



February 20, 2012

UBL is scheduled to announce its annual result for 2011 on February 21, 2012, where we are estimating the bank to post earnings of PKR14.5bn (EPS of PKR11.85/share) up by 32% over the preceding year's earnings of PKR11bn (Diluted EPs of PKR9.0/share). We believe UBL will announce a final cash dividend of PKR3.0/share taking cumulative dividends for the year to PKR4.5/share. Furthermore UBL may payout a 10% share dividend along with the final results. The cautious approach towards lending resulted in a limited growth in advances. The upwards movement in earnings from the 3QCY11 onwards can be attributed to lower loan provision and we expect the same in trend to continue in the 4QCY11. During the current year UBL booked a windfall gain in the 3QCY11 from derivative income, which is non-recurring. We believe non-recurrence of such gains in the fourth quarter, which may result in lower earnings in fourth quarter.

CY11 Expected Performance

- UBL deposits are estimated to grow by 14.4% marginally lower in contrast with the industry which is largely on account of UBL being inclined towards capturing a low cost deposits. Advances for the bank is likely to post a growth of 5%YoY which resulted in a ADR constriction from 67% in CY10 to 62% in CY11
- Return on lending portfolio is expected to improve which may result in a Markup income growth of 19%YoY contributed by a combination growth in lending portfolio and average lending rate. Despite cut in discount rate, average lending rate remain on the higher side as in the preceding two quarter we witness marginal attrition in the lending rates
- Provisions for the 4QCY11 is estimated at PKR1.4bn lower in contrast with the preceding quarter, largely on account of major infected portfolio is already provisioned and recurrence of provision is fairly low
- Non-core income is likely to post an increment of 24% on YoY and growth of 3% on QoQ basis. The decline in non-core income on QoQ was largely on account of windfall gain from derivative income in 3QCY11 whereas we believe income from dealing in foreign exchange and fee and commission income is likely to boost the earnings for CY11

Earnings Summary

| PKR mn | CY11E | CY10A | Change YoY | 4QCY11E | 3QCY11A | Change QoQ |
|------------------------|--------|--------|------------|---------|---------|------------|
| Mark-up Return | 71,654 | 60,100 | 19% | 18,457 | 18,709 | -1% |
| Mark-up Expense | 30,874 | 25,434 | 21% | 7,801 | 8,223 | -5% |
| Net Provisioning | 8,014 | 8,150 | -2% | 1,502 | 1,588 | -5% |
| Net Mark-up income | 32,766 | 26,517 | 24% | 9,155 | 8,898 | 3% |
| Non-Mark-up income | 12,330 | 10,615 | 16% | 2,987 | 3,219 | -7% |
| Expenses | 22,588 | 19,443 | 16% | 6,039 | 5,651 | 7% |
| Profit Before Taxation | 22,508 | 17,689 | 27% | 6,102 | 6,465 | -6% |
| Taxation | 8,004 | 6,668 | 20% | 2,197 | 2,276 | -3% |
| Profit after Taxation | 14,504 | 11,021 | 32% | 3,905 | 4,189 | -7% |
| EPS (Diluted) | 11.85 | 9.00 | 32% | 3.19 | 3.42 | -7% |

Source: Company Reports and HMFS Research

Note: Please refer to the last page for Analyst Certification and other important disclosures.

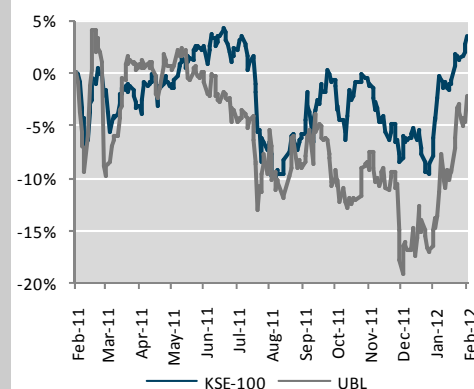
Market Data

| | |
|-------------------------------|------------|
| KATS Code : | UBL |
| Current Price (PKR) : | 62.09 |
| 52 Week Hi (PKR) : | 66.12 |
| 52 Week Low (PKR) : | 51.27 |
| Avg Turnover : | 0.36mn |
| Free Float : | 25% |
| Share in Issues (PKR) : | 1,224.18mn |
| Market Capitalization (PKR) : | 76.01bn |

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Relative Performance



Source: HMFS Research

Investment Perspective

UBL's newly adopted strategy to move towards low cost deposits and a cautious approach towards core operation expansion has resulted in better returns for the bank, while reducing the risk. From the onset of current calendar year UBL's stock price appreciated by 18.5% outdoing the benchmark performance of 10.12%. At current price level of PKR62.09/share, UBL is available at a discount of 25% to our December'12 target price of PKR77.8/share, hence we recommend a **Buy** on the stock.

Analyst Note: Our analysis of UBL is based on consolidated basis

Analyst Certificate

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