

UNB 1Q09 Results

UNB

ST Rating: Market Perform

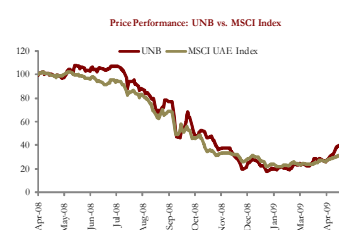
LT Rating: Market Perform

UNB – Revenue stabilization, NPL’s drop

- **UNB reported 1Q09 net profit of AED 301mm vs. AED 336mm last year, a drop of 10% yoy** (vs. our estimate of AED 349mm). Although interest income was lower than the previous quarter (AED 381mm vs. AED 455mm in 4Q08), non-interest income has shown some recovery resulting in an increase in total revenues (+5.95 qoq and +1.9% yoy). The bank had an investment property related write-down of AED 36 mm in the quarter but the lack of losses similar to 4Q08 in the investment portfolio helped the bottom line.
- **Managing asset quality well** - In light of the recent market turmoil, the bank has displayed a strong ability to manage non performing loans at the bank. NPL’s stood at 0.73% at the end of the quarter, flat compared to the end of 2008. In fact, NPL’s dropped by AED 12mm, while the bank took an impairment allowance of AED 38mm, to further build up loan loss reserves. The coverage ratio now stands at an improved 183% from 170% at the end of 2008.
- **Loans and deposits growth diverge** - The bank has a reputation for being a prudent lender, and has displayed that in these uncertain economic times. The loan book shrunk by 2.4% but the customer deposits (adjusted for conversion of certain deposits to Tier 2 capital) grew by 2.5% over the quarter. The adjusted loans /deposit ratio stood at 97% vs. 102% at the end of 2008 – the only bank in our UAE coverage universe to have a ratio below 100%. UNB has continued to be a net lender in the interbank market increasing lending to other banks by AED 3.6 billion in 1Q09, further displaying its strong liquidity position.
- The bank has a strong focus on the consumer and trade & services sector which represented 18.1% and 14.6% of the loan book at the end of 2008. Due to current market conditions, the loan portfolio could feel some increased stress from these sectors in the next few quarters. However, the bank continues to display strong risk management and loan loss recovery credentials. UNB has been **one of the best performers on the ADX this year, gaining 42.7% ytd** and now trades through our target price. Hence, we continue to maintain our ST and LT ‘Market Perform’ ratings on the stock.

Equity Data

Current Price (AED)	2.88
Target Price (AED)	2.74
Upside/downside	-5%
Short-Term Rating	Market Perform
Long-Term Rating	Market Perform
YTD Performance	42.7%
52-Week Range (AED)	1.31-8.73
Market Cap. (AED bn.)	5.9
RIC	UNB.AD
Bloomberg	UNB UH



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AED Millions, except per share data	1Q08	4Q08	1Q09	yoy	qoq
Net Interest Income	282	455	381	35.0%	-16.3%
Non-Interest Income	205	13	115	-43.8%	764.8%
Total Income	487	468	496	1.9%	5.9%
Non-Interest Expense	(139)	(177)	(147)	6.2%	-16.5%
Provisions	(8)	(225)	(38)	355.0%	-83.3%
Net Profit	336	63	301	-10.4%	374.6%
Net Loans	40,089	50,429	49,199	22.7%	-2.4%
Total Assets	57,379	65,225	72,475	26.3%	11.1%
Customer Deposit	40,839	49,473	53,939	32.1%	9.0%
Loans/Deposits	98%	102%	91%		
Efficiency Ratio	-28.5%	-37.7%	-29.7%		

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