

First Look Note | 3Q24

UAE Equity Research

Sector: Banking

Market: ADX

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	

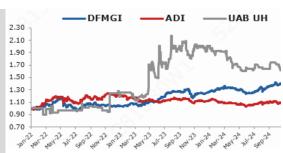
- Net advances grew strongly 39.6% YOY and 3.1% QOQ to AED 10.8 Bn in 3Q24 mainly due to the strong growth in retail and wholesale loans with a strong business pipeline in place.
- NPLs declined from 6.4% in 2Q24 to 4.1% in 3Q24 due to recoveries and settlement.
- UAB's NIMs declined 63 bps YOY and 11 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.

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 3024. 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-toincome 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.



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%					



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

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch.
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	P/E (x)		P/B (x)	
	(USD Mn)	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
Мах		7.7x	8.1x	1.4x	1.3x
Min		5.4x	6.0x	1.1x	1.0x



Research Rating Methodology:

Rating Upside/Downside potential

BUY
ACCUMULATE
HOLD
REDUCE
SELL
Higher than +15%
Between +10% to +15%
Lower than +10% to -5%
Between -5% to -15%
Lower than -15%

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