

## United Arab Bank (UAB)

Strong growth in liquidity supported loan growth

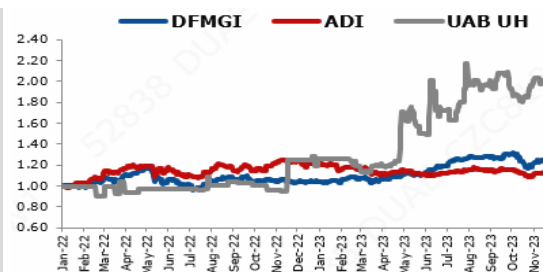
**Current Price**  
AED 1.11

**Target Price**  
AED 1.10

**Upside/Downside (%)**  
-1%

**Rating**  
HOLD

- UAB's net advances grew 29.4% YOY and 1.9% QOQ to AED 9.5 Bn in 1Q24. While the investment portfolio grew 36.2% YOY to AED 5.3 Bn in 1Q24.
- NIMs rose 31 bps YOY and 50 bps QOQ to 3.1% in 1Q24. While cost-to-income declined from 53.4% in 1Q23 to 47.5% in 1Q24.
- Asset quality improved as NPLs declined from 5.0% in 4Q23 to 4.8% in 1Q24. While coverage declined from 132% in 4Q23 to 127% in 1Q24.
- UAB's capitalization stood healthy with a CAR of 18.4% and CET 1 ratio of 13.1% in 1Q24.



### Stock Information

Market Cap (AED, mm)	2,289.43
Paid Up Capital (mm)	2,062.55
52 Week High	1.49
52 Week Low	1.00
3M Avg. daily value(AED)	436,717

### 1Q24 Result Review (AED, mm)

Total Assets	17,907
Total Liabilities	15,544
Total Equity	2,363
Total Deposits	10,656
Net Profit	68

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.52
Price-to-Book Ratio (x)	1.26
Book Value (AED)	0.88
Return-on Equity (%)	16.12

### Stock Performance

5 Days	-1.77%
1 Months	-3.48%
3 Months	-14.62%
6 Months	-18.98%
1 Year	1.83%
Month to Date (MTD%)	-1.77%
Quarter to Date (QTD%)	-5.93%
Year to Date (YTD%)	-17.78%

### 1Q24 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit grew 24.6% YOY to AED 68 Mn in 1Q24, higher than our estimate of AED 58 Mn. The growth in net profit is mainly due to an increase in net funded income and non-funded income partially offset by an increase in operating expenses, impairments, and higher tax expense.

### P&L Highlights

UAB's funded income grew 46.1% YOY to AED 305 Mn in 1Q24 driven by an increase in asset yield and growth in net advances. On the other hand, funded expenses grew significantly 48.1% YOY to AED 172 Mn in 1Q24 due to higher costs of funds amid high benchmark rates. Thus, net funded income grew 43.5% YOY to AED 132 Mn in 1Q24. UAB's NIMs increased 31 bps YOY and 50 bps QOQ to 3.1% in 1Q24. The Bank's fee and commission income grew 12.5% YOY to AED 23 Mn in 1Q24. However, exchange income declined 15.5% YOY to AED 6 Mn in 1Q24. In addition, other non-funded income declined 22.9% YOY to AED 2 Mn in 1Q24. Thus, total non-funded income rose marginally 2.3% YOY to AED 31 Mn in 1Q24. Furthermore, total operating income increased 33.2% YOY to AED 163 Mn in 1Q24. UAB's operating expenses grew 18.5% YOY to AED 78 Mn in 1Q24. Resultantly, the cost-to-income ratio declined from 53.4% in 1Q23 to 47.5% in 1Q24 owing to higher operating income. Impairments rose from AED 2 Mn in 1Q23 to AED 11 Mn in 1Q24. The Bank incurred tax expenses of AED 7 Mn in 1Q24 due to the introduction of corporate tax in UAE.

### Balance Sheet Highlights

United Arab Bank's total assets grew 24.1% YOY and 1.5% QOQ to AED 17.9 Bn in 1Q24 mainly due to growth in investment portfolio, net advances and due from other banks. Net advances grew 29.4% YOY and 1.9% QOQ to AED 9.5 Bn in 1Q24 mainly due to the strong

demand. The Bank's investment portfolio rose 36.2% YOY and 3.7% QOQ to AED 5.3 Bn in 1Q24 due to the deployment of liquidity to increase asset yield. In addition, customer deposits grew 27.8% YOY and 4.1% QOQ to AED 10.7 Bn in 1Q24 due to a 25% growth in CASA deposits. CASA deposits account for 34.5% of total customer deposits as of 1Q24. The Bank's liquidity improved as the loan-to-deposit ratio declined from 91.4% in 4Q23 to 89.5% in 1Q24.

### Target Price and Rating

We maintain our HOLD rating on United Arab Bank (UAB) with a target price of AED 1.10. UAB reported an increase in profitability owing to growth in core income driven by higher interest rates. NIMs rose 31 bps YOY and 50 bps QOQ to 3.1% in 1Q24. UAB's total assets rose 24.1% YOY and 1.5% QOQ due to an increase in lending activity and portfolio investment. UAB raised AED 735 Mn through medium-term bowring during the end of 2023 to boost its liquidity. UAB's asset quality improved as NPLs declined from 5.0% in 4Q23 to 4.8% in 1Q24. Provision coverage marginally declined from 132% in 4Q23 to 127% in 1Q24. Whereas, provision including collateral stood at 194% in 1Q24 compared to 200% in 4Q23. The Bank's CET 1 ratio stood at 13.1%, Tier 1 ratio at 17.2%, and CAR at 18.4% in 1Q24. Furthermore, UAB's net advances grew 29.4% YOY and 1.9% QOQ to AED 9.5 Bn in 1Q24. Customer deposits grew 27.8% YOY and 4.1% QOQ to AED 10.7 Bn in 1Q24. As a result, the headline loan to deposits ratio improved to 89.5% in 1Q24 compared to 81.4% in 4Q23 indicating enhanced liquidity. UAB's cost-to-income ratio improved significantly from 57.3% in 4Q23 to 47.5% in 1Q24, mainly due to higher operating income. UAB trades at a 2024 PB multiple of 1.2x compared to the peer average of 1.0x, rendering it expensive compared to its peers. Thus, considering these factors, we maintain our HOLD rating on the stock.

### UAB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	NA	NA	32.9	14.9	9.0	9.8
PB	1.1	1.6	1.5	1.5	1.3	1.2

FABS Estimates & Co Data

### UAB - P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	208	256	305	273	11.4%	46.1%	19.1%	922	1,050	14.0%
Funded expense	-116	-155	-172	-165	4.3%	48.1%	11.1%	-527	-584	10.9%
<b>Net funded income</b>	<b>92</b>	<b>100</b>	<b>132</b>	<b>108</b>	<b>22.2%</b>	<b>43.5%</b>	<b>31.5%</b>	<b>395</b>	<b>466</b>	<b>18.0%</b>
Fees & commissions	20	22	23	26	-11.2%	12.5%	6.0%	77	71	-8.0%
Exchange income	7	8	6	7	-14.3%	-15.5%	-18.5%	28	28	2.0%
Other non-funded income	3	0	2	17	-86.4%	-22.9%	NM	77	79	3.0%
<b>Total non-funded income</b>	<b>31</b>	<b>29</b>	<b>31</b>	<b>50</b>	<b>-36.9%</b>	<b>2.3%</b>	<b>7.5%</b>	<b>182</b>	<b>178</b>	<b>-1.8%</b>
<b>Total operating income</b>	<b>123</b>	<b>130</b>	<b>163</b>	<b>158</b>	<b>3.5%</b>	<b>33.2%</b>	<b>26.1%</b>	<b>576</b>	<b>644</b>	<b>11.8%</b>
Total operating expenses	-66	-74	-78	-82	-5.4%	18.5%	4.6%	-285	-325	14.2%
<b>Pre provision profit</b>	<b>57</b>	<b>55</b>	<b>86</b>	<b>76</b>	<b>13.2%</b>	<b>50.1%</b>	<b>54.8%</b>	<b>292</b>	<b>319</b>	<b>9.3%</b>
Impairment	-2	-9	-11	-12	-10.5%	NM	18.2%	-36	-60	64.1%
Profit before tax	<b>55</b>	<b>46</b>	<b>75</b>	<b>64</b>	<b>17.7%</b>	<b>37.0%</b>	<b>62.1%</b>	<b>255</b>	<b>259</b>	<b>1.6%</b>
Tax expense	0	0	-7	-6	17.9%	NM	NM	0	-23	NM
<b>Net profit</b>	<b>55</b>	<b>46</b>	<b>68</b>	<b>58</b>	<b>17.7%</b>	<b>24.6%</b>	<b>47.4%</b>	<b>255</b>	<b>236</b>	<b>-7.6%</b>

FABS estimate & Co Data

**UAB - KPI**

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	75.0%	77.4%	80.8%	581	333	68.5%	72.3%	382
NIM	2.8%	2.6%	3.1%	31	50	2.6%	2.7%	9
NIS	2.3%	2.0%	2.5%	14	51	2.2%	2.2%	0
Fees & comms/OI	16.6%	16.6%	14.0%	-258	-265	13.3%	11.0%	-235
Exchange income/OI	6.1%	5.9%	3.8%	-221	-210	4.8%	4.4%	-42
Cost to income	53.4%	57.3%	47.5%	-590	-975	49.4%	50.5%	109
Impairment/PPP	4.2%	16.5%	12.6%	835	-389	12.5%	18.7%	624
NP/OI	44.6%	35.7%	41.8%	-287	605	44.3%	36.6%	-767
Cost of risk	0.1%	0.4%	0.4%	31	3	0.4%	0.6%	18
Loan-to-deposit	88.4%	91.4%	89.5%	111	-193	91.4%	88.0%	-340
NPL	7.8%	5.0%	4.8%	-294	-15	5.0%	5.5%	54
Coverage excluding collateral	102.0%	131.8%	126.7%	2,474	-507	131.8%	128.0%	-381
CET 1	13.3%	13.5%	13.1%	-20	-42	13.5%	14.4%	88
Capital adequacy	19.3%	19.0%	18.4%	-90	-57	19.0%	19.4%	46
ROAE	10.0%	11.5%	11.6%	152	8	13.5%	9.8%	-368
ROAA	1.3%	1.6%	1.5%	26	-6	1.6%	1.3%	-28

FABS estimate & Co Data

**UAB - Key B/S items**

	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch.
<b>AED mm</b>						
Net advances	7,369	7,585	7,703	9,357	9,534	29.4%
QOQ change	-3.1%	2.9%	1.6%	21.5%	1.9%	
Total assets	14,426	14,448	14,736	17,648	17,907	24.1%
QOQ change	2.5%	0.2%	2.0%	19.8%	1.5%	
Customer deposits	8,339	8,410	9,175	10,238	10,656	27.8%
QOQ change	-2.7%	0.9%	9.1%	11.6%	4.1%	
Total equity	2,068	2,128	2,159	2,290	2,363	14.2%
QOQ change	37.9%	2.9%	1.5%	6.1%	3.2%	

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	1.16	70.0%	0.81
Relative Valuation (RV)	0.96	30.0%	0.29
<b>Weighted Average Valuation (AED)</b>			<b>1.10</b>
Current market price (AED)			1.11
Upside/Downside (%)			-1%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.00 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)	170
Terminal value (AED, Mn)	410
Book Value of Equity (as of March 2024)	1,815
<b>FV to Common shareholders (AED, Mn)</b>	<b>2,394</b>
No. of share (Mn)	2,063
Current Market Price (AED)	1.11
<b>Fair Value per share (AED)</b>	<b>1.16</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	236	237	246	252	257
(-) Equity Charge	-180	-202	-209	-213	-214
<b>Excess Equity</b>	<b>54</b>	<b>37</b>	<b>41</b>	<b>44</b>	<b>50</b>
Discounting Factor	0.93	0.86	0.79	0.73	0.67
<b>Present Value of Excess Equity</b>	<b>53</b>	<b>31</b>	<b>29</b>	<b>28</b>	<b>29</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 2024 PB multiple of 1.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Sharjah Islamic Bank	1,940	1.1	1.0	9.2	8.5	5.5	5.9
Commercial Bank of Dubai	5,490	1.3	1.3	NM	NM	6.5	6.0
Emirates NBD	26,920	0.9	0.8	5.3	5.6	6.4	6.4
Mashreq Bank	9,830	1.1	1.0	5.6	5.9	8.3	8.3
RAKBank	2,820	0.9	0.8	6.1	5.9	6.6	7.6
Abu Dhabi Islamic Bank	18,060	0.9	0.9	8.0	8.2	6.6	6.5
<b>Average</b>		<b>1.0x</b>	<b>1.0x</b>	<b>6.8x</b>	<b>6.8x</b>	<b>6.6%</b>	<b>6.8%</b>
<b>Median</b>		<b>1.0x</b>	<b>0.9x</b>	<b>6.1x</b>	<b>5.9x</b>	<b>6.6%</b>	<b>6.5%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.0x</b>	<b>8.2x</b>	<b>6.6%</b>	<b>7.3%</b>
<b>Min</b>		<b>0.9x</b>	<b>0.8x</b>	<b>5.6x</b>	<b>5.9x</b>	<b>6.4%</b>	<b>6.1%</b>

Source: FAB Securities

