

## United Arab Bank

Improved asset quality and a rise in NIMs boosted profitability

### 4Q22 Net Profit lower than our estimates

United Arab Bank PJSC ("UAB"/ "The Bank") net profit rose 40.2% YOY to AED 36 Mn in 4Q22, marginally lower than our estimate of AED 39 Mn. The increase in net profit is primarily driven by improved operating performance partially offset by an increase in operating expenses and impairments.

### P&L highlights

UAB's funded income rose 73.8% YOY to AED 189 Mn in 4Q22 mainly due to a growth in asset yield partially offset by a decline in interest-earning assets. On the other hand, funded expenses almost doubled from AED 46 Mn in 4Q21 to AED 92 Mn in 4Q22 due to higher benchmark rates and change in mix. Thus, net funded income rose 55.1% YOY to AED 97 Mn in 4Q22. The Bank's NIMs rose 48 bps QOQ to 2.9% in 4Q22. Fees and commission income fell 35.1% YOY to AED 8 Mn in 4Q22 while exchange income declined 12.6% YOY to AED 5 Mn. Moreover, the other non-funded income rose 22.2% YOY to AED 40 Mn in 4Q22 resulting in a 4.3% YOY growth in total non-funded income to AED 52 Mn in 4Q22. Total operating expenses rose 7.1% YOY to AED 68 Mn at par with the previous quarter driven by the optimization of staff cost and G&A expenses. Moreover, the cost-to-income ratio declined from 56.1% in 4Q21 to 45.3% in 4Q22 due to the company's strategic cost optimization strategy. Furthermore, impairments almost doubled from AED 24 Mn in 4Q21 to AED 46 Mn in 4Q22 which led the cost of risk to grow from 1.1% in 4Q21 to 2.2% in 4Q22 impacting profitability.

### Balance sheet highlights

United Arab Bank's net advances declined 7.4% to AED 7.6 Bn in 2022. As a result, total assets declined 7.2% to AED 14.1 Bn in 2022. Similarly, customer deposits fell significantly 17.7% YOY reaching AED 8.6 Bn in 2022 mainly due to a fall in term deposits. CASA deposits constituted 35.9% of the total deposit in 2022 somewhat benefiting the NIMs. Total equity marginally decreased 0.8% to AED 1.5 Bn in 2022.

### Target price and rating

We revise our rating on United Arab Bank (UAB) from SELL to REDUCE with an unchanged target price of AED 0.72. The stock corrected 10.6% since last our SELL rating. UAB is showing early signs of improvement post-transformational strategy. The Bank NPL ratio declined from 11.4% in 3Q22 to 8.2% in 4Q22. The decline is mainly due to the write-off of loans as well as the transfer of loans from stage 3 to stage 2 in 4Q22. It added fresh slippages worth AED 153.7 Mn amounting to 1.9% of gross loans in FY2022. Stage 2 loans also fell from 8.5% in 3Q22 to 7.7% in 4Q22 showing early signs of improvement. The coverage against NPLs improved from 83.1% in 3Q22 to 94.3% in 4Q22 with additional collaterals of AED 462.0 Mn in 4Q22. The Bank's financing portfolio declined 7.4% YOY to AED 7.6 Bn in 4Q22. Deposits declined 17.7% YOY to AED 8.6 Bn in 4Q22 and fell faster than advances leading the Bank to rely on other sources to fund its advances. This might pressurize the NIMs going forward. Thus, considering the abovementioned factors, we assign a REDUCE rating to the stock.

**Rating : REDUCE**

## First Look Note – 4Q22

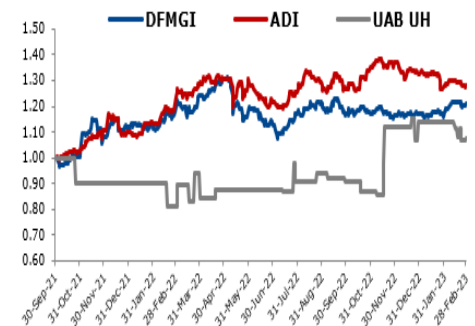
Sector: Banking

### Recommendation

Current Price (02-Mar-23)	0.76
Target Price (AED)	0.72
Upside/Downside (%)	-5.3%

### Stock Information

Market Cap (mm)	1,567.54
Paid Up Capital (mm)	2,062.55
52 Week High	0.86
52 Week Low	0.62
3M Avg. daily value (AED)	179,442



### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	8.71
Price-to-Book Ratio (x)	1.05
Book Value (AED)	0.73
Return-on Equity (%)	10.28
Earning Per Share (AED)	0.09
Beta	0.29

### Stock Performance

5 Days	-5.00%
1 Months	-10.59%
3 Months	-9.42%
6 Months	8.57%
1 Year	13.43%
Month to Date (MTD)	-5.47%
Quarter to Date (QTD)	-10.59%
Year to Date (YTD)	-10.59%

**UAB- Relative valuation**

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	20.30	NA	NA	22.33	10.13	8.77
P/B (x)	0.62	0.73	1.08	1.04	1.05	0.93

*FABS Estimates & Co Data*
**UAB- P&L**

AED mm	4Q21	3Q22	4Q22	4Q22F	Var	YOY Ch	QOQ Ch	2021	2022	Change
Interest income	109	155	189	165	14.8%	73.8%	22.4%	478	584	22.2%
Interest expense	-46	-71	-92	-78	18.4%	99.2%	28.7%	-200	-263	31.3%
<b>Net interest income</b>	<b>63</b>	<b>83</b>	<b>97</b>	<b>87</b>	<b>11.5%</b>	<b>55.1%</b>	<b>17.1%</b>	<b>278</b>	<b>322</b>	<b>15.8%</b>
Fees and commissions	12	12	8	12	-31.1%	-35.1%	-29.7%	47	47	0.0%
Exchange income	5	5	5	5	-12.4%	-12.6%	-11.5%	19	19	2.7%
Other non-funded inc.	32	8	40	8	NM	22.2%	NM	106	113	6.5%
<b>Total non-funded inc.</b>	<b>50</b>	<b>25</b>	<b>52</b>	<b>25</b>	<b>110.7%</b>	<b>4.3%</b>	<b>109.7%</b>	<b>172</b>	<b>179</b>	<b>4.3%</b>
<b>Total operating inc.</b>	<b>113</b>	<b>108</b>	<b>150</b>	<b>112</b>	<b>33.5%</b>	<b>32.5%</b>	<b>38.5%</b>	<b>450</b>	<b>501</b>	<b>11.4%</b>
Total operating exp.	-63	-68	-68	-56	21.4%	7.1%	0.0%	-244	-252	3.3%
<b>Pre provision profit</b>	<b>50</b>	<b>40</b>	<b>82</b>	<b>56</b>	<b>45.5%</b>	<b>65.0%</b>	<b>103.3%</b>	<b>206</b>	<b>249</b>	<b>20.9%</b>
Impairment	-24	-5	-46	-17	170.4%	91.0%	NM	-136	-94	-30.6%
<b>Profit for the period</b>	<b>25</b>	<b>36</b>	<b>36</b>	<b>39</b>	<b>-9.0%</b>	<b>40.2%</b>	<b>-0.2%</b>	<b>70</b>	<b>155</b>	<b>120.4%</b>

*FABS estimate & Co Data*
**UAB- KPIs**

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	55.5%	76.9%	65.0%	948	-1,188	61.8%	64.2%	243
NIM	1.7%	2.4%	2.9%	114	48	1.9%	2.3%	45
NIS	1.5%	2.1%	2.4%	95	38	1.7%	2.1%	44
Fees & comms/OI	11.0%	10.7%	5.4%	-563	-525	10.5%	9.4%	-107
Trading/OI	4.8%	5.0%	3.2%	-163	-179	4.2%	3.9%	-33
Cost to income	56.1%	62.7%	45.3%	-1,077	-1,744	54.2%	50.3%	-392
Impairment/PPP	48.8%	11.3%	56.5%	769	4,514	65.9%	37.9%	-2,805
NP/OI	22.5%	33.0%	23.8%	131	-923	15.6%	30.9%	1,528
ROAE	4.7%	10.4%	22.4%	1,771	1,200	4.7%	10.3%	554
ROAA	0.5%	1.0%	2.2%	172	120	0.5%	1.1%	59

*FABS estimate & Co Data*
**UAB- Key BS items**

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	8,213	7,884	8,374	7,788	7,604	-7.4%
QOQ change	2.2%	-4.0%	6.2%	-7.0%	-2.4%	
Total assets	15,180	14,021	14,748	14,066	14,080	-7.2%
QOQ change	6.4%	-7.6%	5.2%	-4.6%	0.1%	
Customer deposits	10,406	10,120	10,517	9,241	8,569	-17.7%
QOQ change	0.8%	-2.8%	3.9%	-12.1%	-7.3%	
Total equity	1,512	1,501	1,402	1,383	1,499	-0.8%
QOQ change	0.9%	-0.7%	-6.6%	-1.3%	8.4%	

*FABS estimate & Co Data*

**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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