

United Arab Bank (UAB)

Lower impairments and strong non-core income boosted profitability

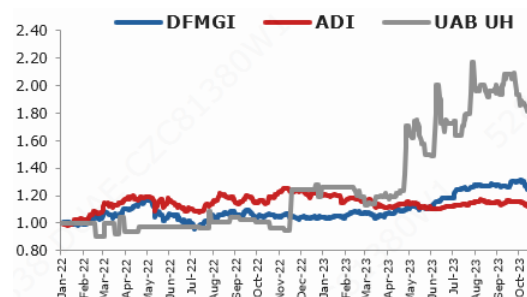
Current Price
AED 1.29

Target Price
AED 0.92

Upside/Downside (%)
-29%

Rating
SELL

- The bank's asset quality continued to improve as NPLs declined from 6.7% in 2Q23 to 6.4% in 3Q23. While coverage improved from 110.5% in 2Q23 to 118.4% in 3Q23
- UAB increased its capital base by issuing USD 150 Mn in additional Tier 1 capital which in turn strengthened the Bank's capital adequacy ratio
- The Bank's capitalization improved with a CAR of 19.8% in 3Q23 as compared to 19.6% in 2Q23 and CET 1 capital of 13.9% in 3Q23 as compared to 13.7% in 2Q23



Stock Information

Market Cap (AED, mm)	2,660.69
Paid Up Capital (mm)	2,062.55
52 Week High	1.49
52 Week Low	0.64
3M Avg. daily value(AED)	3,821,744

3Q23 Result Review (AED, mm)

Total Assets	14,736
Total Liabilities	12,578
Total Equity	2,159
Total Deposits	9,175
Net Profit	88

Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	NA
Price-Earnings Ratio(x)	10.57
Price-to-Book Ratio (x)	1.65
Book Value (AED)	0.78
Return-on Equity (%)	16.35

Stock Performance

5 Days	3.20%
1 Months	-5.15%
3 Months	-0.77%
6 Months	24.04%
1 Year	98.46%
Month to Date (MTD%)	-0.77%
Quarter to Date (QTD%)	-0.77%
Year to Date (YTD%)	51.76%

3Q23 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit more than doubled from AED 36 Mn in 3Q22 to AED 88 Mn in 3Q23, higher than our estimate of AED 67 Mn. The increase in net profit is mainly due to a solid growth in net funded and non-funded income partially offset by an increase in operating expenses and provisions.

P&L Highlights

UAB's funded income rose 50.3% YOY to AED 232 Mn in 3Q23 driven by an increase in asset yield partially offset by a decline in net advances while funded expenses grew significantly from AED 71 Mn in 3Q22 to AED 130 Mn in 3Q23 due to higher benchmark rates. Thus, net funded income rose 22.9% YOY to AED 102 Mn in 3Q23. UAB's NIMs grew 39 bps YOY while softened by 7 bps QOQ to 2.9% in 3Q23. The Bank's fee and commission income grew 18.1% YOY to AED 19 Mn in 3Q23. Similarly, exchange income rose 15.8% YOY to AED 6 Mn in 3Q23. Whereas other non-funded income rose substantially from AED 3 Mn in 3Q22 to AED 46 Mn in 3Q23. Thus, total non-funded income more than doubled to AED 72 Mn in 3Q23 from AED 25 Mn in 3Q22. As a result, total operating income rose 61.0% YOY to AED 174 Mn in 3Q23. On the other hand, UAB's operating expense rose 12.4% YOY to AED 76 Mn in 3Q23. However, the cost-to-income ratio declined significantly from 62.7% in 3Q22 to 43.8% in 3Q23 owing to strong growth in operating income base. In addition, impairments increased from AED 5 Mn in 3Q22 to AED 9 Mn in 3Q23.

Balance Sheet Highlights

United Arab Bank's total assets grew 4.8% YOY and 2.0% QOQ to AED 14.7 Bn in 3Q23 due to strong growth in the investments portfolio. Net advances declined 1.1% YOY but increased 1.6% QOQ to AED 7.7 Bn in 3Q23. Similarly, customer deposits fell marginally 0.7% YOY but increased 9.1% QOQ to AED 9.2 Bn in 3Q23. The Bank's loan-to-deposit ratio improved to 84.0% in 3Q23 as compared to 90.2% in 2Q23. CASA deposits as a percentage of total deposits moderated to 36.5% in 3Q23 from 38.9% in 2Q23.

Target Price and Rating

We maintain our SELL rating on United Arab Bank (UAB) with an unchanged target price of AED 0.92. The Bank's net advances rose 1.6% QOQ to AED 7.7 Bn in 3Q23. Whereas, deposits recorded a strong growth of 9.1% QOQ to AED 9.2 Bn in 3Q23 which boosted the Bank's liquidity. UAB's asset yield declined 9 bps QOQ to 6.6% in 3Q23 whereas cost of funds rose 9 bps QOQ to 4.4% due to high interest rates. As a result, NIM's declined 7 bps QOQ to 2.9% in 3Q23. On the other hand, the Bank's asset quality improved with an NPL ratio of 6.4% in 3Q23 as against 6.7% in 2Q23. Similarly, the coverage ratio rose to 118.4% in 3Q23 as compared to 110.5% in 2Q23. Moreover, the Bank's CASA deposits as a percentage of total deposits declined to 36.5% in 3Q23, down from 38.9% in 2Q23 which pressurized the Bank's margins. UAB's cost of risk fell to 0.5% in 3Q23 from 0.8% in 2Q23 recording lower impairments in 3Q23 which boosted the Bank's profitability. The Bank's CET 1 ratio stood at 13.9%, Tier 1 ratio at 18.6% and CAR at 19.8% in 3Q23. However, UAB trades at an expensive 2023 PB valuation of 1.5x compared to the peer median valuation of 1.1x in addition, the Bank is not paying any dividend. Thus, based on our analysis, we maintain our SELL rating on the stock.

UAB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	34.72	NA	NA	38.20	17.33	9.59
PB	1.06	1.24	1.84	1.77	1.79	1.53

FABS Estimates & Co Data

UAB - P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	155	225	232	231	0.7%	50.3%	3.2%	584	923	57.9%
Funded expense	-71	-125	-130	-119	9.0%	82.1%	4.0%	-263	-514	95.5%
Net funded income	83	100	102	112	-8.2%	22.9%	2.1%	322	409	27.2%
Fees & commissions	16	15	19	18	6.6%	18.1%	25.7%	47	71	50.0%
Exchange income	5	6	6	7	-5.2%	15.8%	-4.2%	19	29	50.0%
Other non-funded income	3	28	46	26	75.7%	NM	66.9%	113	107	-5.0%
Total non-funded income	25	50	72	51	40.7%	187.6%	44.8%	179	207	15.4%
Total operating income	108	150	174	163	7.1%	61.0%	16.3%	501	616	22.9%
Total operating expenses	-68	-69	-76	-75	2.0%	12.4%	11.1%	-252	-296	17.4%
Pre provision profit	40	81	98	88	11.5%	142.6%	20.7%	249	320	28.6%
Impairment	-5	-15	-9	-20	-53.7%	NM	-38.7%	-94	-41	-56.8%
Net profit	36	66	88	67	31.2%	147.3%	34.6%	155	279	80.6%

FABS estimate & Co Data

UAB - KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	76.9%	66.9%	58.7%	-1,817	-814	64.2%	66.4%	220
NIM	2.5%	3.0%	2.9%	39	-7	2.4%	3.2%	81
NIS	2.3%	2.4%	2.2%	-11	-19	2.2%	2.8%	64
Fees & comms/OI	15.2%	10.3%	11.1%	-404	84	9.4%	11.5%	207
Exchange income/OI	4.9%	4.3%	3.6%	-139	-76	3.9%	4.7%	85
Cost to income	62.7%	45.8%	43.8%	-1,892	-205	50.3%	48.0%	-228
Impairment/PPP	11.3%	19.0%	9.6%	-169	-934	37.9%	12.7%	-2,515
NP/OI	33.1%	43.9%	50.8%	1,773	691	30.9%	45.4%	1,450
ROAE	15.4%	9.1%	11.4%	-401	227	10.3%	14.7%	442
ROAA	1.5%	1.3%	1.7%	19	35	1.1%	2.0%	95

FABS estimate & Co Data

UAB - Key B/S items

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch.
Net advances	7,788	7,604	7,369	7,585	7,703	-1.1%
QOQ ch	-7.0%	-2.4%	-3.1%	2.9%	1.6%	
Total assets	14,066	14,080	14,426	14,448	14,736	4.8%
QOQ ch	-4.6%	0.1%	2.5%	0.2%	2.0%	
Customer deposits	9,241	8,569	8,339	8,410	9,175	-0.7%
QOQ ch	-12.1%	-7.3%	-2.7%	0.9%	9.1%	
Total equity	1,383	1,499	2,068	2,128	2,159	56.1%
QOQ ch	-1.3%	8.4%	37.9%	2.9%	1.5%	

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)	0.97	30.0%	0.29
Weighted Average Valuation (AED)			0.92
Current market price (AED)			1.29
Upside/Downside (%)			-29%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.7%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 1.00 and equity risk premium of 4.8%. 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)	200
Terminal value (AED, Mn)	62
Book Value of Equity (as of Sept 2023)	1,610
FV to Common shareholders (AED, Mn)	1,872
No. of share (Mn)	2,063
Current Market Price (AED)	1.29
Fair Value per share (AED)	0.91

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	279	242	251	260	250
(-) Equity Charge	-171	-195	-219	-234	-243
Excess Equity	109	48	32	26	7
Discounting Factor	0.98	0.90	0.82	0.74	0.68
Present Value of Excess Equity	107	43	26	19	5

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 (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Sharjah Islamic Bank	2,070	1.2	1.1	11.2	9.8	4.5	5.2
Commercial Bank of Dubai	3,747	1.0	1.0	NA	NA	5.6	6.0
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
Mashreq Bank	8,303	1.2	NA	5.3	5.6	8.2	8.2
RAKBank	3,012	1.1	1.1	6.3	7.7	8.0	6.8
Abu Dhabi Islamic Bank	9,741	1.8	1.7	8.5	8.9	6.1	6.0
Average		1.2x	1.2x	7.2x	7.5x	6.3%	6.2%
Median		1.1x	1.1x	6.3x	7.7x	5.9%	6.0%
Max		1.2x	1.1x	8.5x	8.9x	7.5%	6.6%
Min		1.0x	1.0x	5.3x	5.6x	5.3%	5.4%

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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