-2.3%	14.3%	-7.0%	-527	-726	37.8%
Net funded income	100	111	113	126	-10.4%	12.3%	1.5%	395	467	18.1%
Fees & commissions	17	22	26	23	10.7%	53.3%	15.1%	77	91	18.3%
Exchange income	8	10	12	7	79.1%	51.6%	18.6%	28	34	23.6%
Other non-funded income	5	8	3	12	-72.3%	-27.1%	-58.5%	77	14	-81.7%
Total non-funded income	29	41	41	42	-3.1%	39.9%	0.9%	182	139	-23.3%
Total operating income	130	152	154	168	-8.5%	18.5%	1.3%	576	606	5.1%
Total operating expenses	-74	-75	-94	-80	17.4%	26.9%	25.4%	-285	-318	11.6%
Pre provision profit	55	77	59	88	-32.3%	7.3%	-22.3%	292	288	-1.3%
Impairment	-9	5	38	-10	NM	NM	NM	-36	43	NM
Profit before tax	46	81	98	78	25.7%	NM	20.4%	255	331	29.6%
Tax expense	0	-7	-9	-7	26.2%	NM	21.2%	0	-30	NM
Net profit	46	74	89	71	25.6%	91.6%	20.3%	255	301	17.9%

FABS estimate & Co Data

UAB - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	77.4%	73.3%	73.4%	-407	11	68.5%	77.0%	850
NIM	2.6%	2.4%	2.3%	-31	-6	2.6%	2.5%	-14
NIS	2.0%	1.8%	1.8%	-20	1	2.2%	2.0%	-24
Fees & comms/OI	13.0%	14.8%	16.8%	381	200	13.3%	15.0%	167
Exchange income/OI	5.9%	6.5%	7.6%	166	111	4.8%	5.7%	85
Cost to income	57.3%	49.6%	61.3%	406	1,177	49.4%	52.5%	306
Impairment/PPP	16.5%	-5.9%	-64.1%	-8,056	-5,818	12.5%	-14.9%	-2,734
NP/OI	35.7%	48.6%	57.7%	2,201	909	44.3%	49.7%	539
Cost of risk- calculated	0.4%	-0.2%	-1.3%	-170	-114	0.4%	-0.4%	-79
Loan-to-deposit – calculated	91.4%	89.4%	84.9%	-651	-449	91.4%	84.9%	-651
NPL – calculated	5.0%	4.1%	3.9%	-111	-22	5.0%	3.9%	-111
Coverage – calculated	131.8%	125.2%	117.7%	-1,407	-748	131.8%	117.7%	-1,407
CET 1	13.5%	13.8%	12.7%	-80	-110	13.5%	12.7%	-80
Capital adequacy	19.0%	18.8%	17.4%	-155	-139	19.0%	17.4%	-155
ROAE	15.8%	14.2%	16.1%	33	188	13.7%	14.2%	52
ROAA	1.6%	1.5%	1.5%	-7	5	1.6%	1.5%	-7

FABS estimate & Co Data

UAB - Key B/S items

	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch.
AED mn						
Net advances	9,357	9,534	10,435	10,754	11,526	23.2%
QOQ change	21.5%	1.9%	9.4%	3.1%	7.2%	
Total assets	17,648	17,907	19,813	20,016	21,461	21.6%
QOQ change	19.8%	1.5%	10.6%	1.0%	7.2%	
Customer deposits	10,238	10,656	12,129	12,031	13,577	32.6%
QOQ change	11.6%	4.1%	13.8%	-0.8%	12.9%	
Total equity	2,290	2,363	2,411	2,577	2,551	11.4%
QOQ change	6.1%	3.2%	2.0%	6.9%	-1.0%	

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	1.02	70.0%	0.71
Relative Valuation (RV)	1.28	30.0%	0.38
Weighted Average Valuation (AED)			1.10
Current market price (AED)			1.49
Upside/Downside (%)			-26%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using a 10-year government bond yield of 4.3%, a beta of 0.85 and an equity risk premium of 4.5%. Government bond yield is calculated after adding Abu Dhabi's 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)	79
Terminal value (AED, Mn)	24
Book Value of Equity (as of Dec 2024)	2,001
FV to Common shareholders (AED, Mn)	2,103
No. of share (Mn)	2,063
Current Market Price (AED)	1.49
Fair Value per share (AED)	1.02

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	245	232	211	208	199
(-) Equity Charge	-198	-204	-205	-201	-197
Excess Equity	47	28	7	7	2
Discounting Factor	0.93	0.85	0.78	0.72	0.66
Present Value of Excess Equity	43	23	5	5	2

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 2025 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	2,326	9.8	9.1	1.2	1.1
Commercial Bank of Dubai	6,112	7.4	7.7	1.4	1.3
Emirates NBD	35,597	6.3	6.1	1.0	0.9
Mashreq Bank	11,852	7.1	7.5	1.2	1.1
RAK Bank	3,592	6.6	6.6	1.0	1.0
Average		7.4x	7.4x	1.2x	1.1x
Median		7.1x	7.5x	1.2x	1.1x
Max		7.4x	7.7x	1.2x	1.1x
Min		6.6x	6.6x	1.0x	1.0x

Source: FAB Securities

