

United Arab Bank (UAB)

Provision reversal and higher non-funded income boosted profit

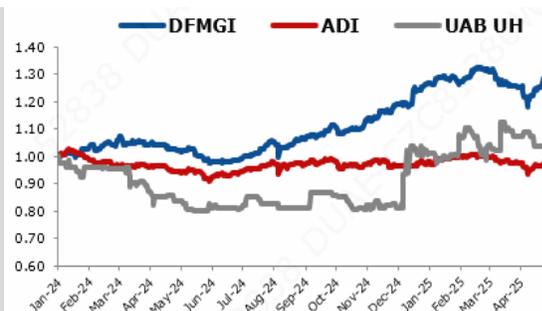
Current Price
AED 1.40

Target Price
AED 1.25

Upside/Downside (%)
-10.7%

Rating
REDUCE

- Net funded income declined 11.2% YOY to AED 290 Mn in 1Q25 due to interest rate cuts implemented in 2H24, partially offset by higher lending growth.
- Non-funded income expanded 53.2% YOY to AED 48 Mn in 1Q25, attributed to enhanced product proposition, cross-selling and gain on sale of properties.
- UAB recorded an impairment reversal in 1Q25 owing to asset resolution and recovery efforts.
- Net advances rose 8.2% QOQ to AED 12.5 Bn in 1Q25 driven by growth in financing to retail corporate customers, with a robust pipeline.
- UAB's customer deposits increased 10.1% QOQ and 40.2% YOY to AED 14.9 Bn in 1Q25, with CASA deposits accounting for 36.0% of total customer deposits.



Stock Information

Market Cap (AED, Mn)	2,887.57
Paid Up Capital (Mn)	2,062.55
52 Week High	1.52
52 Week Low	1.06
3M Avg. daily value(AED)	2,044,932

1Q25 Result Review (AED, Mn)

Total Assets	23,429
Total Liabilities	20,769
Total Equity	2,659
Total Deposits	14,942
Net Profit	102

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.64
Price-to-Book Ratio (x)	1.37
Book Value (AED)	1.02
Return-on Equity (%)	17.04

Stock Performance

5 Days	0.00%
1 Months	-3.45%
3 Months	-2.78%
6 Months	26.13%
1 Year	23.89%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-3.45%
Year to Date (YTD%)	2.19%

1Q25 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit grew 48.8% YOY to AED 102 Mn in 1Q25, higher than our estimates of AED 61 Mn. The growth in net profit is mainly due to strong growth in non-funded income and reversal of impairment charges, partially offset by lower funded income and higher operating expenses.

P&L Highlights

UAB's net funded income declined 11.2% YOY to AED 117 Mn in 1Q25 as the interest income was impacted due to interest rate cuts implemented in 2H24, partially offset by a strong growth in loans and investment portfolio. Funded income fell 4.7% YOY to AED 290 Mn in 1Q25 due to a decline in yield owing to rate cuts implemented in 2H24. Funded expenses grew marginally 0.2% YOY to AED 173 Mn in 1Q25 attributed to strong growth in deposits, partially mitigated by lower cost of funds. On the other hand, non-funded income rose significantly from AED 31 Mn in 1Q24 to AED 48 Mn in 1Q25, supported by strong growth in fees and commissions income, exchange income and other non-funded income. Fees and commissions income increased 9.6% YOY to AED 25 Mn in 1Q25 alongside exchange income boosted from AED 6 Mn in 1Q24 to AED 11 Mn in 1Q25, driven by improved product offerings and growth in cross-selling. Similarly, other non-funded income surged significantly from AED 2 Mn in 1Q24 to AED 12 Mn in 1Q25, due to benefit from gain on sale of properties. Operating expenses rose 12.8% YOY to AED 88 Mn in 1Q25 attributed to investment in employee and investment in product & systems to strengthen the Bank's operations. Thus, cost to income ratio increased from 47.5% in 1Q24 to 53.0% in 1Q25. The Bank witnessed an impairment reversal of AED 34 Mn in 1Q25 compared to impairment charges of 11 Mn in 1Q24, driven by asset resolution and recovery

efforts. Tax expenses increased 49.3% YOY to AED 10 Mn in 1Q25 in line with growth in profit before tax.

Balance Sheet Highlights

United Arab Bank's total assets grew 30.8% YOY and 9.2% QOQ to AED 23.4 Bn in 1Q25, mainly due to growth in net advances and investments. Net advances grew strongly 30.8% YOY and 8.2% QOQ to AED 12.5 Bn in 1Q25 due to higher lending across retail mortgages, customers of financial institutions, and manufacturing sectors. The Bank's investment portfolio also grew 29.0% YOY and 13.4% QOQ to AED 6.8 Bn in 1Q25 supported by efficient deployment of liquid resources into high quality assets to enhance yield. Similarly, customer deposits increased 10.1% QOQ and 40.2% YOY to AED 14.9 Bn in 1Q25, mainly due to innovative campaigns, addition of new customers, and enhanced digital banking convenience. CASA deposits account grew 45% YOY to AED 5.3 Bn, accounting for 36% of the total deposits in 1Q25.

Target Price and Rating

We revise our rating on UAB from SELL to REDUCE with a revised target price of AED 1.25. UAB reported a strong growth in net income driven by an increase in non-funded income and impairment reversal in 1Q25. The growth in earnings was recorded mainly from non-recurring sources. The Bank's net funded income declined 11.2% YOY in 1Q25 due to the interest rate cut implemented in 4Q24. NIMs also dipped 10 bps QOQ and 91 bps YOY to 2.2% in 1Q25. We expect the NIMs to further decline as the Bank exhibit a positive interest rate sensitivity gap. In a declining interest rate scenario, the positive gap will push the NIM downwards. A positive gap happens when rate-sensitive assets are greater than rate-sensitive liabilities. Net advances grew strongly due to growth in loans to retail and corporate customers. The deal pipeline of advances remains strong and is expected to have healthy execution. Furthermore, the liquidity metrics remain robust as the deposits outgrew advances. As a result, the loan-to-deposit ratio improved from 84.9% in 4Q24 to 83.5% in 1Q25. CASA constituted 36% of the total deposit in 1Q25 compared to 34% in 4Q24. NPLs further declined from 3.9% in 4Q24 to 3.4% in 1Q25 due to write-off of loan and strong growth in advances. Stage 2 assets also declined from 1.8% in 4Q24 to 1.6% in 1Q25, showcasing improvement in asset quality. Coverage ratio remained almost unchanged at 117.6% in 1Q25, and a higher provision provides a cushion against future loan losses. Despite these improving fundamentals, the Bank is trading at a 2025 price-to-book multiple of 1.26x compared to the sector average of 1.0x. In addition, the Bank is not expected to pay any dividend in the near future. Thus, considering these factors, we revise our rating from SELL to REDUCE rating on the stock.

UAB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NA	41.14	18.66	11.29	9.58	10.00
PB	1.99	1.91	1.93	1.66	1.44	1.26

FABS Estimates & Co Data

UAB – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	305	290	290	288	0.6%	-4.7%	-0.1%	1,193	1,172	-1.8%
Funded expense	-172	-178	-173	-173	-0.1%	0.2%	-2.6%	-726	-684	-5.8%
Net funded income	132	113	117	115	1.7%	-11.2%	4.0%	467	488	4.5%
Fees & commissions	23	26	25	27	-5.6%	9.6%	-2.8%	91	109	20.0%
Exchange income	6	12	11	9	15.8%	72.4%	-7.4%	34	35	2.0%
Other non-funded income	2	3	12	4	NM	NM	NM'	14	28	NM
Total non-funded income	31	41	48	40	21.3%	53.2%	17.7%	139	172	23.7%
Total operating income	163	154	165	155	6.7%	1.2%	7.6%	606	660	8.9%
Total operating expenses	-78	-94	-88	-76	15.4%	12.8%	-7.0%	-318	-337	5.9%
Pre provision profit	86	59	78	79	-1.6%	-9.4%	30.8%	288	323	12.3%
Impairment	-11	38	34	-12	NM	NA	-11.0%	43	-6	NM
Profit before tax	75	98	112	67	67.1%	48.9%	14.5%	331	317	-4.2%
Tax expense	-7	-9	-10	-6	67.9%	49.3%	14.2%	-30	-29	-4.3%
Net profit	68	89	102	61	67.0%	48.8%	14.5%	301	288	-4.2%

FABS estimate & Co Data

UAB - KPI

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	80.8%	73.4%	70.9%	-989	-249	77.0%	73.9%	-311
NIM	3.1%	2.3%	2.2%	-91	-10	2.5%	2.2%	-26
NIS	2.5%	1.8%	1.8%	-71	0	2.0%	1.8%	-15
Fees & comms/OI	14.0%	16.8%	15.2%	117	-162	15.0%	16.5%	152
Exchange income/OI	3.8%	7.6%	6.5%	270	-106	5.7%	5.3%	-36
Cost to income	47.5%	61.3%	53.0%	547	-834	52.5%	51.0%	-147
Impairment/PPP	12.6%	-64.1%	-43.6%	NM	NM	-14.9%	2.0%	NM
NP/OI	41.8%	57.7%	61.4%	NM	369	49.7%	43.7%	-598
Cost of risk- calculated	0.4%	-1.3%	-1.1%	-151	22	-0.4%	0.1%	44
Loan-to-deposit – calculated	89.5%	84.9%	83.5%	-600	-143	84.9%	86.0%	110
NPL – calculated	4.8%	3.9%	3.4%	-143	-47	3.9%	3.3%	-55
Coverage – calculated	126.7%	117.7%	117.6%	-910	-10	117.7%	118.0%	26
CET 1	13.1%	12.7%	12.6%	-50	-10	12.7%	13.1%	39
Capital adequacy	18.4%	17.4%	17.1%	-130	-31	17.4%	17.2%	-19
ROAE	16.1%	16.1%	17.0%	92	94	16.1%	13.4%	-265
ROAA	1.7%	1.5%	1.6%	-5	8	1.5%	1.3%	-27

FABS estimate & Co Data

UAB - Key B/S items

AED mn	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch.
Net advances	9,534	10,435	10,754	11,526	12,472	30.8%
QOQ change	1.9%	9.4%	3.1%	7.2%	8.2%	
Total assets	17,907	19,813	20,016	21,461	23,429	30.8%
QOQ change	1.5%	10.6%	1.0%	7.2%	9.2%	
Customer deposits	10,656	12,129	12,031	13,577	14,942	40.2%
QOQ change	4.1%	13.8%	-0.8%	12.9%	10.1%	
Total equity	2,363	2,411	2,577	2,551	2,659	12.5%
QOQ change	3.2%	2.0%	6.9%	-1.0%	4.2%	

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	1.29	70.0%	0.90
Relative Valuation (RV)	1.15	30.0%	0.35
Weighted Average Valuation (AED)			1.25
Current market price (AED)			1.40
Upside/Downside (%)			-10.7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.0%. Cost of equity is calculated by using a 10-year government bond yield of 5.0%, a beta of 0.60 and an equity risk premium of 5.0%. 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)	231
Terminal value (AED, Mn)	431
Book Value of Equity (as of Mar 2025)	2,001
FV to Common shareholders (AED, Mn)	2,662
No. of share (Mn)	2,061
Current Market Price (AED)	1.40
Fair Value per share (AED)	1.29

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	288	243	228	228	224
(-) Equity Charge	-183	-189	-191	-189	-188
Excess Equity	105	53	37	38	36
Discounting Factor	0.95	0.88	0.81	0.75	0.70
Present Value of Excess Equity	100	47	30	29	25

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 1.0x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F
Sharjah Islamic Bank	2,053	8.6	8.0	1.0	1.0
Commercial Bank of Dubai	6,258	7.5	7.9	1.4	1.3
Emirates NBD	33,448	5.9	5.6	0.9	0.8
Mashreq Bank	13,217	6.5	6.8	1.3	1.2
RAK Bank	3,461	6.5	6.7	1.0	0.9
Average		7.0x	7.0x	1.1x	1.1x
Median		6.5x	6.8x	1.0x	1.0x
Max		7.5x	7.9x	1.3x	1.2x
Min		6.5x	6.7x	1.0x	0.9x

Source: FAB Securities

