

UNIBANK EQUITY FLASHNOTE UPDATE, (UNIB) | 4Q 2019
4Q FY2019 – Solid Performance

Unibank reported strong 4Q 2019 results:

- Increased total assets;
- Remarkable growth of operating income;
- Significantly improved profitability.

Armenbrok kept the Bank's outlook at Positive

Rating	Positive
Price (31 Dec 19, USD):	0.50
Target Price (USD)*:	0.52
Market Cap. (USD M):	86.50**
Free Float	6.8%
Moody's	B2, "Stable"

*Target price is for 24 months.

**Does not include preferred shares.

Financial and Valuation Metrics (Fiscal Year Ends 31 Dec)

Year	FY 16A	FY 17A	FY 18A	FY 19A	FY 20F
EPS	-0.0026	0.0004	0.0054	0.0071	0.0074
P/E	n/a	588.22	44.55	32.33	30.89
P/BV	n/a	1.12	1.27	1.21	1.19
TBV (mIn USD)	73.03	74.12	68.22	68.62	69.43
ROE	-1.5%	0.2%	2.7%	4.3%	4.4%
Shares outstanding(M)	172.89*	Market Cap. (USD M)			86.50

*Does not include preferred shares.

Trading Volume	66,457	Trading Value (USD)	32,030
	(01.10.19-31.12.19)		(01.10.19-31.12.19)

Source: Company data, Armenbrok estimates, AMX.

UNIB Stock Price Since IPO


Source: AMX.

Macroeconomic Update

Armenian economy sustained its high-growth pattern in the last quarter of the year, as well. For October, November and December impressive GDP growth rates were reported – 7.9%, 10.1% and 10.7% y/y, respectively. This brought the reading for 12 months up to 7.8% y/y. Throughout the year, main driving factors of economic growth were services, industry and trade with respective increases of 15.0%, 9.0% and 8.9% y/y. Construction volume expanded by 4.6% y/y. Oppositely, electricity production and agricultural output declined by 1.9% and 4.2% y/y, respectively. External trade went up by remarkable 10.4% y/y. Exports grew by 9.4% y/y, while imports surged by 10.8% y/y. The Central Bank kept the refinancing rate unchanged at 5.5%. During the quarter, yields on 10-year AMD-denominated Treasury bonds contracted by 0.92pps over previous quarter, rounding to 8.36%. At the same period, Armenian Dram depreciated against both USD and EUR, standing at 479.70 and 537.26, respectively.

Banking Sector Update

In 4Q 2019, Armenian banks reported an increase of total assets by 7.60% over 3Q 2019 bringing growth for 2019 to 16.96%. Total volume of assets rounded to AMD 5.8trln (c/v USD 12.1bln). The growth of assets was financed by a comparable increase in liabilities and equity – 18.32% and 9.56%, respectively. Shareholder funds financed 14.55% of assets. Share of total loans in the structure of assets rounded 61.53%. During the quarter, loans provided by banks went up by 16.38% y/y, standing at AMD 3.6trln (c/v USD 7.4bln). Customer deposits grew as well – by 22.43%

y/y - equalling to AMD 3.5trln (c/v USD 7.2bln). Net profits of Armenian banks surged by 69.48% y/y, bringing annual reading up to AMD 78.8bln (c/v USD 164.3mln). Remarkable profitability of the sector increased both trailing twelve month (TTM) ROA and ROE up to 1.48% and 9.83%, respectively. Average AMD lending rates were 0.55pps down for maturities of up to 1 year and 0.53pps down for longer maturities. At the same time, average AMD borrowing rates went up by 1.05pps for maturities of up to 1 year and 0.51pps down for longer maturities. Both USD lending and borrowing rates remained fairly unchanged.

Quarterly Highlights

- During the quarter, the bank issued and successfully allocated new tranche of bonds. In December, the bonds were listed at Armenia Securities Exchange. Bonds are denominated in USD with a coupon rate of 5.25% and nominal value of USD 100. Total issued amount of bonds is 10,000.
- In November, Visa international payments system awarded Unibank a prize “Largest Visa Issuance in Armenia”. Currently, the bank is the leader in Armenian market with more than 191,000 issued Visa cards. Unibank provides cards in multiple currencies, including “Visa Infinite” card. Operation of own processing centre, enabled bank to significantly increase card issuance volume, improve service quality, as well as diversify options of card instruments.
- During the quarter, Unibank introduced special credit cards for clients employed in IT and healthcare sectors. In particular, for IT specialists, the bank offers credit cards, which provide credit lines of AMD 3mln with annual rate of 14.4%. For healthcare specialists, the volume of credit line is in the range between AMD 0.5 – 2.5mln, with annual rate of 16%.
- The bank updated its mobile application by offering new opportunities for clients. The application now allows execute Unistream transfers, check balance of pension account and duplicate transactions. The demand for bank’s mobile application is gradually increasing. In 2019, the number of users almost tripled in comparison with 2018.

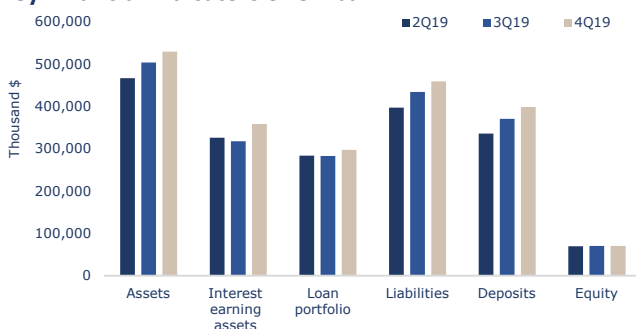
Funding Sources and Structure

Unibank keeps on maintaining diversified funding structure. It became even more diversified with the release of corporate bonds into the open market. Still, the largest source of funding are individual time deposits with diversified maturities and denominations, which represent 86.78% of total liabilities. The second largest group of funding is financing from International development 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 10mln and is aimed at financing 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.

Operations

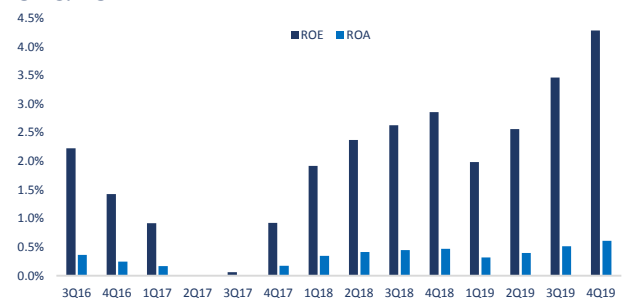
In the last quarter of 2019, Unibank generated a net income of AMD 444.3mln (c/v USD 931K), an impressive 170.09% upsurge over 4Q 2018. This brought net income for FY2019 up to AMD 1.4bln (c/v USD 2.9mln) – a remarkable increase of 52.26% over FY2018. During the quarter, growth of net income was predominantly reasoned by expansion of net fee and commission income and net trading income, which went up by 73.83% and 93.04%, respectively. These two components were key factors of annual net income growth, as well, with respective increases of 51.44% and 191.14%. Compared to previous quarter, Bank’s profit margin decreased by 0.75pps, while spread between interest earning and spending margins widened by 0.13pps.

Key Financial Indicators of Unibank



Source: Company data, Armenbrok.

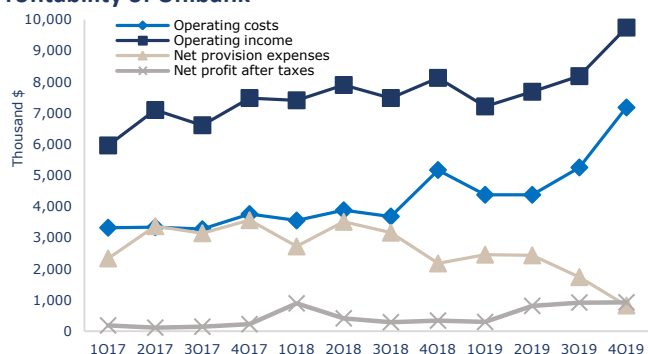
ROE & ROA



Source: Company data.

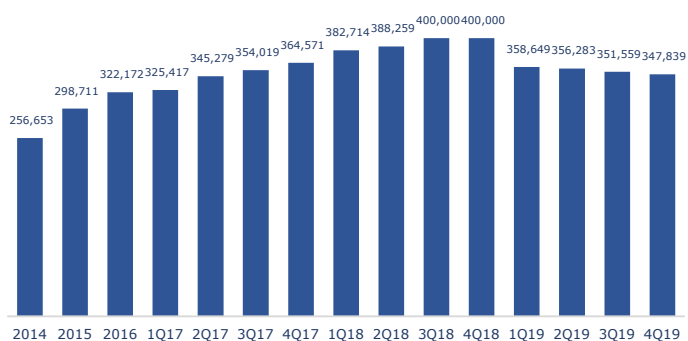
According to the results of FY2019, the bank reported an increase of assets by 20.33% relative to FY2018. Over the previous quarter, assets went up by 5.02%. Equity financed 13.27% of assets – on par with the industry average. Loan portfolio expanded by 5.62% over the same period last year. Interest earning assets went up by 13.26% y/y moving up their share in total assets to 67.78%. Both TTM ROE and ROA improved over 3Q 2019, standing at 4.28% and 0.61%, respectively.

Profitability of Unibank



Source: Company data, Armenbrok.

Customer Base of Unibank



Source: Company data.

Bank's retail loans surged by 5.77% over 3Q 2019. Conversely, the number of retail customers contracted, mostly due to credit cards and consumer loans. However, the Bank expects to increase customer base in the future. The bank had 344,731 retail and 3,108 corporate customers by the end of the year.

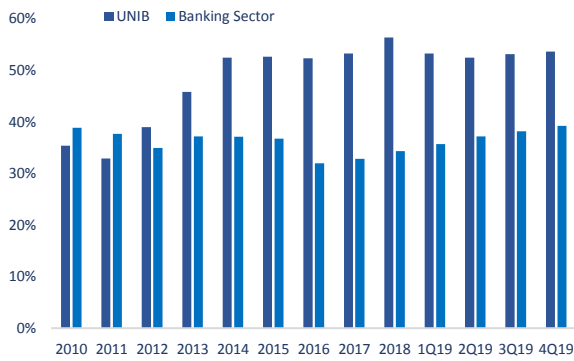
Unibank Selected Ratios	4Q19	3Q19	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17
Capital Adequacy Ratio	13.98%	14.33%	15.08%	15.27%	14.55%	16.11%	16.84%	15.69%	17.04%
Liquidity Ratio	32.25%	30.31%	24.99%	25.44%	26.87%	25.80%	24.25%	24.87%	25.30%
Cost to Income Ratio	73.70%	64.22%	56.97%	60.70%	63.64%	49.24%	49.16%	47.98%	50.28%
Loan Portfolio/Assets	56.18%	56.08%	60.71%	62.44%	64.00%	64.55%	67.19%	66.99%	66.57%
Equity/Assets	13.27%	13.92%	14.86%	15.35%	15.51%	16.43%	17.14%	16.70%	17.51%
Profit Margin	6.13%	6.88%	6.36%	2.45%	2.60%	2.37%	3.21%	6.93%	1.72%
Interest Earning Margin (TTM)	12.08%	12.19%	12.25%	12.90%	13.34%	13.99%	13.99%	13.61%	13.18%
Interest Spending Margin (TTM)	4.80%	5.03%	5.24%	5.48%	5.77%	6.05%	6.55%	7.03%	7.55%
Spread	7.29%	7.16%	7.01%	7.42%	7.57%	7.94%	7.44%	6.58%	5.63%
ROE (TTM)	4.28%	3.46%	2.56%	1.98%	2.85%	2.62%	2.37%	1.92%	0.92%
ROA (TTM)	0.61%	0.51%	0.40%	0.32%	0.47%	0.44%	0.42%	0.35%	0.17%

Main Financial Indicators	4Q19/3Q19	4Q19/4Q18
Operating costs	36.59%	38.78%
Operating income	19.03%	19.85%
Assets	5.02%	20.33%
Interest earning assets	12.83%	13.26%
Loan portfolio	5.22%	5.62%
Liabilities	5.82%	23.53%
Interest incurring liabilities	6.13%	22.74%
Deposits	7.55%	25.47%
Equity	0.11%	2.90%
Total income	13.19%	14.46%
Interest income	4.99%	10.19%
Net provision expenses	-52.40%	-61.98%
Net profit after taxes	0.85%	170.09%

Relative Positioning of the Bank / Banking Sector Overview

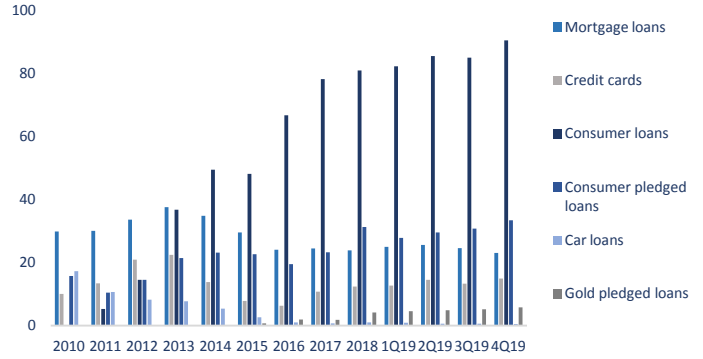
Unibank considers itself as a retail bank. In contrast to banking sector, where retail loans account for 39.24% of loans, Bank's portfolio is 53.62% comprised of retail loans. Major part of the portfolio pertains to general consumer and secured consumer loans – 53.76% and 19.84%, respectively; mortgages are the third, holding 13.73% of total.

Share of Retail Loans in Total



Source: Company data, CBA.

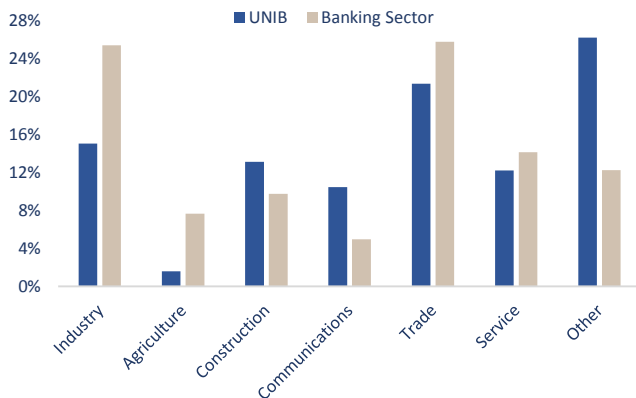
Dynamics of Retail Loan Portfolio (mln USD)



Source: Company data.

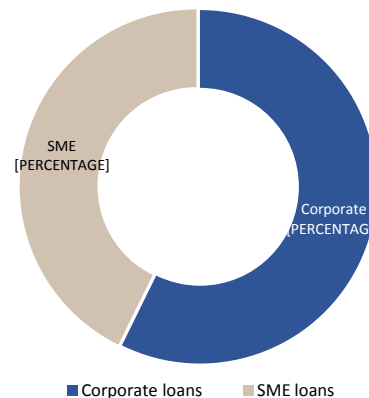
The rest of the portfolio – 46.38% - belongs to commercial loans which are split between Corporate and SME with proportions of 57.28% and 42.72%, accordingly. Share of Corporate loans dropped by 0.55pps relative to 3Q 2019. Currently Bank's management exerts active efforts towards expansion of SME portfolio, in line with the Bank's strategy of endorsing the micro/medium entrepreneurship in Armenia. Trade, Manufacturing and Construction loans are the major components of commercial portfolio, with respective shares of 21.35%, 15.05% and 13.12%.

Structure of Commercial Loan Portfolio as of 31.12.19



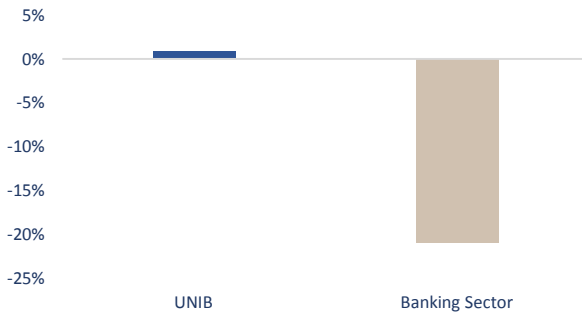
Source: Company data, CBA.

Business Loan Portfolio Structure as of 31.12.19

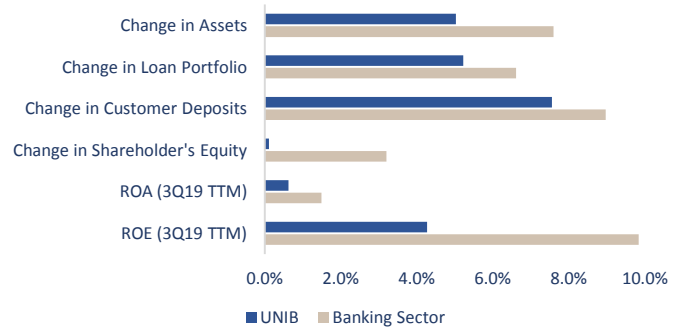
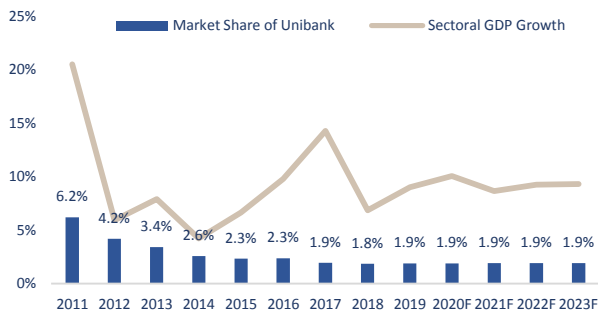


Source: Company data.

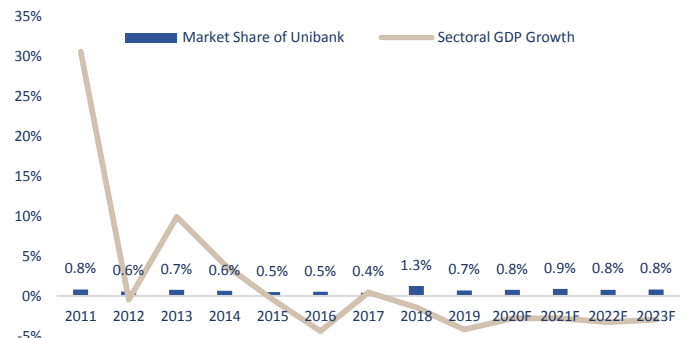
In comparison with the previous quarter, during 4Q 2019 Unibank's assets, loans, deposits and equity grew at below industry-average rates. Despite overall improved performance for FY2019, profitability of the sector declined by 20.92% relative to 3Q 2019. However, net profit of Unibank slightly went up over 3Q – by 0.85%. Bank's improving profitability creates a ground for positive expectations. Rapidly increasing customer deposits indicate that the Bank still has a room to further cut down its cost of financing.

Change in Net Income (4Q19/3Q19)


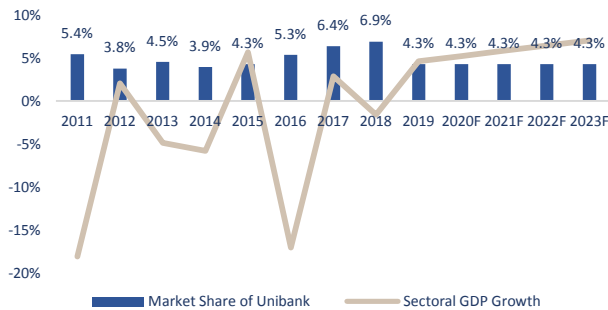
Source: Company data, CBA.

Unibank vs Banking Sector (4Q19/3Q19)

Valuation
Unibank Industry Loan Portfolio


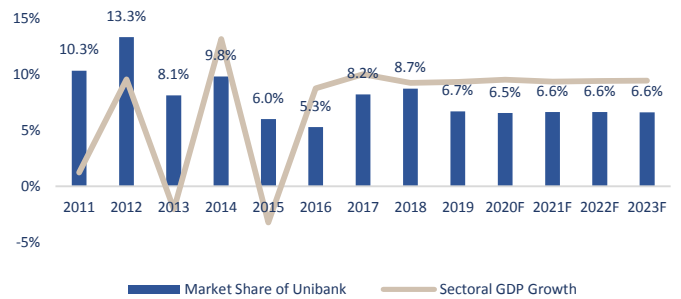
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Agricultural Loan Portfolio


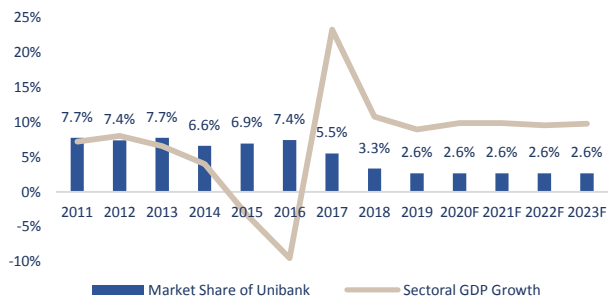
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Construction Loan Portfolio


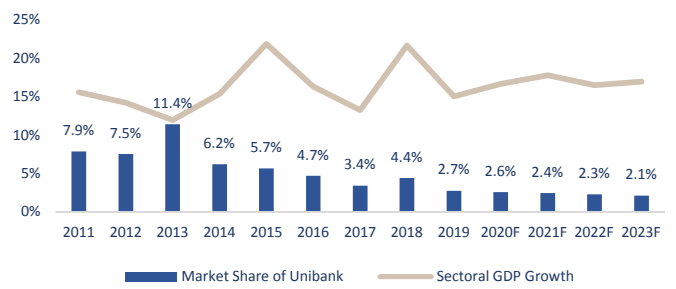
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Communications Loan Portfolio


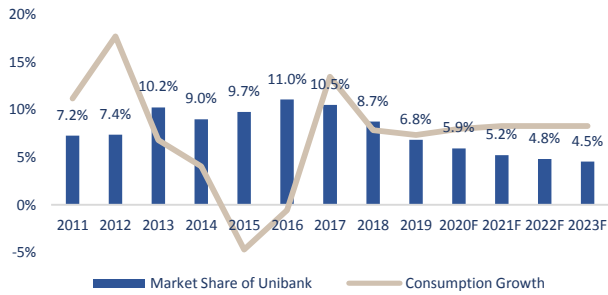
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Trade Loan Portfolio


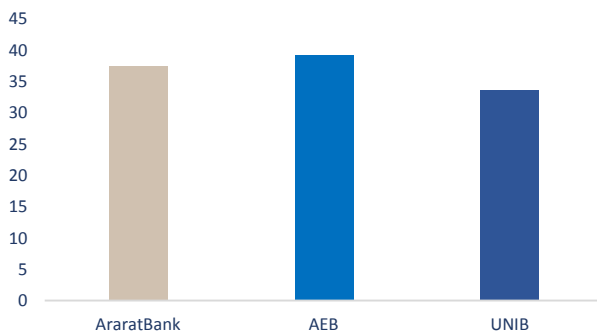
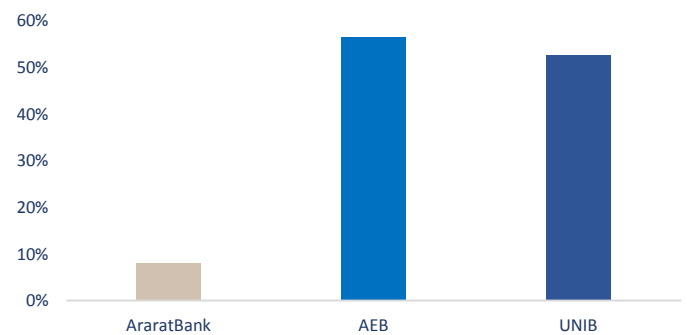
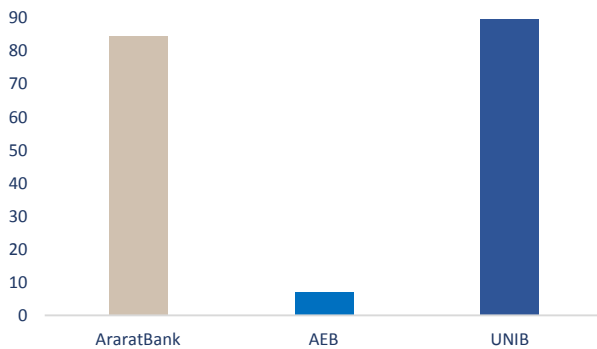
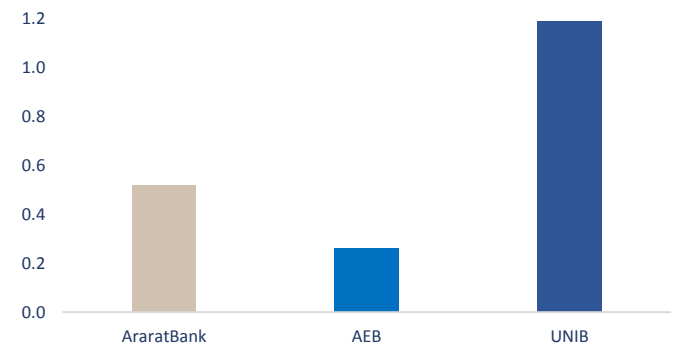
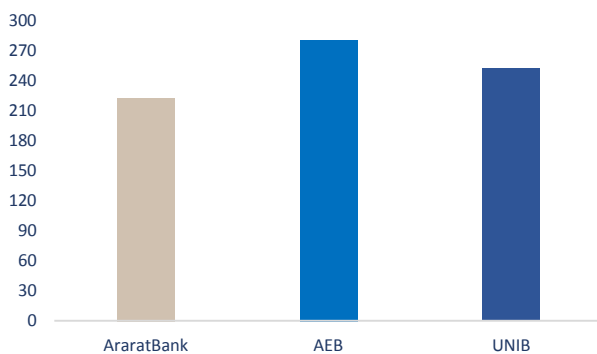
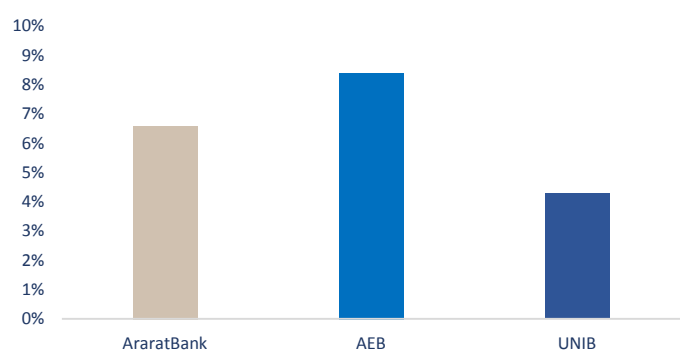
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Services Loan Portfolio


Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Consumer Loan Portfolio


Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Comparable Peers
Book Value (bln. AMD)

Net Income Growth (4Q19/4Q18 TTM)

P/E

P/B

Total Assets (bln. AMD)

ROE (TTM)


Forecast

- **Armenian GDP Growth:** In our Base Case scenario, represented above, we forecast RA's nominal GDP growth of 7.32% for 2019, which will increase up to 8.26% in the next two years. We project all of Unibank's addressable lending markets as percentages of sectoral GDPs.
- **Addressable Loan Markets:** We expect modest growth in loan markets over the next three years. Particularly, we expect that by 2023 Construction Loans as share of respective sectoral GDP will expand by 7.64pps rounding to 48.15%. Slight increase is anticipated in Trade and Service loans, as well. Service Loans will improve their share in total loans from 8.59% to 10.96%. The share of Mortgage loans will stand at 14.80% - an increase by 3.75pps over 2019.
- **Net Interest Spread:** Interest earning margin is expected to decline 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 spread at 7.0% throughout 2020 (vs. 5.6% in 2017, 7.8% in 2018 and 7.3 in 2019).
- **Cost to Income Ratio, Bad Debt Reserves:** The Bank managed to keep its Cost to Income ratio on relatively acceptable level. 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 FY2019 results came in below expectations, indicating a decline in the bank's market share to 6.82%.
- **Low Liquidity in Stock Market.** While the trading volumes on AMX skyrocketed in recent years (currently 85 issues of 19 issuers are traded on the market), 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, FY2019

Ticker	List	Cur.	Quantity	Maturity	Coupon	YTM	Coupon payments	Trading volume	Trading value
UNIBB3	Abond	USD	50,000	11.09.2020	5.75%	5.25%	Quarterly	9,852	996,784
UNIBB4	Abond	USD	50,000	13.05.2021	5.50%	5.50%	Quarterly	690	69,339
UNIBB5	Bbond	AMD	25,000	13.02.2020	10.00%	9.36%	Quarterly	1,138	11,497,094
UNIBB6	Bbond	USD	50,000	22.10.2021	5.50%	5.50%	Quarterly	5,700	575,382
UNIBB7	Bbond	AMD	50,000	22.10.2020	10.00%	10.00%	Quarterly	14,254	145,052,282
UNIBB8	Bbond	AMD	50,000	12.11.2020	10.00%	9.63%	Quarterly	5,937	60,181,118
UNIBB9	Bbond	USD	10,924	20.03.2022	5.00%	5.10%	Quarterly	1,904	190,677
UNIBBA	Bbond	USD	10,000	15.11.2022	5.25%	5.25%	Quarterly	1,050	105,594

Source: AMX.

As it was highlighted above, in December 2019, new tranche of Bank's bonds was listed at Armenia Securities Exchange. By the end of the year, Unibank had eight listed tranches at exchange market. Throughout the year, trading volume and trading value of bank's bonds comprised 3.8% and 5.9% of total market, respectively.



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