

## UNIBANK EQUITY FLASHNOTE UPDATE, (UNIB), 1Q 2019

### Q1 FY2019 – Good Start to the Year

Unibank reported strong 1Q2019 results:

- Healthy earnings, despite narrowing interest margins due to market movements;
- Strong TTM ROE and ROA for the fifth quarter in a row;
- Higher trading volume of the bank's securities relative to the market;

Armenbrok kept the Bank's outlook at Positive.

#### Financial and Valuation Metrics (Fiscal Year Ends 31 Dec)

Year	FY 16A	FY 17A	FY 18A	FY 19F	FY 20F
EPS	-0.0026	0.0004	0.0118	0.0024	0.0025
P/E	n/a	588.2	34.7	96.5	91.2
P/BV	n/a	1.12	1.26	0.99	0.95
TBV (mln USD)	72.47	73.54	77.59	83.29	87.37
ROE	-1.5%	0.2%	3.0%	1.1%	1.1%
Number of shares (m)	172.89*	Market Cap (USD M)		86.44	
Trading Volume	28,646	Trading Value (USD)		13,641	
(01.01.19 – 31.03.19)		(01.01.19 – 31.03.19)			

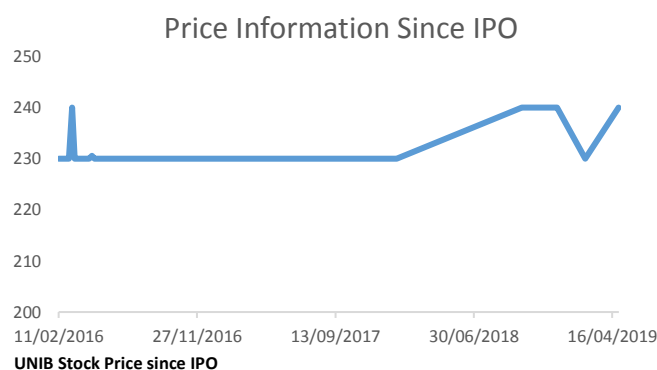
\*Does not include preferred shares.

Source: Company data, Armenbrok estimates

Rating:	POSITIVE*
Price (31 Mar 18, USD):	0.50
Target Price (USD):	0.52
Market Cap. (USD M):	86.44*
Free Float:	6.8%
Moody's:	B2, «Stable»

\*Target Price is for 24 months.

Does not include preferred shares.



## Macroeconomic Update

During 1Q 2019, GDP of Armenia expanded by 6.5% relative to the same period a year ago; CPI went up by 1.5%. The growth was led by Services, Construction, and Wholesale trade – 17.3%, 10.8%, and 10.1% in March, respectively. Electricity production contracted by 14% during the month, with still a 3.4% y-o-y growth from the beginning of the year. Agricultural output remained on the same level. Exports declined for the third month in a row, rounding to USD 206.5mln; imports followed suit with a decrease of 3.1% – USD 1085.8mln for the three months up to March 2019; Trade deficit widened to USD 542.8mln – USD 13mln more compared to the same period a year ago. At 5.75%, the Central Bank's refinancing rate remained unchanged; yields on 10-year AMD-denominated Government bonds stood at 9.9%, on par with that of the preceding quarter. Armenian dram appreciated against both USD and EUR, standing at 480.48 and 538.67, respectively.

## Banking sector update

As of March 2019, Armenian banks reported total assets of AMD 5.1trln (c/v USD 10.5bln), 3.4% more than in Dec. 2018. The growth was financed by a comparable increase in liabilities and equity – 3.5% and 2.7%, respectively. Loans comprised 61% of total assets, rounding to AMD 3.1trln (c/v USD 6.4bln), a 2.3% growth relative to YE 2018. The change in customer deposits was more muted at 1.7%. Assets were 15.3% financed by shareholders' funds. For the 1Q 2019, net profits of the banking system stood at AMD 16.1bln, a decline of 20.2% relative to the same period a year ago. This brought the trailing twelve month ROA to 1.2%; TTM ROE stood at 7.7%. Average AMD lending rates were 3.32pps down for maturities of up to 1 year and 1.03pps up for longer maturities; USD lending rates were little changed; no major changes were recorded in deposit rates.

## Quarterly Highlights

- New branches to be opened in the largest cities of Armenia  
 Unibank is planning to open five new branches in Yerevan and in the cities of Vanadzor, Masis, Aparan and Ararat. The expansion and the development of the branch network are driven by the growth of business volumes and by the strategy of providing clients with the most comfortable customer service.

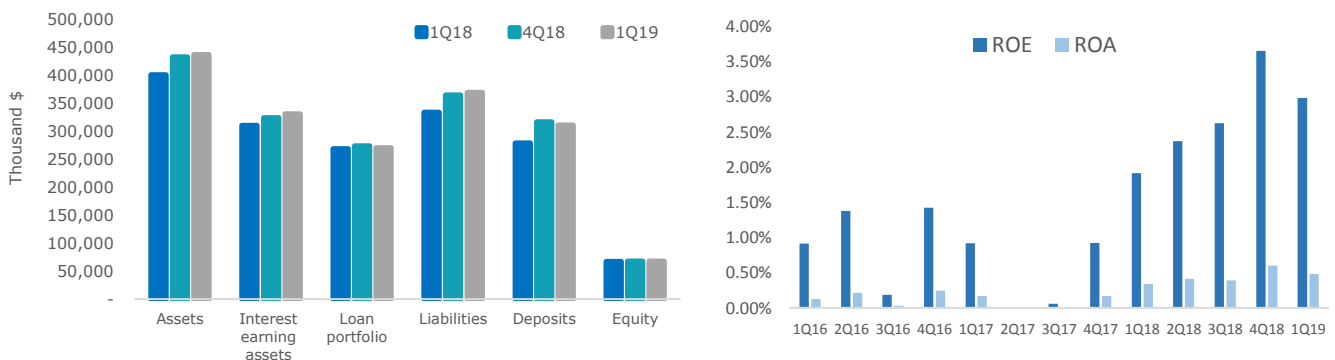
- The bank continues its support of small businesses and offers products specifically designed for their needs. During the quarter, over 90 Business women received loans for the development and expansion of their businesses. The program called "Women in Business" is being implemented by Unibank together with the Netherlands Development Bank FMO.
- The bank introduced a new type of business loan – called “express credit” – to support micro/mid-market entrepreneurs. The maximum amount of the loan can reach AMD 50mln, starting from 8% p.a., and with maturity of up to 120 months.

## Funding Sources and Structure

Unibank keeps on maintaining diversified funding structure. It became even more diversified with the release of corporate bonds into the open market. Individual time deposits still comprise comparatively the largest portion of its funds, comprising around 84.1% of total liabilities which in their respect have quite diversified maturities and denominations. The second largest group of sources is funding from International development finance organizations such as IFC, BSTDB, EIB as well as local individuals and corporate entities. FMO will act as a lender in a 5 year senior unsecured loan for Unibank. The loan from FMO is up to USD 10 mln and will entirely be used to finance women owned MSME customers of Unibank. This loan provides Unibank with stable long term funding, which will indirectly contribute to the economic development in Armenia. The first tranche of USD 5 mln has been received and disbursed into target clients entirely as of April 2019.

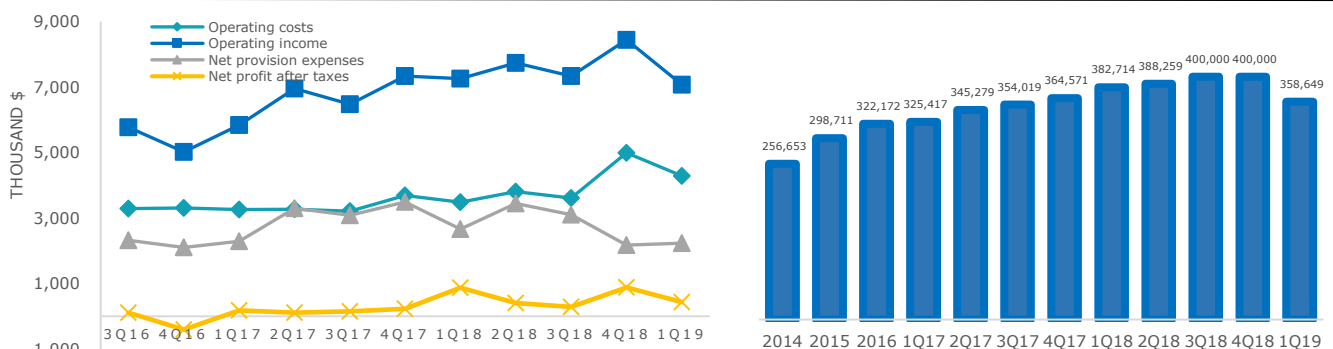
## Operations

In 1Q 2019, Unibank recorded a net income of AMD 210.9mln (c/v USD 434K), an almost 50% decline relative to 1Q and 4Q 2018. The decline mainly came from decreasing interest earning margin – by 68bps – while the interest spending margin was little changed. As a result, the margin narrowed by 28bps relative to 4Q 2018, rounding to 7.4%. This trend of contracting margin is observed in the industry as a whole, and Unibank is not an exception from this perspective. On the bright side, the bank generated total net fee and trading income of AMD 794mln (c/v USD 1.6mln), twice more than in the same period a year ago. Operating costs were down by 14.1% relative to 4Q 2018, but still 23.2% more than in the first quarter of the preceding year. Major portion of the growth resulted from increased administrative and other operational expenses.



Source: Company data, Armenbrok.

Assets of the bank went up by 0.9% from the beginning of the year and were 15.5% financed by equity – on par with the average of the industry. Despite a slight decline in loan portfolio, total interest earning assets improved by 2.1% and 6.6% relative to 4Q and Q1 2018, respectively – comprising 75.7% of total. TTM ROA and ROE rounded to 0.5% and 3% respectively, a slight decline over FY 2018, but still the second highest since 2014.



Source: Company data, Armenbrok.

The retail loans of the bank declined by 19.3% relative to YE 2018, as did the number of retailed and corporate customers. The decline mainly comes from credit cards and consumer loans; however this has a seasonal character and is expected to converge to

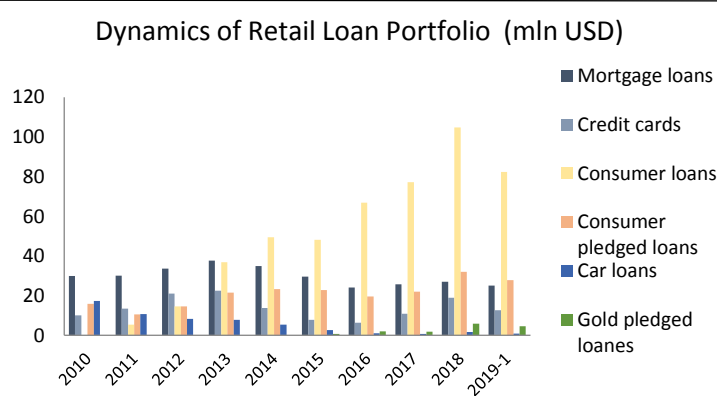
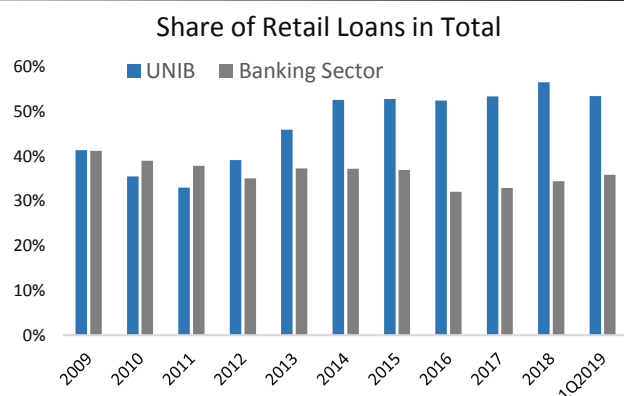
the average throughout the year. By the end of the quarter, the bank had 355,631 retail and 3,018 corporate customers.

Unibank Selected Ratios	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Capital Adequacy Ratio	15.27%	15.03%	16.11%	16.84%	15.69%	17.04%	17.92%	18.80%	18.80%
Liquidity Ratio	25.44%	26.87%	25.80%	24.25%	24.87%	25.30%	28.00%	29.06%	29.06%
Cost to Income Ratio	60.70%	59.11%	49.24%	49.16%	47.98%	50.28%	49.57%	47.02%	55.75%
Loan Portfolio/Assets	61.87%	63.21%	64.55%	67.19%	66.99%	66.57%	67.11%	65.09%	62.53%
Equity/Assets	15.50%	15.70%	16.43%	17.14%	16.70%	17.51%	18.75%	18.10%	19.10%
Profit Margin	3.59%	6.49%	2.37%	3.21%	6.93%	1.72%	1.17%	0.86%	1.49%
Interest Earning Margin (TTM)	12.93%	13.61%	13.99%	13.99%	13.17%	12.75%	12.42%	12.82%	13.40%
Interest Spending Margin (TTM)	5.49%	5.78%	6.05%	6.55%	7.03%	7.55%	8.10%	8.52%	8.87%
Spread	7.44%	7.84%	7.94%	7.44%	6.14%	5.20%	4.32%	4.30%	4.53%
ROE (TTM)	2.98%	3.65%	2.62%	2.37%	1.92%	0.92%	0.06%	0.01%	0.87%
ROA (TTM)	0.48%	0.60%	0.39%	0.42%	0.34%	0.17%	0.01%	0.00%	0.17%

Main Financial Indicators	1Q19/4Q18	1Q19/1Q18
Operating costs	-14.05%	23.18%
Operating income	-16.31%	-2.64%
Assets	0.94%	8.98%
Interest earning assets	2.14%	6.60%
Loan portfolio	-1.20%	0.65%
Liabilities	1.18%	10.55%
Interest incurring liabilities	0.88%	9.26%
Deposits	-1.90%	11.46%
Equity	-0.31%	1.16%
Total income	-11.30%	-4.95%
Interest income	-4.71%	-13.04%
Net provision expenses	2.78%	-16.15%
Net profit after taxes	-50.91%	-50.70%

## Relative Positioning of the Bank / Banking Sector Overview

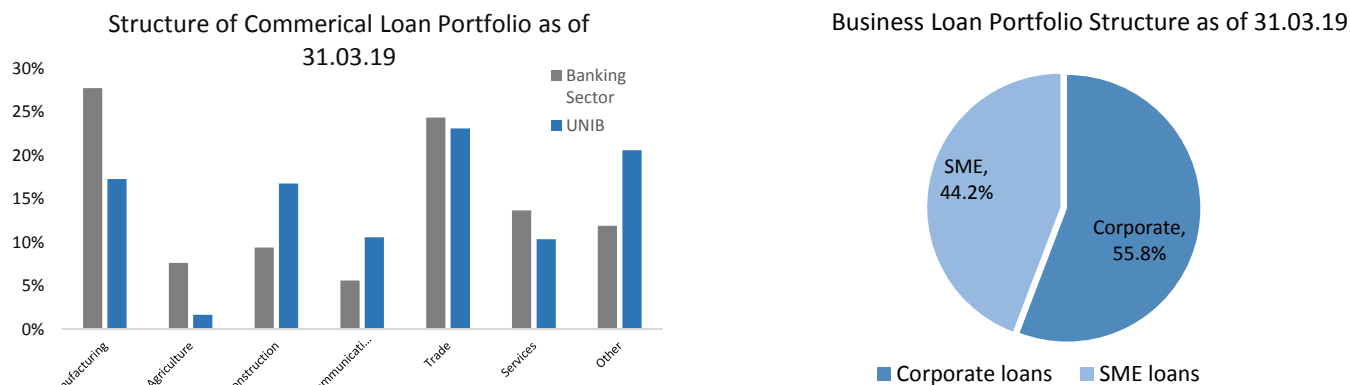
Unibank positions itself as a retail bank. Retail loans represent 53.3% of the Bank's loan portfolio, as opposed to banking sector where retail loans comprise 35.7% only. With 53.7% and 18.2% respectively, general consumer and secured consumer loans represent the largest share in retail portfolio; mortgages are the close third, holding 16.3% of total.



Source: Company data, CBA.

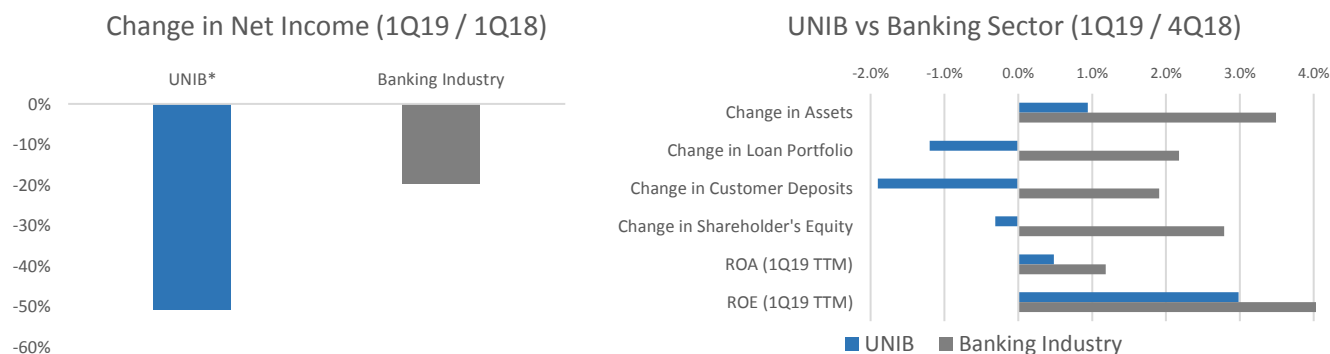
Commercial loans represent 46.7% of the credit portfolio and are split between Corporate and SME with proportions of 55.8% and

44.2%, accordingly. Share of SME loans is gradually increasing (compared to 43% a quarter ago), in line with the Bank's strategy of endorsing the micro/medium entrepreneurship in Armenia. Commercial portfolio of the bank is biased towards Trade and Manufacturing, which represent 23% and 17.2% of commercial loan portfolio total. The share of Construction loans declines gradually, comprising 16.7% of total as of March 2019.



Source: Company data, CBA.

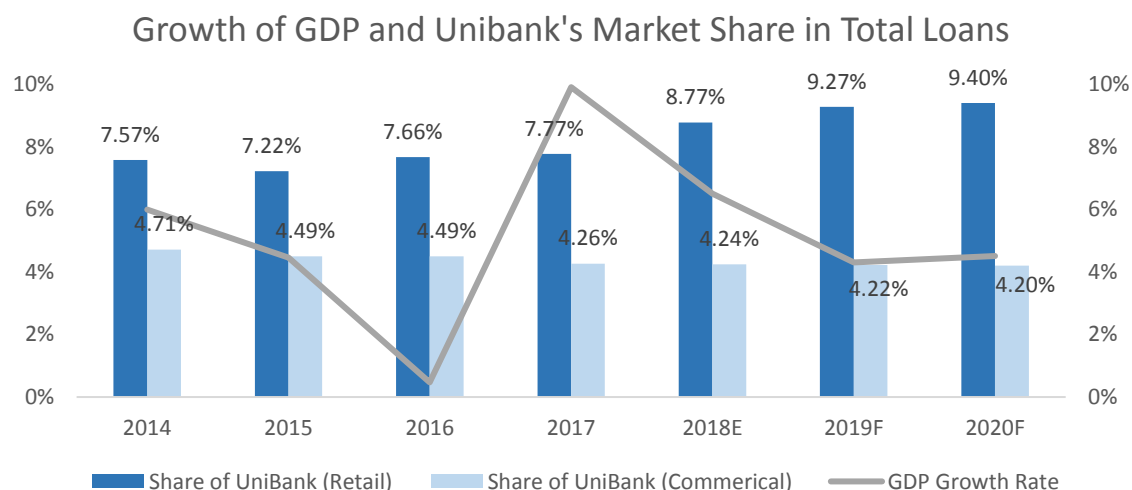
During 1Q 2019, total banking sector assets grew by 3.5%, rounding to USD 10.5bln. The increase in total loans was more muted at 2.2%. Unibank fell behind the market in terms of total assets, loan portfolio and deposits growth, as well as the change in net income. However, such an adjustment should have been expected given the above average performance of the bank during the preceding quarters.



Source: Company data, CBA.

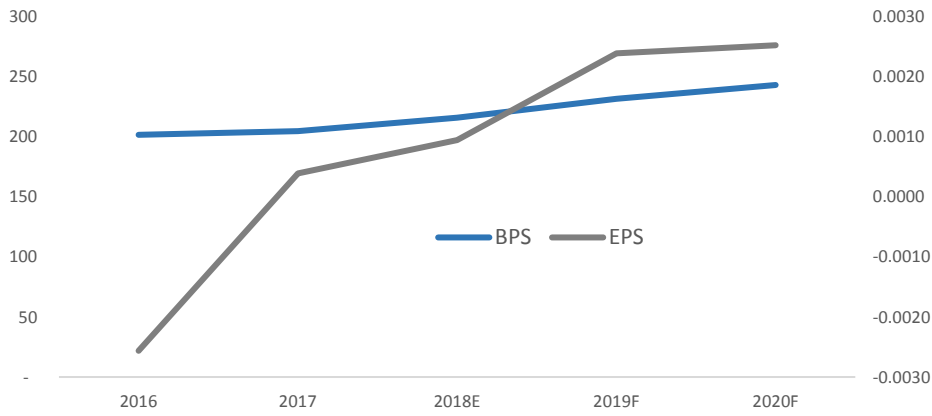
Although, the Bank falls behind in terms of asset growth and profitability, the above average growth rates of ROA and ROE make it possible for the company to outpace the market average by 2020. Rapidly increasing customer deposits indicate that the Bank still has a room to further cut down its cost of financing.

## Valuation



Source: Company data, Armenbrok estimates.

## Book Value per Share and Earnings per Share

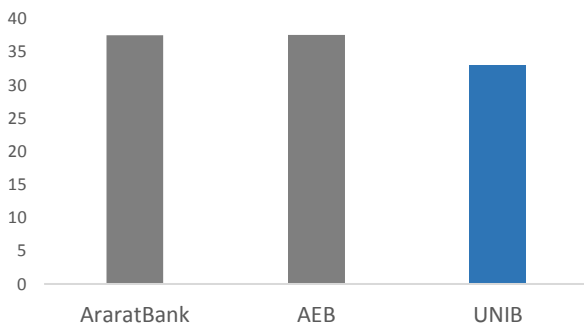


Source: Company data, Armenbrok estimates.

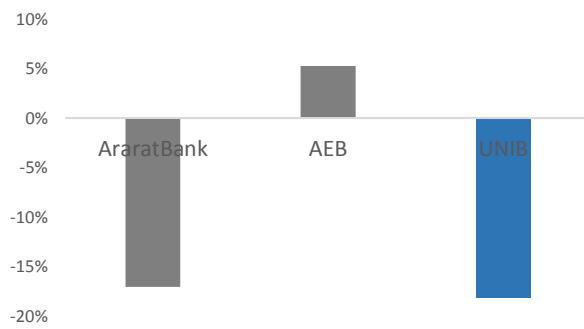
Based on the estimates, in our base case scenario we expect Bank's book value per share to reach USD 0.52 vs. current market value of USD 0.49. Unibank's shares are among the actively traded ones in the market, holding about 6% of total market volume. Relative data on comparable public companies are captioned in the charts below.

## UniBank Comparable Companies

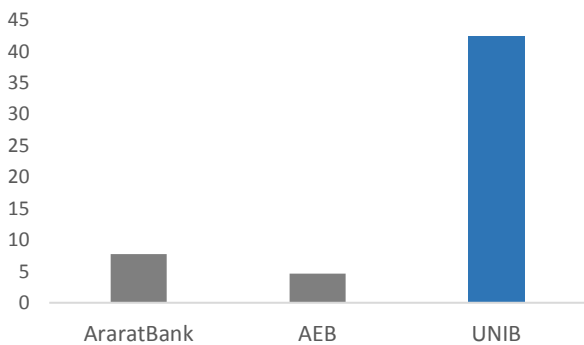
### Book Value (AMD bln)



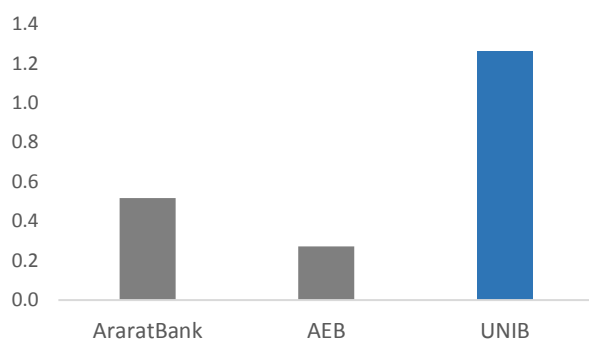
### Net Income Growth (19Q1/18Q1) TTM



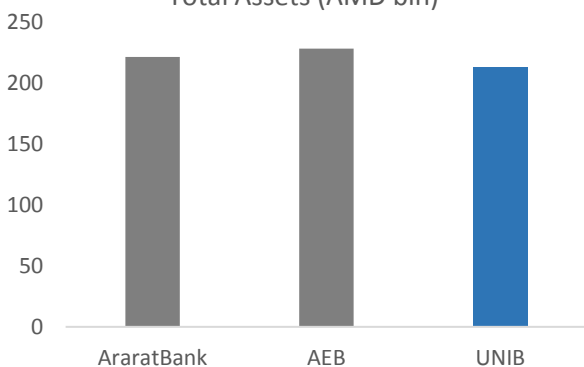
### P/E



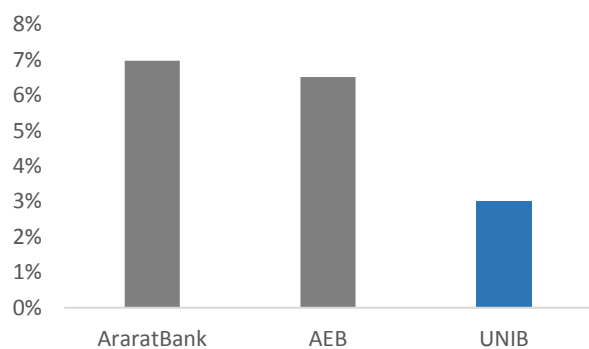
### P/B



### Total Assets (AMD bln)



### ROE



## Forecast

- **Armenia GDP Growth:** In our Base Case scenario, represented above, we forecast RA's nominal GDP growth of 5.4% for 2019, to decline to 4.3% over the next two years. We project all of Unibank's addressable lending markets, including Consumer Loans, as percentages of GDP.
- **Addressable Loan Markets:** We expect modest growth in Unibank's addressable markets over the next three years. Particularly, we expect that by 2020 total retail loans sector as a share of GDP will increase to 16.7%, compared to 16.2% as of second half of 2018. Share of commercial loans will grow to 25.5%, as opposed to current reading of 24.8%.
- **Unibank's Market Share:** We forecast Unibank's share of retail market to increase to 9.4%. This is our base case scenario, but we assume that the Bank has the potential to outperform the target, given recent positive dynamics (Bank's share of retail market stood at 8.1% as of 1Q 2019, relative to 7.8% as of the end of 2018). Unibank's management believes that the share of retail lending will increase to 13% by 2020, a mark that in our opinion may be attained by 2022. The highest growth is expected in Consumer Loans and Credit Cards at 13% per annum. We anticipate Unibank's share of commercial loans to remain stable at 4.2% of the total.
- **Net Interest Margin:** Interest earning margin is expected to decline by 1% given recent regulatory developments that capped the effective lending rate at 24% per annum. On the other hand, given higher household savings rate and supply of deposits, we anticipate a proportional cut in cost of funding, thus keeping the net interest margin at 7.3% throughout 2020 (vs. 7.7% in 2017 and 7.9% in 2018).
- **Cost to Income Ratio, Bad Debt Reserves:** The Bank managed to significantly improve its Cost to Income ratio. We expect the trend to remain positive for the coming years as well, given the fixed nature of majority of administrative expenses. In our base case scenario, we forecast no improvement in Bad Debt Reserves, keeping them at 4.8% per year.

## Investment Risks

- **Interest Rate Compression.** The recent regulatory changes, capping effective lending rate at 24% p.a., will negatively affect gross interest margins of the banking system. On the upside, higher savings volumes and declining deposit rates will be sufficient to keep the net interest margins on historically acceptable levels.
- **Decline in Market Share of General Consumer Loans.** This has historically been the strongest market for the bank, yet the 1Q 19 results came in below expectations, indicating a 21.3% decline in the portfolio. This can be a seasonal variance but can also indicate that the bank is losing one of its key segments.
- **Low Liquidity in Stock Market.** While the trading volumes on AMX skyrocketed in recent years (currently 57 issues of 15 issuers are traded on the market, three times more than in 2015), the market liquidity levels are still a concern for the investors. However, Unibank's securities have historically always been among the most actively traded ones.

## Fixed Income Securities of the Bank, 1Q 2019

Ticker	List:	Cur.	Quantity	Maturity	Coupon (%)	YTM (%)	Coupon payments	Trad. VOL:	Trad. VAL:
UNIBB3	Abond	USD	50,000	11.09.2020	5.75%	5.54%	Quarterly	2,688	272,108
UNIBB4	Abond	USD	50,000	13.05.2021	5.50%	5.45%	Quarterly	76	7,623
UNIBB5	Bbond	AMD	25,000	13.02.2020	10.00%	9.36%	Quarterly	438	4,420,422
UNIBB6	Bbond	USD	50,000	22.10.2021	5.50%	5.54%	Quarterly	2,362	237,720
UNIBB7	Bbond	AMD	50,000	22.10.2020	10.00%	9.50%	Quarterly	7,695	78,599,556
UNIBB8	Bbond	AMD	50,000	12.11.2020	10.00%	9.07%	Quarterly	1,136	11,582,849

Unibank currently has six listed tranches at stock exchange market. Throughout the Q1 of 2019 Unibank's Bonds trading volume and trading value as a percentage of total market comprised 4.5% and 11.7%, respectively.



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