

## United Arab Bank

Lower provision overshadowed drop in asset yield

### 1Q22 Net Profit beats our estimate

United Arab Bank (UAB) recorded a significant increase in net profit to AED 30 million in 1Q22 from AED 10 million in 1Q21 from lower base, higher than our estimate of AED 9 million. The increase was primarily driven by significant drop in net impairment charges .

### P&L highlights

United Arab Bank (UAB) funded income including Islamic financing declined 6.4% YoY to AED 114 million in 1Q22. It is mainly due to decline in interest bearing assets which fell 3.8% YoY and 2.5% QoQ. Similarly, funded expense fell significantly 18.5% YoY to AED 47 million in 1Q22, partially offsetting drop in funded income. This decline was mainly due to decline in interest bearing liabilities which declined 4.2% QoQ and 8.7% YoY to AED 11.7 Bn in 1Q22. Resultantly, net funded income rose by 4.3% YoY to AED 67 million in 1Q22. Non-funded income declined 26.7% YoY to AED 50 million in 1Q22. This was mainly driven by significant decline in other operating income which fell 37.2% YoY to AED 33 million in 1Q22. Thus, total operating income fell 11.7% YoY to AED 117 million in 1Q22. Furthermore, the bank's operating expenses declined marginally 1.9% YoY to AED 58 million in 1Q22. This was mainly driven by bank's rationalization of cost through optimizing staff cost, avoiding non-essential general and administrative expenditure and branch rationalization. Cost-to-income ratio rose to 50.0% in 1Q22 from 45.1% in 1Q21. Impairments charges decline significantly by 55.2% YoY to AED 28 million in 1Q22, mainly due to bank's remediation and recovery efforts and focusing on higher quality of assets, supporting the increase in bottom-line .

### Balance sheet highlights

Net Advances decreased by 4.0% QoQ to AED 7.9 Bn in 1Q22. Similarly, the customer deposits decreased 2.8% QoQ to AED 10 Bn in 1Q22. CASA deposits represent 30.0% of total deposits of the bank. Total Assets declined 7.6% QoQ to AED 14 Bn in 4Q21. Total equity fell marginally to AED 1.5 Bn .

### Target price and rating

We Revised our rating on UAB to REDUCE with a target price of AED 0.50. The bank is a small franchise in UAE mainly catering to wholesale and retail banking services. It is more focused on wholesale banking and derives ~79% of total operating income in 2021. UAB asset quality remains weak as stage 3 loans account for 12.4% of the total gross loans in 2021. Stage 2 assets stood at 7.3% of total gross loans in 2021. Nevertheless, coverage for stage 3 loans is almost fully provided including, collaterals provided against non-performing loans. We remain concerned about the

**Rating : REDUCE**

### First Look Note – 1Q22

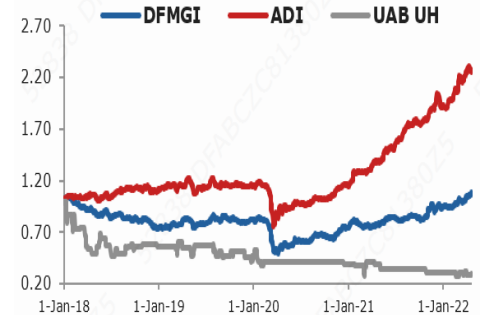
Sector: Banking

#### Recommendation

Current Price (10-May-22)	0.652
Target Price	0.50
Upside/Downside (%)	-23%

#### Stock Information

Market Cap (mm)	1,344.78
Paid Up Capital (mm)	2,062.55
52 Week High	0.75
52 Week Low	0.61
3M Avg. daily value (AED)	442,261



#### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.0
Price-Earnings Ratio (x)	12.46
Price-to-Book Ratio (x)	0.90
Book Value (AED)	0.73
Return-on Equity (%)	6.16
Earning Per Share (AED)	0.05
Beta	0.37

#### Stock Performance

5 Days	0.00%
1 Months	3.49%
3 Months	-3.12%
6 Months	-3.12%
1 Year	-12.72%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	3.49%
Year to Date (YTD)	-3.12%

bank ability to maintain NIMs due to its growing reliance on high-cost funding including, interbank funding. Further, the small franchise and undiversified business model also constraints fee income generation. The bank capital buffer also remains weak and the CET1 ratio stood at 12.6% limiting growth. Considering aforementioned factors, we assign REDUCE rating on the stock.

**UAB - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	17.36	NA	NA	19.10	10.02
P/B (x)	0.53	0.62	0.92	0.89	0.84

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

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Interest income	121	109	114	110	3.7%	-6.4%	4.3%	451	492	9.1%
Interest expense	-57	-46	-47	-46	1.1%	-18.5%	1.3%	-152	-228	49.3%
<b>Net interest income</b>	<b>64</b>	<b>63</b>	<b>67</b>	<b>63</b>	<b>5.5%</b>	<b>4.3%</b>	<b>6.5%</b>	<b>278</b>	<b>262</b>	<b>-5.6%</b>
Fees and commissions	12	12	12	12	7.1%	8.2%	0.1%	47	48	2.8%
Exchange income	4	5	5	4	6.0%	7.1%	-14.8%	19	19	2.4%
Other non-funded income	52	32	33	26	25.6%	-37.2%	1.5%	106	96	-9.4%
<b>Total non-funded income</b>	<b>68</b>	<b>50</b>	<b>50</b>	<b>42</b>	<b>18.5%</b>	<b>-26.7%</b>	<b>-0.6%</b>	<b>172</b>	<b>164</b>	<b>-4.8%</b>
<b>Total operating income</b>	<b>132</b>	<b>113</b>	<b>117</b>	<b>106</b>	<b>10.7%</b>	<b>-11.7%</b>	<b>3.3%</b>	<b>450</b>	<b>426</b>	<b>-5.3%</b>
General & admin. Expenses	-60	-63	-58	-61	-4.5%	-1.9%	-7.8%	-244	-215	-11.7%
<b>Pre provision profit</b>	<b>73</b>	<b>50</b>	<b>58</b>	<b>44</b>	<b>31.7%</b>	<b>-19.7%</b>	<b>17.5%</b>	<b>206</b>	<b>211</b>	<b>2.2%</b>
Impairment	-62	-24	-28	-36	-21.8%	-55.2%	15.5%	-136	-77	-43.5%
<b>Net profit</b>	<b>10</b>	<b>25</b>	<b>30</b>	<b>9</b>	<b>256.0%</b>	<b>197.9%</b>	<b>19.4%</b>	<b>70</b>	<b>134</b>	<b>90.6%</b>

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

	1Q21	4Q21	1Q22A	YOY Bps	QOQ Bps	2021	2022F	Change
Net FI/OI	48.5%	55.5%	57.2%	876	170	61.8%	61.6%	-21
NIM	1.8%	1.8%	1.9%	14	12	2.0%	2.0%	-5
NIS	1.4%	1.6%	1.7%	28	10	1.7%	1.8%	9
Fees & comms/OI	8.7%	11.0%	10.7%	196	-35	10.5%	11.4%	89
Exchange income/OI	3.3%	4.8%	4.0%	69	-84	4.2%	4.5%	34
Cost to income	45.1%	56.1%	50.0%	497	-602	54.2%	50.6%	-364
Impairment/PPP	86.0%	48.8%	47.9%	-3,803	-84	65.9%	36.4%	-2,946
NP/OI	7.7%	22.5%	26.0%	1,830	350	15.6%	31.4%	1,581
ROAE	2.8%	6.8%	8.1%	530	131	4.7%	8.6%	385
ROAA	0.3%	0.7%	0.8%	56	14	0.5%	1.0%	49

*FABS Estimates & Co Data*

**UAB- Key BS Items**

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22A	YOY Ch
<b>Net advances</b>	<b>8,501</b>	<b>8,035</b>	<b>8,035</b>	<b>8,213</b>	<b>7,884</b>	<b>-7.2%</b>
<i>QOQ Change</i>	<i>-5.7%</i>	<i>-5.5%</i>	<i>0.0%</i>	<i>2.2%</i>	<i>-4.0%</i>	
<b>Total assets</b>	<b>14,419</b>	<b>14,549</b>	<b>14,267</b>	<b>15,180</b>	<b>14,021</b>	<b>-2.8%</b>
<i>QOQ Change</i>	<i>-2.9%</i>	<i>0.9%</i>	<i>-1.9%</i>	<i>6.4%</i>	<i>-7.6%</i>	
<b>Customer deposits</b>	<b>10,839</b>	<b>10,639</b>	<b>10,328</b>	<b>10,406</b>	<b>10,120</b>	<b>-6.6%</b>
<i>QOQ Change</i>	<i>-3.6%</i>	<i>-1.8%</i>	<i>-2.9%</i>	<i>0.8%</i>	<i>-2.8%</i>	
<b>Total equity</b>	<b>1,435</b>	<b>1,497</b>	<b>1,499</b>	<b>1,512</b>	<b>1,501</b>	<b>4.6%</b>
<i>QOQ Change</i>	<i>-1.3%</i>	<i>4.3%</i>	<i>0.2%</i>	<i>0.9%</i>	<i>-0.7%</i>	

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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