

UNIBANK EQUITY FLASHNOTE UPDATE, (UNIB), Q2 2018

Strong H1 FY18; Positive Outlook in Retail Market

Unibank reported strong 1H 2018 results:

- Earnings increased more than 3x Y-o-Y.
- The Bank improved its market share in retail lending by 1-percentage point (8.8%), while not losing its positions in commercial lending.
- TTM ROE and ROA are at the highest level since 2014;

Rating:	NEUTRAL
Price (31 Jul 18, USD):	0.48
Target Price (USD):	0.52 (for 24 months)
Market Cap. (USD M):	82.99*
Free Float:	6.8%
Moody's:	B2, «Stable»
* not included prefer shares	



Financial and Valuation Metrics (Fiscal Year Ends 31 Dec)

Year	FY 16A	FY 17A	FY 18E	FY 19F	FY 20F
EPS	-0.0026	0.0004	0.0009	0.0024	0.0025
P/E	n/a	588.2	244.2	96.5	91.2
P/BV	n/a	1.12	1.07	0.99	0.95
TBV (mln USD)	72.47	73.54	77.59	83.29	87.37
ROE	-1.5%	0.2%	0.4%	1.1%	1.1%
Number of shares (m)	172.89	Market Cap (USD M)		82.99	

Source: Company data, Armenbrok estimates



UNIB Stock Price Since IPO

Macroeconomic Update

Armenian Economy saw a 6.5% real GDP growth in H1 2018, which exceeds all the previous expectations and forecasts both internal and recommended by international organizations. Based on that, IMF improves slightly its outlook for Armenian economic growth for Y2018 from 2.9% to 3.4%. The growth driver of Armenian Economy in H2 2018 was services sector with a growth hitting up to 18.1% followed by construction with a 13.5% increase and some moderate growth in agriculture sector showing a rough 5.5% raise y-o-y. A significant improvement was recorded in foreign trade with the export growing by 20% y-o-y most of which was driven by the expansion of trading relations with the Eurasian Economic Union. The Budget deficit at the end of June 2018 stood around \$8.06 mln, with the Finance Ministry forecasting it to stabilize at around 2.7%, while in 2017 it recorded as high as 3.3% because of the expansionary policy. Central bank's refinancing rate remained unchanged at 6%; yields on 10-year AMD-denominated Government bonds stood at 9.83%, a decline of 232bps from the beginning of the year.

Banking sector update

Armenian Banking sector performed well in 2Q 2018. It recorded increases in virtually all main financial position indicators as against Q4 2017. As at end of June 2018 Assets increased by 3.8% q-o-q, Liabilities increased by around 3.5%. On the performance side, during the first two quarters of 2018, banking sector in overall recorded a positive net income comprising around USD 38 mln. The loan portfolio increased by around 7.6% while the total deposit portfolio registered a decrease of around 0.6%. Long-term deposit and loan interest rates decreased by on average 0.5% as against end of Q2 2018.

Quarterly Highlights

- Unibank, in partnership with Stiegen, renewable energy company, offered a new loan called Solar Energy. The product has been launched with KfW financing. It will be enough to acquire a solar power station (PV) and any small business will become more energy-efficient and more competitive.
- In the frameworks of the Unibank's financing program to improve and furnish schools, a modern IT classroom has been set up at school N8 in Gyumri. Through Unibank's support, new classrooms, in accordance with the requirements of modern education, will be set up in provincial schools, especially in those at borderline areas.
- Unibank has been implementing the client-oriented policy for many years that is why Unibank made a decision to forgive its individual customers' fines and penalties for bad loans, which are calculated and reflected in the bank's off-balance account. In fact, this approach will allow the customers to restore their credit histories and apply for new loans in the future, the bank said.
- UNIBANK offered SWIFT transfers at only 0.05% tariff. SWIFT international money transfer system is one of the most demanded systems in the world owing to its safety and convenience.

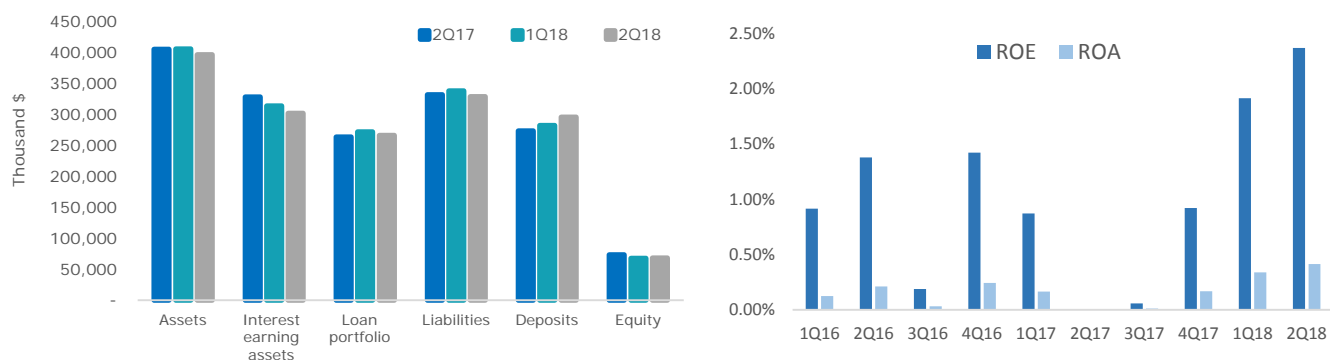
- The prospectus, which contains detailed information about the financial standing of the bank and key information about the bond issue has been approved by Central Bank of RA, according to which Unibank plans to realize issuance of bonds worth 20 mln USD and 500 mln AMD.
- Another great success in Q2 2018 was that Moody's Investors Service had affirmed the B2 long terms local and foreign currency deposit ratings of the Bank and, what's more important, it has remained the outlook for the ratings stable. This was driven by the strengthening of Unibank's capital position, also taking into account the fact that as materially was improved the Bank's loss absorption capacity.

Funding Sources and Structure

Unibank keeps on maintaining diversified funding structure. It became even more diversified with the issuance of corporate bonds into the open market. Individual time and demand deposits still comprise comparatively the largest portion of its funds, comprising around 74.5% of total assets which in their respect have quite diversified maturities and denominations. The second largest group of sources is borrowed funds the owners of which are mostly International development finance organizations such as IFC, BSTDB, EIB as well as local individuals and corporate entities. FMO will act as 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 will provide Unibank with stable long term funding, which indirectly will contribute to the economic development in Armenia.

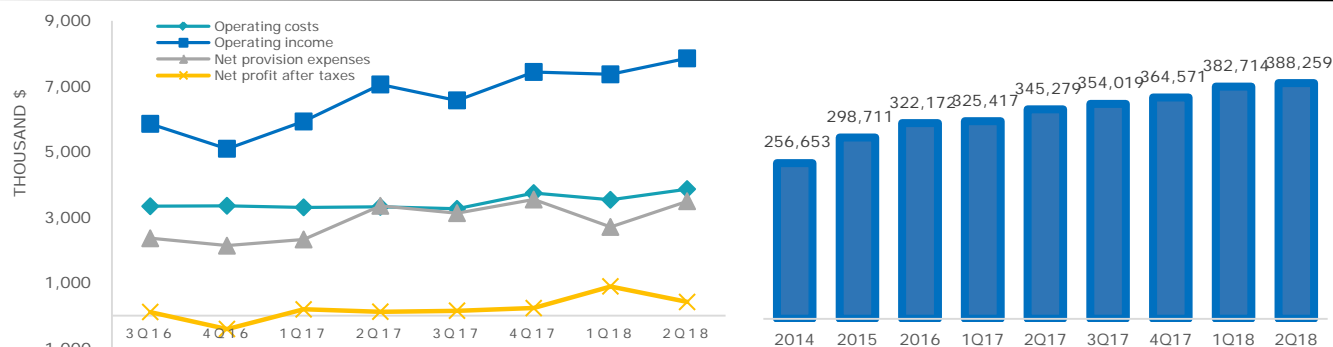
Operations

Unibank reported yet another strong quarter in terms of earnings and market share growth. Net Profit after taxes stood at USD 415K, 2.5x more than that of the comparable period a year ago. Overall, 1H 2018 after-tax earnings of the Bank totalled to USD 1.31 mln, the strongest semi-annual period since 2014. Interest earning margin declined to 14.1% (from 15.2% of 2017), but so did Interest spending margin – down to 6.5% from 7.5% a year ago – keeping the NIM stable at 7.5%. Loan portfolio remained almost on the same level, while assets declined by 4% relative to Dec. 2017. This resulted into a trailing-twelve-month ROA of 0.42% and ROE of 2.37%.



Source: Company data, Armenbrok.

Cost to income ratio of 1H 2018 improved to 48.6%, a two-percentage point decline from that of 2017. 79.6% of total income was generated in net interest proceeds, followed by Fees and Commissions and Trading income of 8% and 4.8%, respectively. Interest earning assets comprised 78.5% of total, a four-percentage point improvement from 2017, indicating increased efficacy in asset utilization. 17.1% of Assets of the Bank were financed through shareholders' equity.



Source: Company data, Armenrok.

The Bank maintained its strong presence in retail lending, expanding its market share to 8.8%. Number of retail customers grew to 385K, a 1.6% increase relative to the previous quarter; corporate customers increased by 10 – 3,206 legal entities in total.

Unibank Selected Ratios

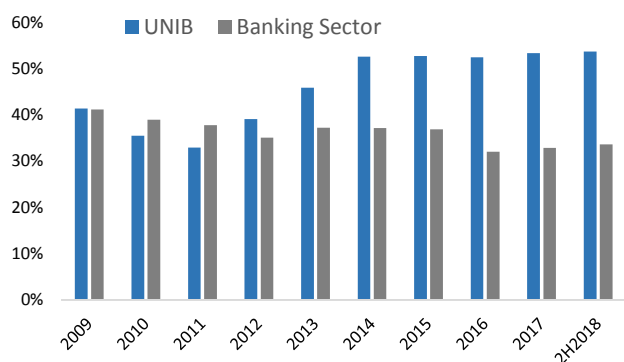
Change in Main Financial Indicators

	2Q18/1Q18	2Q18/2Q17
Operating costs	9.25%	16.36%
Operating income	6.63%	11.30%
Assets	-2.24%	-2.18%
Interest earning assets	-3.84%	-8.06%
Loan portfolio	-1.96%	0.98%
Liabilities	-2.76%	-1.03%
Interest incurring liabilities	-2.82%	-0.60%
Deposits	4.75%	7.98%
Equity	0.34%	-7.37%
Total income	0.54%	-5.76%
Interest income	-1.33%	18.04%
Net provision expenses	29.02%	4.19%
Net profit after taxes	-53.46%	251.32%

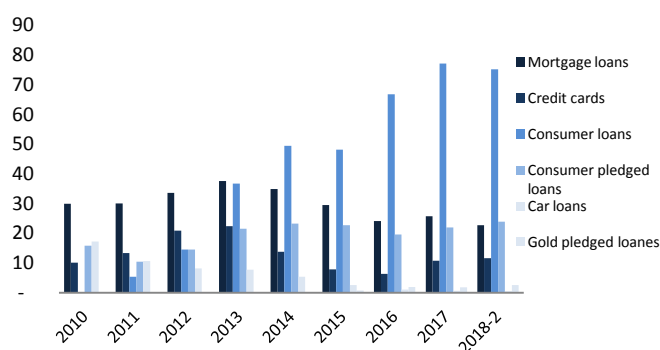
Relative Positioning of the Bank / Banking Sector Overview

Unibank positions itself as a retail bank. Consumer loans represent 53.6% of loan portfolio of the Bank, as opposed to banking sector where retail loans comprise 33.6% only. Credit cards and general consumer loans are the most rapidly growing segments, with compounded annual growth rate of 12%.

Share of Retail Loans in Total



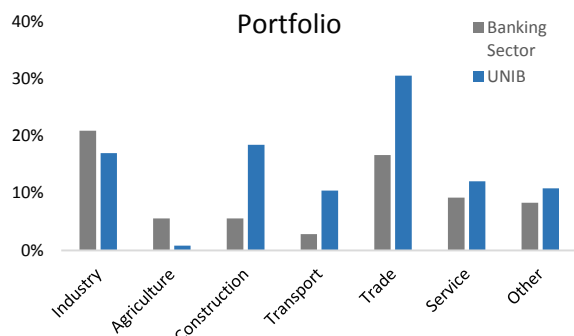
Dynamics of retail loan portfolio (mln USD)



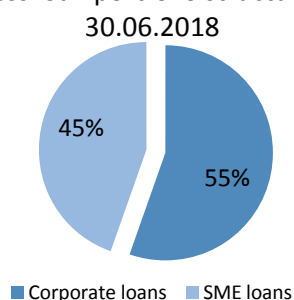
Source: Company data, CBA.

Commercial loans embrace 46.4% of the portfolio and are split between Corporate and SME customers – 55% and 45%, accordingly. Commercial portfolio of the Bank is biased towards Trade and Construction, which represent 31% and 18% of total, making the Bank slightly more sensitive to cyclical changes in the macro-environment of the country.

Structure of Commercial Loan Portfolio



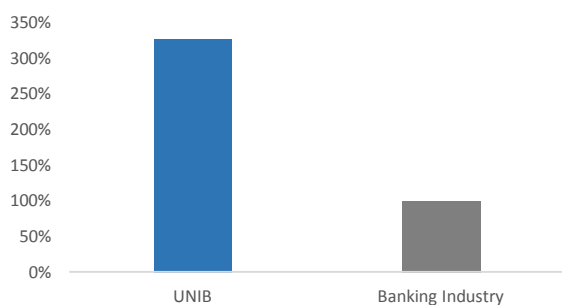
Business loan portfolio structure as of 30.06.2018



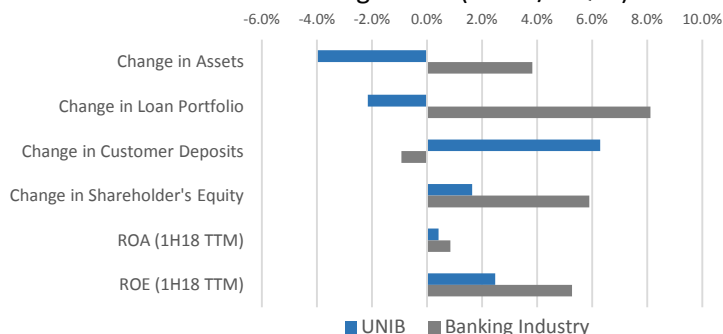
Source: Company data, CBA.

As of 2Q 2018, total banking sector assets grew 3.8% from the end of 2017, rounding to USD 9 bln. Total loans increased by 8.1% and represented 63% of total assets. To be noted that Unibank considerably outperforms the market in terms of asset utilization with Loans-to-Assets ratio of 67.2%. The Bank also reported a significantly higher increase in Net Profits – 326.7% vs 99.2% of banking sector.

Change in Net Income (1H18 / 1H17)



UNIB vs Banking Sector (1H18 / 4Q17)

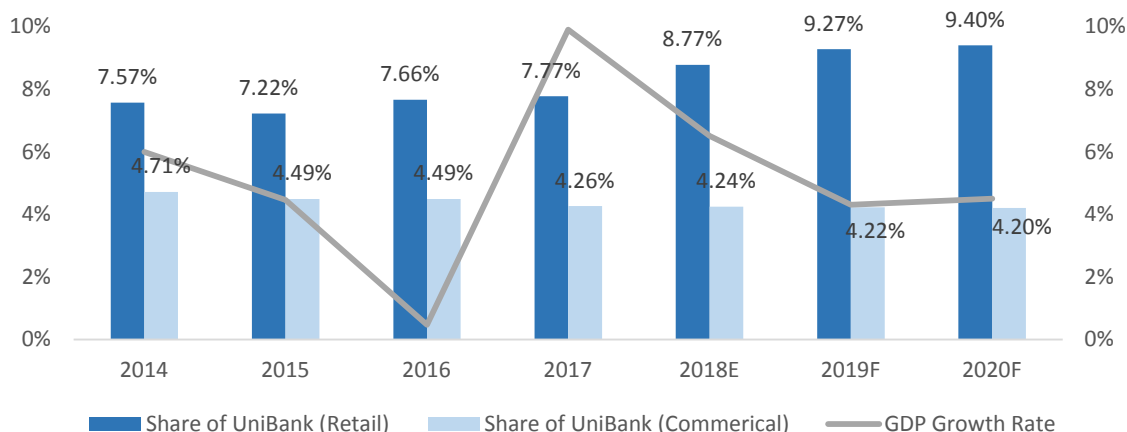


Source: Company data, CBA.

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.

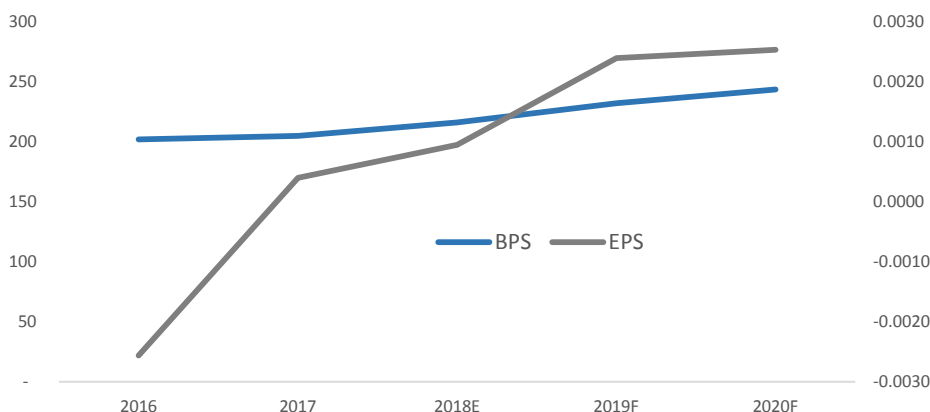
Valuation

Growth of GDP and Unibank's Share in Total Loans



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 0.48. 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.



Forecast

- Armenia GDP Growth:** In our Base Case scenario, represented above, we forecast RA nominal GDP growth of 6.5% for 2018, declining 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 banking sector retail loans as a share of GDP will increase to 16.7%, compared to 16.2% as of the 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 increased to 8.8% as of 2H 2018, relative to 7.8% as of the end of 2017). Unibank's management believe 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 total.
- Net Interest Margin:** Interest earning margin is expected to decline 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 7.5% 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 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.
- Slowdown in Residential Mortgage Growth.** While this segment has grown quickly historically, 2H18 results came in below expectations and channel checks have indicated a sluggish real estate market. Declining home prices and lengthier sales processes may also result in lower growth. Yet, the segment captures only 16.6% of the Bank's retail portfolio.
- Low Liquidity in Stock Market.** While the trading volumes in Nasdaq OMX Armenia skyrocketed in recent years (currently there 57 issues of 15 issuers traded in 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, 1H 2018

Ticker	List:	Cur.	Quantity	Maturity	Coupon (%)	YTM (%)	Coupon payments	Trad VOL:	Trad VAL:
UNIBB2	Bbond	AMD	25,000	23.11.2018	13.50%	10.50%	Quarterly	250	2,562,995
UNIBB3	Abond	USD	50,000	11.09.2020	5.75%	5.70%	Quarterly	9,417	944,505
UNIBN4	Abond	USD	50,000	13.05.2021	5.5%	5.5%	Quarterly	612	61,889
UNIBB5	Bbond	AMD	25,000	13.02.2020	10.00%	10.00%	Quarterly	1,006	10,200,641

Unibank currently has four listed tranches at stock exchange market. During the 1st half of 2018 Unibank's Bonds trading volume and trading value as a percentage of total market comprised 4.3% and 4.7%, respectively. In September 2018, the Bank plans to issue new tranches of USD and AMD denominated bonds.



This bulletin is intended for general guidance only. The materials listed here have been taken and analyzed from sources that are deemed reliable. However, Armenbrok takes no responsibility of preciseness of the figures or any other digital information provided herein. Armenbrok takes no responsibility for any loss that may occur from using the information of this or other publicly available Armenbrok analytical presentations for decision making on the securities market, financial, administrative or any other activity. This material is published "as is" and should be used on your own risks only.

ARMENBROK

Investment Company | Member NASDAQ OMX Armenia
#32/1 Tigran Mets Avenue, 0018 Yerevan, ARMENIA
Telephone: +37410 538700 | Facsimile: +37410 528986
Mobile: +37499 538700 | E-mail: research@armenbrok.com
www.armenbrok.am | www.armenbrok.com