

## United Arab Bank (UAB)

Higher core income and lower impairments supported profitability

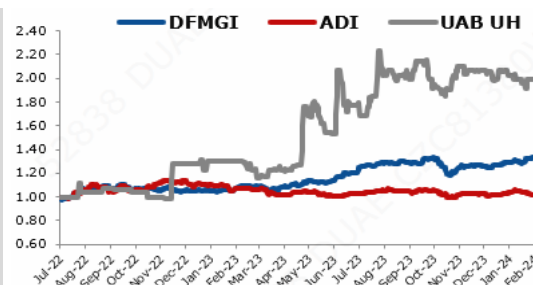
**Current Price**  
AED 1.29

**Target Price**  
AED 1.10

**Upside/Downside (%)**  
-15%

**Rating**  
**SELL**

- UAB's net advances grew 23.1% to AED 9.4 Bn in 2023. While the investment portfolio grew 30.0% to AED 5.1 Bn in 2023
- NIMs declined 41 bps YOY and 38 bps QOQ to 2.6% in 4Q23. While cost-to-income grew from 45.3% in 4Q22 to 57.3% in 4Q23
- Asset quality improved as NPLs declined from 6.4% in 3Q23 to 5.0% in 4Q23. While coverage improved from 118% in 3Q23 to 132% in 3Q23
- Capitalization declined with a CAR of 19.0% in 4Q23 as compared to 19.8% in 3Q23 and CET 1 capital of 13.5% in 4Q23 as compared to 13.9% in 3Q23



### Stock Information

Market Cap (AED, mm)	2,660.69
Paid Up Capital (mm)	2,062.55
52 Week High	1.49
52 Week Low	0.76
3M Avg. daily value(AED)	463,627

### 4Q23 Result Review (AED, mm)

Total Assets	17,648
Total Liabilities	15,358
Total Equity	2,290
Total Deposits	10,238
Net Profit	46

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	10.22
Price-to-Book Ratio (x)	1.54
Book Value (AED)	0.84
Return-on Equity (%)	15.76

### Stock Performance

5 Days	-0.77%
1 Months	-0.77%
3 Months	-3.01%
6 Months	-4.44%
1 Year	53.57%
Month to Date (MTD%)	-0.77%
Quarter to Date (QTD%)	-4.44%
Year to Date (YTD%)	-4.44%

### 4Q23 Net Profit lower than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit grew 29.8% YOY to AED 46 Mn in 4Q23, lower than our estimate of AED 92 Mn. The growth in net profit is mainly due to an increase in net funded income and lower impairments partially offset by a decline in non-funded income and higher operating expenses.

### P&L Highlights

UAB's funded income grew 35.2% YOY to AED 256 Mn in 4Q23 driven by increased asset yield and net advances. On the other hand, funded expenses grew significantly from AED 92 Mn in 4Q22 to AED 155 Mn in 4Q23 due to higher costs of funds amid rising benchmark rates. Thus, net funded income grew 3.1% YOY to AED 100 Mn in 4Q23. UAB's NIMs declined 41 bps YOY and 38 bps QOQ to 2.6% in 4Q23. The Bank's fee and commission income grew from AED 3 Mn in 4Q22 to AED 27 Mn in 4Q23. Similarly, exchange income grew from AED 5 Mn in 4Q22 to AED 8 Mn in 4Q23. Furthermore, other non-funded income recorded a loss of AED 6 Mn in 4Q23, compared to a profit of AED 44 Mn in 4Q22. Thus, total non-funded income declined 44.2% YOY to AED 29 Mn in 4Q23. Thus, total operating income declined 13.5% YOY to AED 130 Mn in 4Q23. UAB's operating expenses grew 9.4% YOY to AED 74 Mn in 4Q23. Resultantly, the cost-to-income ratio grew from 45.3% in 4Q22 to 57.3% in 4Q23 owing to lower operating income. In addition, impairments declined from AED 46 Mn in 4Q22 to AED 9 Mn in 4Q23.

### Balance Sheet Highlights

United Arab Bank's total assets grew 25.3% to AED 17.6 Bn in 4Q23 mainly due to growth in the cash and balance with Central Bank, investment portfolio and net advances. Net advances grew 23.1%

to AED 9.4 Bn in 4Q23 mainly due to growth in lending to services, manufacturing and construction sectors. The Bank's investment portfolio rose 30.9% to AED 5.1 Bn in 4Q23. In addition, customer deposits grew 19.5% to AED 10.2 Bn in 4Q23. CASA deposits account for 36.5% of total customer deposit as of 4Q23. The Bank's loan-to-deposit ratio increased from 84.0% in 3Q23 to 91.4% in 4Q23.

### Target Price and Rating

We maintain our SELL rating on United Arab Bank (UAB) with a revised target price of AED 1.10. UAB reported an increase in profitability owing to growth in core income driven by rising interest rates. However, non-funded income declined 44.2% YOY in 4Q23 primarily due to a decline in other operating income. UAB's asset quality improved as NPLs declined from 6.4% in 3Q23 to 5.0% in 4Q23. Provision coverage also strengthened from 118% in 3Q23 to 132% in 4Q23. While provision, including collateral stood at 200% in 4Q23 as compared to 195% in 3Q23. The Bank's CET 1 ratio stood at 13.5%, Tier 1 ratio at 17.8%, and CAR at 19.0% in 4Q23. Furthermore, net advances grew 23.1% to AED 9.4 Bn in 2023 mainly due to increased lending to services, manufacturing and construction sectors. Customer deposits grew 19.5% to AED 10.2 Bn in 4Q23. However, the Bank's cost of fund grew 154 bps YOY and 26 bps QOQ to 4.7% in 4Q23 impacting margins. As a result, NIM's declined 41 bps YOY and 38 bps QOQ to 2.6% in 4Q23. The Bank is expanding its corporate loan book which stood at 66.6% in 2023 compared to 52.3% in 2022. The expansion of the corporate loan book will put downward pressure on NIMs due to heated competition. In addition, the corporate loan books will reprice quickly compared to retail books and is further expected to pressurize NIMs in the declining interest rate scenario. UAB's cost-to-income ratio grew significantly from 43.8% in 3Q23 to 57.3% in 4Q23 mainly due to lower operating income. The Bank should effectively manage expenses and focus on improving its core and non-core income going forward. UAB also trades at an expensive 2024 PB valuation of 1.4x compared to peer average of 1.2x; in addition the Bank also doesn't pay any dividends. Thus, considering these factors, we maintain our SELL rating on the stock.

#### UAB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	NA	NA	37.9	17.2	10.4	12.0
PB	1.2	1.8	1.8	1.8	1.5	1.4

FABS Estimates & Co Data

#### UAB - P&L

AED mm	4Q22	3Q23	4Q23	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	189	232	256	249	2.8%	35.2%	10.1%	584	922	57.7%
Funded expense	-92	-130	-155	-139	11.8%	69.2%	19.5%	-263	-527	100.3%
<b>Net funded income</b>	<b>97</b>	<b>102</b>	<b>100</b>	<b>110</b>	<b>-8.6%</b>	<b>3.1%</b>	<b>-1.9%</b>	<b>322</b>	<b>395</b>	<b>22.8%</b>
Fees & commissions	3	19	27	21	29.3%	NM	39.7%	47	77	63.0%
Exchange income	5	6	8	9	-13.2%	62.6%	24.2%	19	28	43.9%
Other non-funded income	44	46	-6	53	NM	NM	NM	113	77	-31.8%
<b>Total non-funded income</b>	<b>52</b>	<b>72</b>	<b>29</b>	<b>83</b>	<b>-64.6%</b>	<b>-44.2%</b>	<b>-59.3%</b>	<b>179</b>	<b>182</b>	<b>1.3%</b>
<b>Total operating income</b>	<b>150</b>	<b>174</b>	<b>130</b>	<b>193</b>	<b>-32.7%</b>	<b>-13.5%</b>	<b>-25.6%</b>	<b>501</b>	<b>576</b>	<b>15.1%</b>
Total operating expenses	-68	-76	-74	-84	-11.2%	9.4%	-2.7%	-252	-285	13.1%
<b>Pre provision profit</b>	<b>82</b>	<b>98</b>	<b>55</b>	<b>109</b>	<b>-49.2%</b>	<b>-32.4%</b>	<b>-43.4%</b>	<b>249</b>	<b>292</b>	<b>17.1%</b>
Impairment	-46	-9	-9	-17	-47.3%	NM	-3.3%	-94	-36	-61.4%
<b>Net profit</b>	<b>36</b>	<b>88</b>	<b>46</b>	<b>92</b>	<b>-49.5%</b>	<b>29.8%</b>	<b>-47.7%</b>	<b>155</b>	<b>255</b>	<b>65.0%</b>

FABS estimate & Co Data

**UAB - KPI**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	65.0%	58.7%	77.4%	1,244	1,872	64.2%	68.5%	430
NIM	3.0%	3.0%	2.6%	-41	-38	2.4%	2.6%	27
NIS	2.7%	2.4%	2.0%	-77	-39	2.2%	2.2%	2
Fees & comms/OI	2.1%	11.1%	20.9%	1,877	977	9.4%	13.3%	391
Exchange income/OI	3.2%	3.6%	5.9%	278	238	3.9%	4.8%	97
Cost to income	45.3%	43.8%	57.3%	1,196	1,347	50.3%	49.4%	-88
Impairment/PPP	56.5%	9.6%	16.5%	-4,003	683	37.9%	12.5%	-2,540
NP/OI	23.8%	50.8%	35.7%	1,191	-1,509	30.9%	44.3%	1,339
Cost of risk	2.3%	0.5%	0.4%	-186	-7	1.1%	0.4%	-75
Loan-to-deposit	88.7%	84.0%	91.4%	266	744	88.7%	91.4%	266
NPL	8.2%	6.4%	5.0%	-320	-140	8.2%	5.0%	-320
Coverage excluding collateral	94.0%	118.0%	132.0%	3,800	1,400	94.0%	132.0%	3,800
CET 1	13.3%	13.9%	13.5%	20	-40	13.3%	13.5%	20
Capital adequacy	14.5%	19.8%	19.0%	450	-80	14.5%	19.0%	450
ROAE	10.7%	11.4%	11.5%	74	6	10.3%	13.5%	320
ROAA	1.1%	1.7%	1.6%	48	-10	1.1%	1.6%	55

FABS estimate & Co Data

**UAB - Key B/S items**

AED mm	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch.
Net advances	7,604	7,369	7,585	7,703	9,357	23.1%
QOQ change	-2.4%	-3.1%	2.9%	1.6%	21.5%	
Total assets	14,080	14,426	14,448	14,736	17,648	25.3%
QOQ change	0.1%	2.5%	0.2%	2.0%	19.8%	
Customer deposits	8,569	8,339	8,410	9,175	10,238	19.5%
QOQ change	-7.3%	-2.7%	0.9%	9.1%	11.6%	
Total equity	1,499	2,068	2,128	2,159	2,290	52.7%
QOQ change	8.4%	37.9%	2.9%	1.5%	6.1%	

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	1.19	70.0%	0.83
Relative Valuation (RV)	0.91	30.0%	0.27
<b>Weighted Average Valuation (AED)</b>			<b>1.10</b>
Current market price (AED)			1.29
Upside/Downside (%)			-15%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 1.00 and equity risk premium of 3.7%. 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)	180
Terminal value (AED, Mn)	526
Book Value of Equity (as of Dec 2023)	1,742
<b>FV to Common shareholders (AED, Mn)</b>	<b>2,448</b>
No. of share (Mn)	2,063
Current Market Price (AED)	1.29
<b>Fair Value per share (AED)</b>	<b>1.19</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	221	223	232	239	244
(-) Equity Charge	-167	-186	-191	-194	-194
<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>50</b>	<b>32</b>	<b>32</b>	<b>32</b>	<b>34</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 1.1x 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	2,176	1.2	1.1	10.3	9.5	4.9	5.3
Commercial Bank of Dubai	4,064	1.1	NA	NA	NA	5.5	6.0
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
Mashreq Bank	8,303	1.0	0.9	5.2	5.7	8.2	7.2
RAKBank	2,875	1.0	0.9	7.4	5.5	7.2	9.1
Abu Dhabi Islamic Bank	10,107	1.7	1.6	8.9	8.3	5.9	6.2
<b>Average</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.6x</b>	<b>7.0x</b>	<b>6.1%</b>	<b>6.5%</b>
<b>Median</b>		<b>1.1x</b>	<b>0.9x</b>	<b>7.4x</b>	<b>6.0x</b>	<b>5.7%</b>	<b>6.1%</b>
<b>Max</b>		<b>1.2x</b>	<b>1.1x</b>	<b>8.9x</b>	<b>8.3x</b>	<b>6.9%</b>	<b>7.0%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>6.1x</b>	<b>5.7x</b>	<b>5.0%</b>	<b>5.4%</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%

## FAB Securities Contacts:

### Research Analyst

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

### Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link

+971-2-6161777

Institutional Desk +971-4-4245765

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