



## Results Review

## Union National Bank – 2009 Results Review

## UNB

ST Rating: Market Perform

LT Rating: Market Perform

Target Price – AED 4.0

- **UNB announced FY09 net profit of AED 1.15bn (-19.7% yoy) with Q409 net income of AED 227mm (+259% yoy, -36.5% qoq).** While 2009 core revenues of AED 1.6bn rose by 16% over 2008, net profit was impacted by AED311mm in provisions for loan losses in 2009 (AED 204mm in 2008) on flat loan book growth. Also, the bank recorded a net loss on AED 120mm on investment properties vs. a gain of AED 290mm in 2008.
- **Balance sheet expansion but not in the loan book** – UNB's asset base expanded by AED 10.5bn (+16% yoy) rising to AED 75.7bn primarily in the investment book and cash balances. The loan book growth was virtually flat growing by a mere 0.7% while deposits grew by 10.7% resulting in loans/deposit ratio of 99% from an adjusted ratio of 109% at the end of 2008. The growth in deposits are adjusted for AED 3.2bn that were included in the 2008 base number but have since been converted to Tier II capital. Subsequent to the conversion of deposits into Tier II capital and the Tier I capital injection (AED 2.0bn) from the Government of Abu Dhabi, total CAR rose to 20.7%
- **While NPL's have increased throughout the year to end 2009 at 1.5% from 0.73% at the end of 2008,** coverage ratio is still hovering above 100% (lower than the 5 year average coverage ratio of 142%) and we believe may indicate the bank could continue to increase provisions in the coming quarters (even if NPL growth trails off). We estimate NPL's grew by another AED 104mm in Q4, after recording absolute growth of AED 264mm and AED 62mm in Q2 and Q309. UNB has disclosed exposures to Al Gosaibi of USD 60.5mm and has taken adequate provisions according to Central bank guidelines – 50% in 2009 and rest expected in 2010.
- **While UNB's stock was the best performing UAE bank stock in our coverage in 2009, the bank may have some issues in growing the balance sheet and the bottom line in 2010.** While core revenues are crystallizing around AED500mm a quarter, its conservative approach to loan growth and margin compression (2.6% in 2009 vs. 2.9% in 2008), could result in flattish to declining bottom line. In addition, there is an estimated AED 111mm in un-provisioned Gosaibi exposure remaining on the books along with an estimated 22.6% of the loan book exposed to the stressed real estate and construction sectors. Return of loan growth with an accommodating loan/deposit ratio may leave room for growth once the general economy improves. Meanwhile, the bank trades in line with sector average P/B of 0.7x and we maintain our ST & LT 'Market Perform' rating.

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Union National Bank						4Q	
(AED Millions)	4Q08	4Q09	2008	2009	yoy	yoy	qoq
Total Income	468	545	2,294	2,118	-7.7%	16.4%	-2.2%
Non-Interest Expense	(177)	(166)	(640)	(649)	1.3%	-6.1%	1.0%
Provisions	(225)	(166)	(204)	(311)	52.4%	-26.3%	428.0%
Net Profit	63	227	1,441	1,158	-19.7%	259.0%	-36.5%
Net Loans	50,429	50,769	50,429	50,769	0.7%	0.7%	-1.3%
Total Assets	65,225	75,726	65,225	75,726	16.1%	16.1%	0.1%
Customer Deposit	49,473	51,279	49,473	51,279	3.7%	3.7%	-6.2%
Loans/Deposits	102%	99.0%	101.9%	99.0%	-2.9%	-2.9%	5.3%
Efficiency Ratio	38%	30.4%	27.9%	30.6%	9.7%	-19.3%	3.2%
NPL	0.73%	1.50%	0.73%	1.50%	0.77%		
Coverage Ratio	170.5%	101.0%	170.5%	101.0%	-69.50%		



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