

Union National Bank (UNB)

Banking | UAE

Q1 2008 Results

Current Price

AED8.57

EPS FY08e

AED0.72

Recommendation

ADD

Target Price

AED9.80

Q1 2008 Results

Net Income. The bank reported a net income of AED336 million in 1Q2008, up 32.4% from AED253 million reported in 1Q2007.

Net Interest Income. Net interest income increased by 19.7% to reach AED282 million, versus AED236 million last quarter, on the back of an 11.7% increase in interest income to AED737 million, accompanied by a 7.2% increase in interest expense to AED455 million.

Operating Income. Total operating income grew by an impressive 34% to AED487 million, on the back of the 19.7% increase in net interest income, an impressive 60.3% growth in net fees and commissions to AED129 million, and 112.2% surge in investment income.

Provisions and Operating Expenses. Booked provisions stood at AED8 million. Total operating expenses increased by 29% to AED139 million. The overall cost-to-income ratio went down from 29.6% to 28.5%.

Loans, Deposits and Utilisation. Compared to the end of December 2007, gross loans increased by 7.2% to reach AED40.6 billion, deposits increased by 1.6% to record AED40.8 billion, and the total investment in securities went down by 5%. Utilisation (gross loans/deposits) went up from 94% to 99%. However, UNB does not face funding pressure, where the gross loans to average interest bearing liabilities stood at 82.7%.

Our Opinion. We believe that the results are in line with our expectations. It is worthy to note that, when comparing the results to Q4 2007 figures, it becomes obvious that UNB will face slightly tighter margins in 2008 and slower growth in investment income, which we believe will be the challenge facing banks in the GCC this year.

(AED Mil)	1Q2007	1Q2008	Q-on-Q Change
Interest Income	660	737	11.7%
Interest Expense	(424)	(455)	7.2%
Net Interest Income	236	282	19.7%
Fees & Commissions	81	129	60.3%
Investment Income	27	58	112.2%
Other Operating Income	20	17	-11.6%
Operating Income	363	487	34.0%
Loan-Loss Provisions	(0)	(8)	3634.8%
Administrative Expenses	(75)	(90)	18.9%
Depreciation & Amortization	(7)	(15)	114.1%
Other Operating Expenses	(25)	(34)	35.2%
Total Operating Expenses	(108)	(139)	29.0%
Net Operating Profit	256	340	33.0%
Minority Interest	(1)	(2)	54.3%
Profit Before Taxes	254	338	32.8%
Income Taxes	(1)	(2)	190.4%
Net Profit After Taxes	253	336	32.4%
(AED Mil.)	Dec-07	Mar-08	Change
Cash & Due from Central Bank	9,827	9,360	-4.8%
Due from Banks	3,720	2,563	-31.1%
Investment securities, net	2,605	2,473	-5.0%
Loans & Discounts, gross	37,878	40,595	7.2%
Loans & Discounts, net	37,379	40,089	7.3%
Total Assets	55,457	57,379	3.5%
Due to Banks	815	2,118	160.0%
Customer Deposits	40,204	40,839	1.6%
Medium-term Borrowings	6,090	6,122	0.5%
Total Liabilities	48,890	50,800	3.9%
Total Net Worth	6,567	6,578	0.2%

Key data

Reuters Code
UNB.AD

Market Cap
AED16.1 billion
US\$4.4 billion

Shares Outstanding
1,875 million

Average Daily Turnover
AED8.8 million

Foreign Ownership limit
40%

Branches
47

Overseas branches/
Subsidiaries
0/1

ATMs
100+

Employees
1,200+

Bloomberg Code
UNB UH

Shareholders' Structure
40% | Finance Department
(Government of Abu Dhabi)
10% | Government of Dubai
10% | Abu Dhabi Investment Council
40% | Free Float

52-week high / low
AED8.75/5.29



Asset market share 07

4.5%

Loan market share 07

5.2%

Deposit market share 07

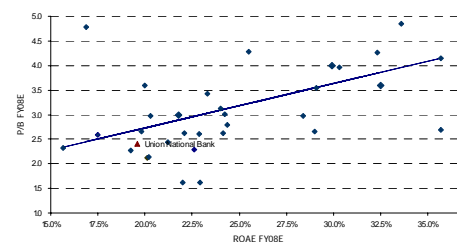
5.6%

Valuation: Attractive DCF and Multiples

UNB is one of our top picks in the UAE, with the DCF price (AED10.00) offering 17% upside potential to the current market price.

In terms of multiples, the bank has attractive multiples, trading at a P/B FY08E of 2.4x and P/E FY08E of 11.9x, compared to a regional and emerging market sector average of 2.7x (for similar ROAE) and 13.2x.

We assign UNB a target price of AED9.80, with an Add recommendation.



Strategy Briefing

The management of Union National Bank plans to focus on diversifying its operations, to achieve a solid domestic presence, in addition to becoming a key player in the region, which is clearly highlighted in management's vision. UNB has recently been issued the licence by QFC Regultaory Authority to open a branch in Qatar.

There will be an enhancement of all UNB's business lines, specifically retail, investment banking and capital market activities, with controlled exposure to mortgage fianacing. UNB will tap Islamic banking through its newly-created subsidiary, Al Wifaq Finance Company. Acquiring Alexandria Commercial and Maritime Bank in Egypt was the bank's first move to gain regional presence, yet UNB is eyeing more cross-border expansion in the region and North Africa. Managment's strategy is to focus on the local market, to be the main contributor to the consolidated bottom line, with an international presence as the diversifier to the sources of revenues.

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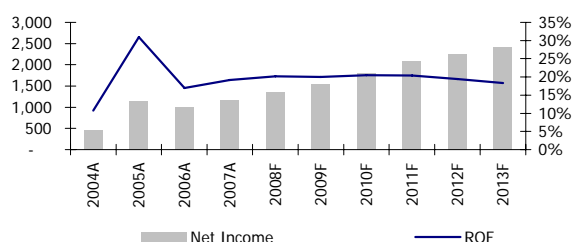
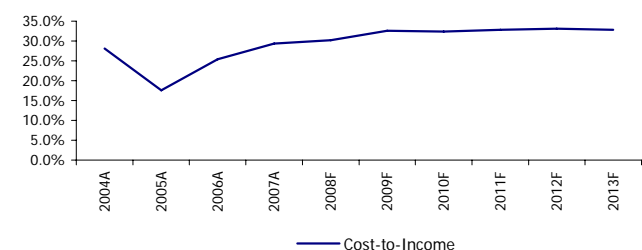
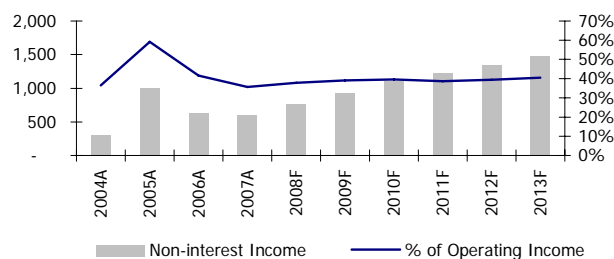
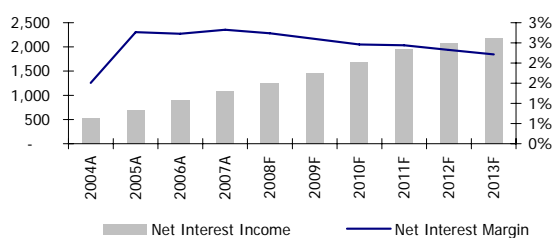
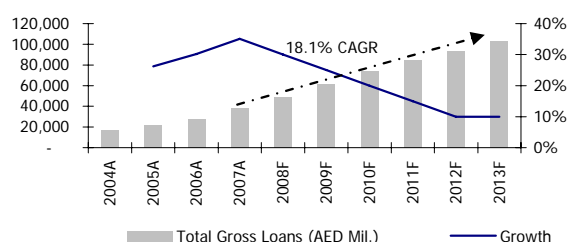
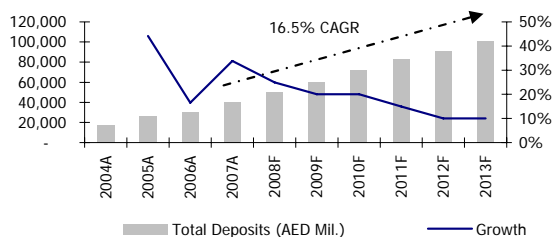
Recommendation

ADD

Target Price

AED9.80

Business Performance and Summary Forecasts



Financial Summary (Fiscal Year ends December | AED million)

Income Statement	2007A	2008F	2009F	2010F	2011F
Interest Income	2,892	3,151	3,757	3,889	4,069
Interest Expense	-1,802	-1,900	-2,299	-2,209	-2,121
Net Interest Income	1,090	1,251	1,458	1,680	1,948
Fees & Commissions, Net	373	486	601	708	776
Investment Income, Net	184	215	264	312	355
Other Operating Income	48	60	72	83	95
Net Operating Income	1,695	2,011	2,396	2,782	3,173
Administrative Expenses	-337	-414	-550	-628	-718
Depreciation	-38	-46	-53	-61	-68
Other Operating Expenses	-123	-148	-177	-213	-255
Total Operating Expenses	-498	-608	-780	-902	-1,042
Loan-Loss Provisions	-14	-37	-58	-52	-38
Net Operating Profit	1,182	1,366	1,558	1,829	2,093
Income Taxes	-3	-3	-4	-5	-5
Net Profit after Taxes	1,168	1,349	1,538	1,806	2,067

Balance Sheet	2007A	2008F	2009F	2010F	2011F
Assets					
Cash & Short Term Assets	9,827	12,721	15,295	18,514	21,509
Inter-bank Deposits	3,720	1,116	1,004	904	814
ST Investments in Securities	1,377	1,927	2,506	3,007	3,458
Gross Loans & Advances	37,878	49,242	61,552	73,863	84,942
(Loan-Loss Provisions)	-500	-537	-595	-647	-685
Net Loans & Advances	37,379	48,705	60,957	73,216	84,257
LT Treasury & Other G-secs	189	189	189	189	189
Investments in Securities	1,013	1,063	1,116	1,172	1,231
Net Fixed Assets	280	321	360	410	422
Other Assets	1,647	2,339	2,962	3,367	3,678
Total Assets	55,457	68,381	84,390	100,779	115,55
Liabilities					
Due to Banks	815	2,526	7,325	11,720	17,580
Customer Deposits	40,204	50,256	60,307	72,368	83,223
Other Purchased Funds	6,090	5,677	5,277	3,673	0
Total Liabilities	49,202	61,210	76,175	91,337	104,71
Total Net Worth	6,255	7,171	8,215	9,442	10,845
Contra Accounts	28,607	35,758	42,910	49,346	56,748

Key Ratios	2007A	2008F	2009F	2010F	2011F
EPS (AED)	0.62	0.72	0.82	0.96	1.10
P/E (x)	13.8	11.9	10.5	8.9	7.8
Avg. BVPS (AED)	3.25	3.58	4.10	4.71	5.40
P/BV (x)	2.6	2.4	2.1	1.8	1.6
DPS (AED)	0.17	0.22	0.25	0.29	0.33
Dividend yield (%)	1.9	2.5	2.9	3.4	3.9
Profitability Ratios					
ROAA	2.4%	2.2%	2.0%	2.0%	1.9%
ROAE	19.2%	20.1%	20.0%	20.5%	20.4%
Net Spread	3.1%	3.3%	3.2%	3.0%	2.9%
Net Interest Margin	2.8%	2.7%	2.6%	2.5%	2.4%
Efficiency Ratios					
Cost -to- Income	29.4%	30.2%	32.6%	32.4%	32.8%
Liquidity Ratios					
Av. G. Loans/ Av. Deposits	93.8%	96.3%	100.2%	102.1%	102.1%
Av. N. Loans/ Av. Deposits	92.3%	95.2%	99.2%	101.1%	101.2%
Av. N. Loans/ Av. Funds	79.6%	81.5%	83.5%	83.5%	83.5%
Asset Quality Ratios					
Av. N. Loans/ Av. Assets	66.9%	69.5%	71.8%	72.5%	72.8%
Av. NPLs/ Av. G. Loans	1.2%	0.9%	0.8%	0.7%	0.7%
Provisions Coverage	142.8%	132.0%	127.0%	122.0%	117.0%
Capitalisation Ratios					
Capital Adequacy Ratio	14.4%	12.9%	11.9%	11.6%	11.6%
Dividend Payout Ratio	26.7%	30.0%	30.0%	30.0%	30.0%

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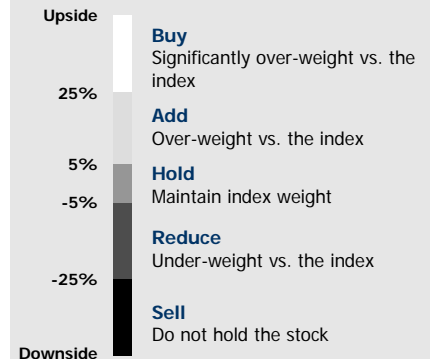
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