

United Arab Bank (UAB)

Strong recoveries and higher lending boosted profitability

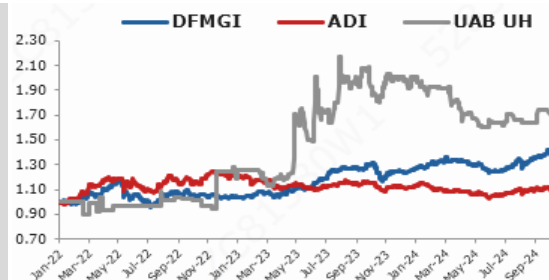
Current Price
AED 1.10

Target Price
AED 1.10

Upside/Downside (%)
0.0%

Rating
HOLD

- Net advances grew strongly 39.6% YOY and 3.1% QOQ to AED 10.8 Bn in 3Q24 mainly due to the strong growth in retail and wholesale loans with a strong business pipeline in place.
- NPLs declined from 6.4% in 2Q24 to 4.1% in 3Q24 due to recoveries and settlement.
- UAB's NIMs declined 63 bps YOY and 11 bps QOQ to 2.4% in 3Q24 as asset yield fell faster than cost of funds.
- CASA deposits account for 33.8% of total customer deposits as of 3Q24 compared to 36.3% in 2Q24.
- Customer deposits grew 12.3% YOY and fell 15.1% QOQ to AED 10.3 Bn in 3Q24.



Stock Information

| | |
|--------------------------|----------|
| Market Cap (AED, mn) | 2,268.81 |
| Paid Up Capital (mn) | 2,062.55 |
| 52 Week High | 1.37 |
| 52 Week Low | 1.08 |
| 3M Avg. daily value(AED) | 57,520 |

3Q24 Result Review (AED, mn)

| | |
|-------------------|--------|
| Total Assets | 20,016 |
| Total Liabilities | 17,438 |
| Total Equity | 2,577 |
| Total Deposits | 10,300 |
| Net Profit | 74 |

Financial Ratios

| | |
|-------------------------|-------|
| Dividend Yield (12m) | N/A |
| Dividend Pay-out (%) | 0.00 |
| Price-Earnings Ratio(x) | 8.77 |
| Price-to-Book Ratio (x) | 1.12 |
| Book Value (AED) | 0.98 |
| Return-on Equity (%) | 14.22 |

Stock Performance

| | |
|------------------------|---------|
| 5 Days | 0.92% |
| 1 Months | -5.98% |
| 3 Months | -1.79% |
| 6 Months | -2.65% |
| 1 Year | -15.38% |
| Month to Date (MTD%) | -5.17% |
| Quarter to Date (QTD%) | -5.17% |
| Year to Date (YTD%) | -18.52% |

3Q24 Net Profit higher than our estimate

United Arab Bank PJSC ("UAB"/ "The Bank") net profit fell 16.7% YOY to AED 74 Mn in 3Q24, higher than our estimate of AED 65 Mn. The growth in net profit is mainly due to an increase in net funded income, lower operating expenses and reversals in impairments partially offset by a decline in non-funded income and implementation of income tax owing to the introduction of corporate tax in the UAE.

P&L Highlights

UAB's funded income grew 30.1% YOY to AED 302 Mn in 3Q24 driven by an increase in net advances and other interest earnings assets. On the other hand, funded expenses grew significantly 47.0% YOY to AED 191 Mn in 3Q24. Thus, net funded income grew 8.6% YOY to AED 111 Mn in 3Q24. UAB's NIMs declined 63 bps YOY and 11 bps QOQ to 2.4% in 3Q24. The Bank's total non-funded income declined 43.6% YOY to AED 41 Mn in 3Q24 primarily due to the decline in other operating income partially offset by an increase in fees & commission and exchange income. Fee and commission income rose 21.1% YOY to AED 22 Mn in 3Q24 owing to higher business volumes. However, exchange income rose from AED 6 Mn in 3Q23 to AED 10 Mn in 3Q24. In addition, other non-funded income declined significantly from AED 47 Mn in 3Q23 to AED 8 Mn in 3Q24. Total operating income declined 13.0% YOY to AED 152 Mn in 3Q24. UAB's operating expenses fell marginally 1.5% YOY to AED 75 Mn in 3Q24. Resultantly, the cost-to-income ratio grew from 43.8% in 3Q23 to 49.6% in 3Q24. The Bank recorded a reversal in impairments of AED 5 Mn in 3Q24 compared to an impairment charge of AED 9 Mn in 3Q23 owing to strong recoveries. UAB incurred tax expenses of AED 7 Mn in 3Q24 due to the introduction of corporate tax in UAE.

Balance Sheet Highlights

United Arab Bank's total assets grew 35.8% YOY and 1.0% QOQ to AED 20 Bn in 3Q24 mainly due to growth in investments & loans. Net advances grew strongly 39.6% YOY and 3.1% QOQ to AED 10.8 Bn in 3Q24 mainly due to the strong growth in retail and wholesale loans. The Bank's investment portfolio grew 21.6% YOY and 9.4% QOQ to AED 5.8 Bn in 3Q24. In addition, customer deposits fell 0.8% QOQ to AED 12.0 Bn in 3Q24. CASA deposits account for 33.8% of total customer deposits as of 3Q24 compared to 36.3% in 2Q24. The Bank's loan-to-deposit ratio increased from 86.0% in 2Q24 to 89.4% in 3Q24 due to a marginal decline in deposits.

Target Price and Rating

We maintain our HOLD rating on United Arab Bank (UAB) with a target price of AED 1.10. UAB recorded a decline in profitability in 3Q24. NIMs declined 63 bps YOY and 11 bps QOQ to 2.4% in 3Q24 owing to a decline in the asset yield. UAB witnessed growth in lending activity and the outlook remains positive for the remainder of the year due to a strong business pipeline. Fees and commission income recorded growth due to higher business volumes. The Bank's asset quality improved as NPLs declined from 4.5% in 2Q24 to 4.1% in 3Q24 as a result of strong recoveries and settlement. Provision coverage also increased from 124.6% in 1Q24 to 125.2% in 3Q24, providing a cushion against potential bad loans. The capitalization stood strong with a CET 1 ratio of 13.8% and CAR of 18.8% in 3Q24. The Bank is committed to investing in innovation as well as digital capabilities to enhance customer experience & drive efficiency. It is also focusing on managing risk and further improving asset quality, aligned with its aim to strengthen and grow its balance sheet. The cost of risk improved from 0.5% in 3Q23 to negative 0.2% in 3Q24 due to strong recoveries. UAB is trading at a PB multiple of 1.1x compared to the peer multiple of 1.1x in FY2024. 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 | 32.32 | 14.66 | 8.89 | 8.27 |
| PB | 1.05 | 1.56 | 1.50 | 1.51 | 1.30 | 1.12 |

FABS Estimates & Co Data

UAB - P&L

| AED mn | 3Q23 | 2Q24 | 3Q24 | 3Q24F | Var | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|--------------------------------|------------|------------|------------|------------|--------------|---------------|--------------|------------|------------|---------------|
| Funded income | 232 | 296 | 302 | 310 | -2.7% | 30.1% | 2.2% | 922 | 1,221 | 32.5% |
| Funded expense | -130 | -185 | -191 | -195 | -2.3% | 47.0% | 3.3% | -527 | -750 | 42.4% |
| Net funded income | 102 | 111 | 111 | 115 | -3.3% | 8.6% | 0.4% | 395 | 471 | 19.3% |
| Fees & commissions | 19 | 20 | 22 | 26 | -12.4% | 21.1% | 13.9% | 77 | 88 | 15.0% |
| Exchange income | 6 | 7 | 10 | 7 | 47.2% | 58.7% | 50.1% | 28 | 29 | 5.0% |
| Other non-funded income | 47 | 0.13 | 8 | 0 | NM | -82.5% | NM | 77 | 23 | -70.0% |
| Total non-funded income | 72 | 26 | 41 | 32 | 25.0% | -43.6% | 53.7% | 182 | 141 | -22.6% |
| Total operating income | 174 | 137 | 152 | 147 | 2.9% | -13.0% | 10.7% | 576 | 612 | 6.1% |
| Total operating expenses | -76 | -71 | -75 | -70 | 7.4% | -1.5% | 6.1% | -285 | -300 | 5.2% |
| Pre provision profit | 98 | 66 | 77 | 77 | -1.1% | -21.9% | 15.5% | 292 | 312 | 6.9% |
| Impairment | -9 | 11 | 5 | -5 | NM | NM | NM | -36 | -17 | -53.7% |
| Profit before tax | 88 | 77 | 81 | 72 | 12.7% | -8.4% | 5.0% | 255 | 295 | 15.6% |
| Tax expense | 0 | -7 | -7 | -6 | 12.7% | NM | 5.5% | 0 | -27 | NM |
| Net profit | 88 | 70 | 74 | 65 | 12.7% | -16.7% | 4.9% | 255 | 269 | 5.2% |

FABS estimate & Co Data

UAB - KPI

| | 3Q23 | 2Q24 | 3Q24 | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net FI/OI | 58.7% | 80.7% | 73.3% | 1,454 | -748 | 68.5% | 77.0% | 851 |
| NIM | 3.0% | 2.5% | 2.4% | -63 | -11 | 2.6% | 2.6% | -5 |
| NIS | 2.4% | 1.9% | 1.8% | -60 | -9 | 2.2% | 2.0% | -15 |
| Fees & comms/OI | 10.6% | 14.4% | 14.8% | 416 | 41 | 13.3% | 14.4% | 112 |
| Exchange income/OI | 3.6% | 4.8% | 6.5% | 293 | 171 | 4.8% | 4.8% | -5 |
| Cost to income | 43.8% | 51.7% | 49.6% | 576 | -212 | 49.4% | 49.0% | -41 |
| Impairment/PPP | 9.6% | -16.6% | -5.9% | -1,555 | 1,065 | 12.5% | 5.4% | -707 |
| NP/OI | 50.8% | 51.3% | 48.6% | -217 | -267 | 44.3% | 43.9% | -38 |
| Cost of risk- calculated | 0.5% | -0.4% | -0.2% | -62 | 25 | 0.4% | 0.2% | -24 |
| Loan-to-deposit – calculated | 84.0% | 86.0% | 104.4% | 2,045 | 1,838 | 91.4% | 83.5% | -790 |
| NPL – calculated | 6.4% | 4.5% | 4.1% | -233 | -46 | 5.0% | 4.6% | -41 |
| Coverage – calculated | 118.4% | 124.6% | 125.2% | 679 | 64 | 131.8% | 128.0% | -381 |
| CET 1 | 13.9% | 13.0% | 13.8% | -10 | 80 | 13.5% | 13.2% | -27 |
| Capital adequacy | 19.8% | 18.0% | 18.8% | -100 | 80 | 19.0% | 17.8% | -118 |
| ROAE | 15.3% | 14.9% | 13.3% | -204 | -157 | 13.6% | 12.6% | -99 |
| ROAA | 1.7% | 1.6% | 1.5% | -21 | -11 | 1.6% | 1.4% | -19 |

FABS estimate & Co Data

UAB - Key B/S items

| | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | YOY Ch. |
|-------------------|--------|--------|--------|--------|--------|---------|
| AED mn | | | | | | |
| Net advances | 7,703 | 9,357 | 9,534 | 10,435 | 10,754 | 39.6% |
| QOQ change | 1.6% | 21.5% | 1.9% | 9.4% | 3.1% | |
| Total assets | 14,736 | 17,648 | 17,907 | 19,813 | 20,016 | 35.8% |
| QOQ change | 2.0% | 19.8% | 1.5% | 10.6% | 1.0% | |
| Customer deposits | 9,175 | 10,238 | 10,656 | 12,129 | 10,300 | 12.3% |
| QOQ change | 9.1% | 11.6% | 4.1% | 13.8% | -15.1% | |
| Total equity | 2,159 | 2,290 | 2,363 | 2,411 | 2,577 | 19.4% |
| QOQ change | 1.5% | 6.1% | 3.2% | 2.0% | 6.9% | |

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 | 1.10 | 70.0% | 0.77 |
| Relative Valuation (RV) | 1.11 | 30.0% | 0.33 |
| Weighted Average Valuation (AED) | | | 1.10 |
| Current market price (AED) | | | 1.10 |
| Upside/Downside (%) | | | 0.0% |

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using a 10-year government bond yield of 4.8%, a beta of 0.90 and an equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi's 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) | 106 |
| Terminal value (AED, Mn) | 115 |
| Book Value of Equity (as of June 2024) | 2,027 |
| FV to Common shareholders (AED, Mn) | 2,260 |
| No. of share (Mn) | 2,063 |
| Current Market Price (AED) | 1.10 |
| Fair Value per share (AED) | 1.10 |

Residual Income Method

| (All Figures in AED Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E |
|---------------------------------------|------------|-----------|-----------|-----------|-----------|
| Net Profit | 274 | 237 | 224 | 219 | 209 |
| (-) Equity Charge | -174 | -195 | -200 | -201 | -197 |
| Excess Equity | 100 | 42 | 25 | 18 | 12 |
| Discounting Factor | 0.98 | 0.91 | 0.83 | 0.77 | 0.71 |
| Present Value of Excess Equity | 25 | 38 | 21 | 14 | 8 |

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/E (x) | | P/B (x) | |
|--------------------------|--------------------|-------------|-------------|-------------|-------------|
| | | 2024F | 2025F | 2024F | 2025F |
| Sharjah Islamic Bank | 2,019 | 9.5 | 8.8 | 1.1 | 1.1 |
| Commercial Bank of Dubai | 5,734 | 7.5 | 7.9 | 1.4 | 1.3 |
| Emirates NBD | 33,800 | 5.3 | 6.0 | 1.1 | 1.0 |
| Mashreq Bank | 13,490 | 7.7 | 8.1 | 1.5 | 1.4 |
| RAK Bank | 2,930 | 5.4 | 5.8 | 0.9 | 0.9 |
| Average | | 7.1x | 7.3x | 1.2x | 1.1x |
| Median | | 7.5x | 7.9x | 1.1x | 1.1x |
| Max | | 7.7x | 8.1x | 1.4x | 1.3x |
| Min | | 5.4x | 6.0x | 1.1x | 1.0x |

Source: FAB Securities

