

UNIBANK EQUITY FLASHNOTE UPDATE, (UNIB), Q3 2018

Strong Q3 FY18; Increased Profitability

Unibank reported strong Q3 2018 results:

- Earnings increased more than 2.5x Y-o-Y;
- TTM ROE and ROA are at the highest level since 2014;
- Stock price is up 4.4% relative to Q2 2018;

Armenbrok upgraded the Bank's outlook from Neutral to Positive.

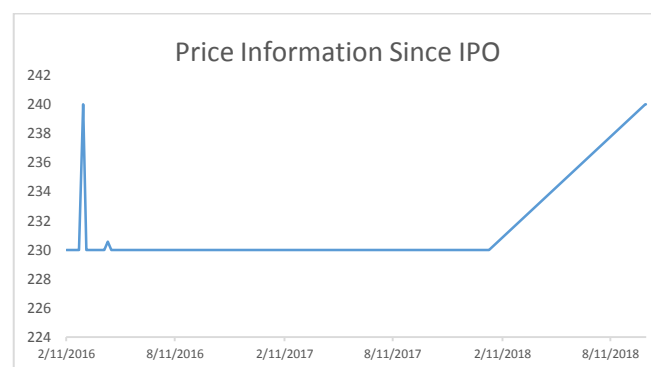
Rating:	POSITIVE*
Price (31 Jul 18, USD):	0.49
Target Price (USD):	0.52
Market Cap. (USD M):	84.71*
Free Float:	6.8%
Moody's:	B2, «Stable»

*Target Price is for 24 months.

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)		84.71	

Source: Company data, Armenbrok estimates



UNIB Stock Price Since IPO

Macroeconomic Update

In Q3 2018, GDP of Armenia saw a growth of 2.8% in real terms, bringing the 9-month real growth to 4% since the beginning of the year. With 18.8% and 10.1% respectively, Services and Wholesale trade remained the main drivers of the growth, although the rate of increase of the latter slowed down marginally. For the first 9 months of 2018, the volume of construction went up by 7.6%, industrial output – by 4%, and retail trade – by 1.4%; electricity production remained almost on the same level, while agricultural output contracted by 4.8%. Trade deficit of the country widened to USD 1.8bln from USD 1.2bln as of Q2 2018. Total exports reached USD 1.8bln – 11.6% increase y-o-y – and total imports rounded to USD 3.6bln – 28.6% increase y-o-y. Unemployment rate stood at 20.2%, slightly up from the Q1 figure, but still lagging behind the 2017 reading (17.8%). Central bank's refinancing rate remained unchanged at 6%; yields on 10-year AMD-denominated Government bonds stood at 9.75%, a decline of 7.3bps from the Q2 2018.

Banking sector update

Q3 2018 was yet another successful quarter for the banking sector of Armenia. Assets increased by 8.9% relative to YE 2017, while loan portfolio grew by 10.2% reaching AMD 2.9trln (c/v USD 5.9bln). The assets 15.8% are financed by equity; liabilities went up 9.04% vs. 6.02% growth of customer deposits. For the first nine months of 2018, the net profits of the banking sector improved by an impressive 81.3% relative to the comparable period of 2017 - AMD 51.7bln (c/v USD 105mln) vs AMD 28.5bln, accordingly. Trailing twelve month ROE improved to 13.1%. Average AMD lending rates appreciated by 18bps as opposed to USD rates that declined by 1.22%; deposit rates remained on the same level.

Quarterly Highlights

- **New issuance of bonds.**
Having successfully placed the whole volume of bonds of all the five issues, Unibank announced a new issuance of AMD and USD nominal coupon bonds. The total volume will be AMD 500mln and USD 5mln, with coupon interest rate of 10% and 5.5%, and maturity of 24 and 36 months respectively.
- Unibank is set to collaborate with FMO to allocate USD 10mln to support female entrepreneurs.
- In cooperation with GSF – a construction company based in Armenia – Unibank has initiated a new mortgage loan that enables its customers to purchase the apartments at the building constructed by the company with no prepayment. The mortgage loans without prepayment are addressed to people with stable income who don't have big savings for initial fees.
- Unibank, in partnership with Stiegen, renewable energy company, offered a new loan called Solar Energy.

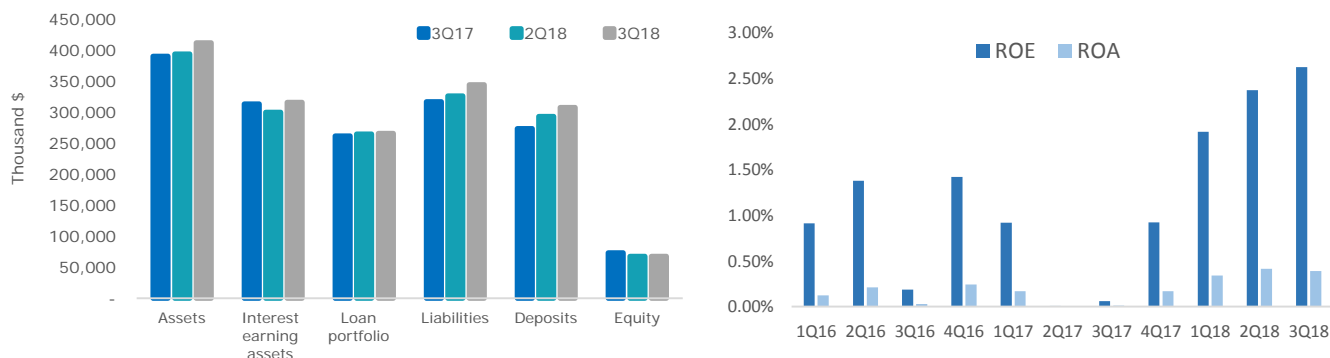
- The Bank launched a new online-lending platform, based on which, it became possible for the borrowers to apply for “Non-Cash” loans online, without visiting the bank. Owing to its affordable conditions and simple procedure, “Non-Cash” loans are available for the majority of clients. The loans are given in a non-cash way- by a credit card for up to 48 months. The amount of loans may be up to AMD 1 million, with an interest rate of 15%. The loan payments may be made in the branches by contacting branch representatives as well as personally through the bank’s payment terminals.

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 liabilities 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 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 will provide Unibank with stable long term funding, which will indirectly contribute to the economic development in Armenia.

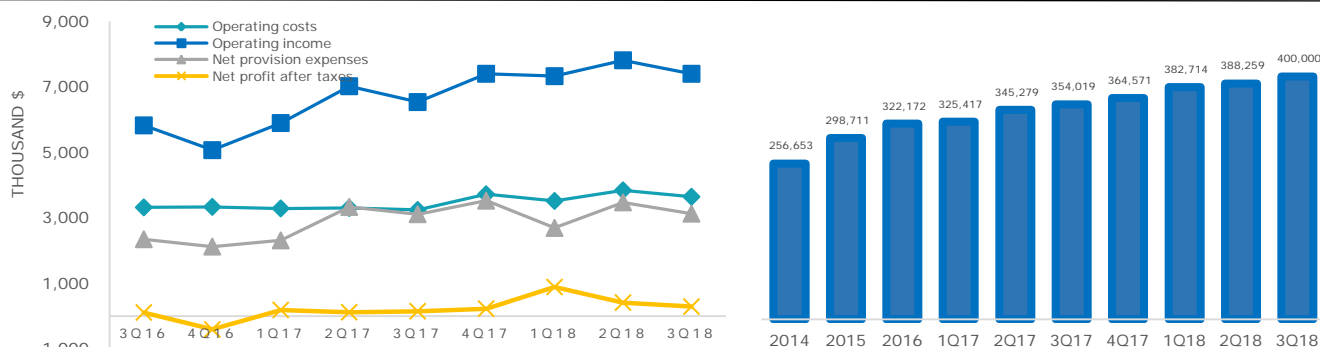
Operations

During Q3 2018, Unibank continued the impressive double-digit growth of earnings and further improved its market share in retail segment. As of Sep 2018, the 9-month after-tax profits stood at USD 1.57mln, a 2.5x growth from the same period a year ago. The total banking sector earnings, by contrast, increased by 0.8x only. Interest earning margin grew by 23bps, with even more impressive improvement in Interest spending margin - 46bps; as a result, the Net interest margin increased to 7.94%, 68bps more relative to Q2 2018. Loan portfolio remained almost on the same level, while assets went up by 5.54% y-o-y. This resulted into a trailing-twelve-month ROA of 0.39% and ROE of 2.62%, the highest level since 2014.



Source: Company data, Armenbrok.

Operating costs tightened by 5.14% relative to Q2, as did operating income – down by 5.28%. 80% of total income was generated in net interest proceeds, followed by Fees and Commissions – 16.2%. Trading income was negative in Q3 (USD 20K), yet it had a negligible impact on the year-to-date figure overall. Interest earning assets increased by 5.34 q-o-q, comprising 76.7% of total assets. This is a further improvement relative to Q2 – by 65bps – and speaks of increasing efficiency in asset utilization. 16.43% of the Assets of the Bank are finance through the shareholders' equity.



Source: Company data, Armenrok.

The Bank maintained its strong presence in retail lending, keeping its market share on the same level – 8.8%. Total number of customers increased to 400K, a 3% growth relative to the previous quarter.

Unibank Selected Ratios

Ratios	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Capital Adequacy Ratio	16.11%	16.84%	15.69%	17.04%	17.92%	18.80%	18.80%
Liquidity Ratio	25.80%	24.25%	24.87%	25.30%	28.00%	29.06%	29.06%
Cost to Income Ratio	49.24%	49.16%	47.98%	50.28%	49.57%	47.02%	55.75%
Loan Portfolio/Assets	64.55%	67.19%	66.99%	66.57%	67.11%	65.09%	62.53%
Equity/Assets	16.43%	17.14%	16.70%	17.51%	18.75%	18.10%	19.10%
Profit Margin	2.37%	3.21%	6.93%	1.72%	1.17%	0.86%	1.49%
Interest Earning Margin	3.10%	3.50%	3.53%	3.72%	3.17%	3.20%	3.37%
Interest Spending Margin	1.37%	1.46%	1.60%	1.72%	1.86%	2.09%	2.19%
Spread	1.73%	2.04%	1.94%	1.99%	1.31%	1.11%	1.18%
ROE (TTM)	2.62%	2.37%	1.92%	0.92%	0.06%	0.01%	0.87%
ROA (TTM)	0.39%	0.42%	0.34%	0.17%	0.01%	0.00%	0.17%

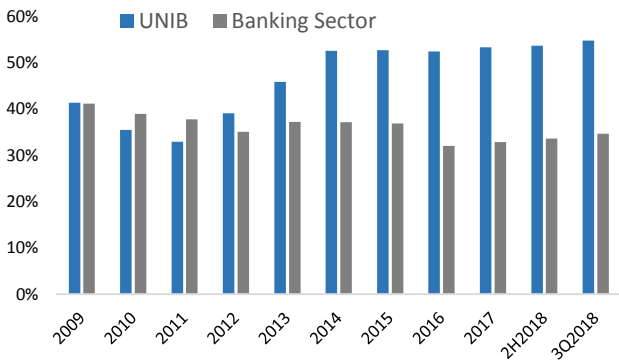
Change in Main Financial Indicators

	3Q18/2Q18	3Q18/3Q17
Operating costs	-5.14%	12.45%
Operating income	-5.28%	13.22%
Assets	4.58%	5.54%
Interest earning assets	5.34%	0.77%
Loan portfolio	0.48%	1.51%
Liabilities	5.49%	8.55%
Interest incurring liabilities	4.58%	8.08%
Deposits	4.79%	12.30%
Equity	0.21%	-7.53%
Total income	-4.94%	-3.02%
Interest income	-12.84%	0.94%
Net provision expenses	-9.95%	0.53%
Net profit after taxes	-29.76%	96.27%

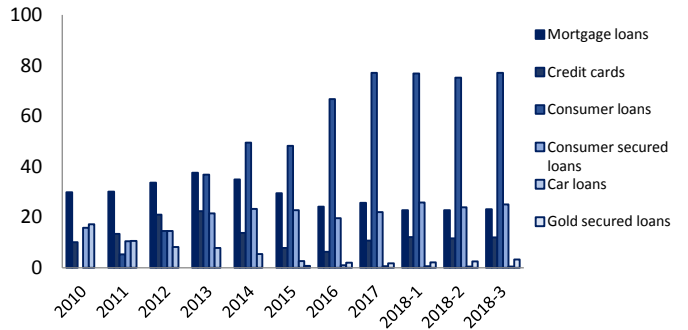
Relative Positioning of the Bank / Banking Sector Overview

Unibank positions itself as a retail bank. Consumer loans represent 54.7% of the Bank’s loan portfolio, as opposed to banking sector where retail loans comprise 34.6% only. Credit cards and general consumer loans are the most rapidly growing segments, with compounded annual growth rate of 12%. Loans secured with loans, although a relatively small segment, went up by 27.6% compared with that of 2017.

Share of Retail Loans in Total



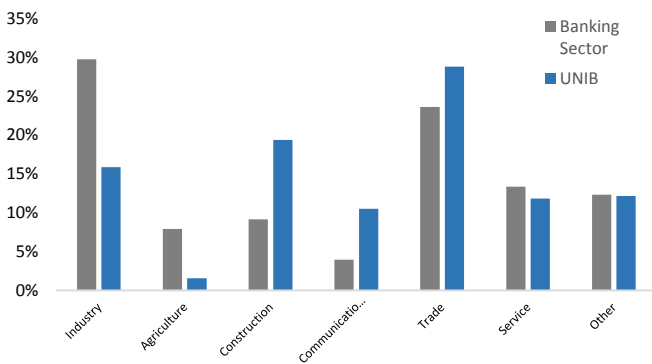
Dynamics and structure of Retail credit portfolio (mln USD)



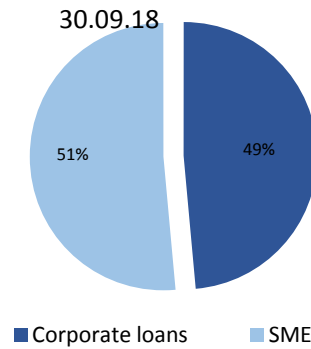
Source: Company data, CBA.

As of Q3 2018, Commercial loans hold 45,3% of the portfolio are split between Corporate and SME customers – 51% and 49%, accordingly. Share of SME loans is gradually increasing, 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 Construction, which represent 28.8% and 19.4% of commercial loan portfolio total, making the Bank slightly more sensitive to cyclical changes in the macro-environment of the country.

Structure of Commercial Loan Portfolio



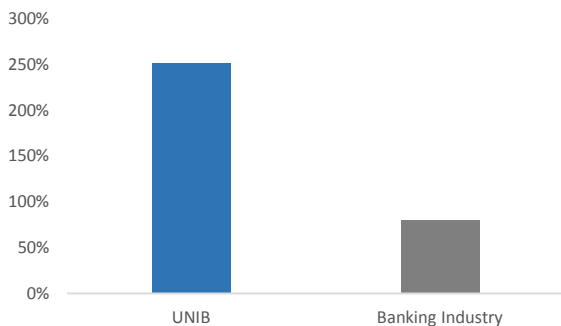
Business loan portfolio structure as of 30.09.18



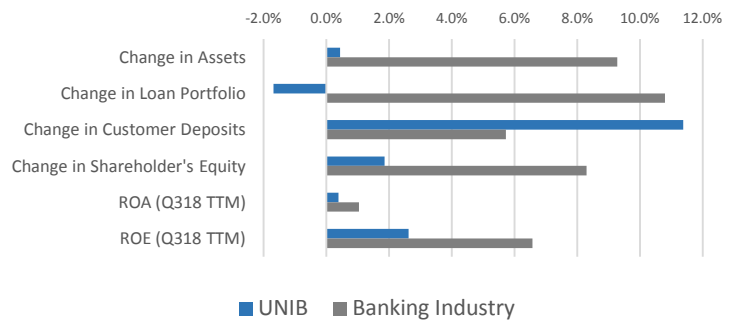
Source: Company data, CBA.

As of 3Q 2018, total banking sector assets grew by 8.9% from the end of 2017, rounding to USD 9.7 bln. Total loans increased by 10.2% and comprised 61.4% of total assets. To be noted that Unibank considerably outperforms the market in terms of asset utilization with Loans-to-Assets ratio of 64.6%. The Bank also reported a significantly higher increase in Net Profits – 251.5% vs 80% of banking sector.

Change in Net Income (3Q18 / 3Q17)



UNIB vs Banking Sector (3Q18 / 4Q17)

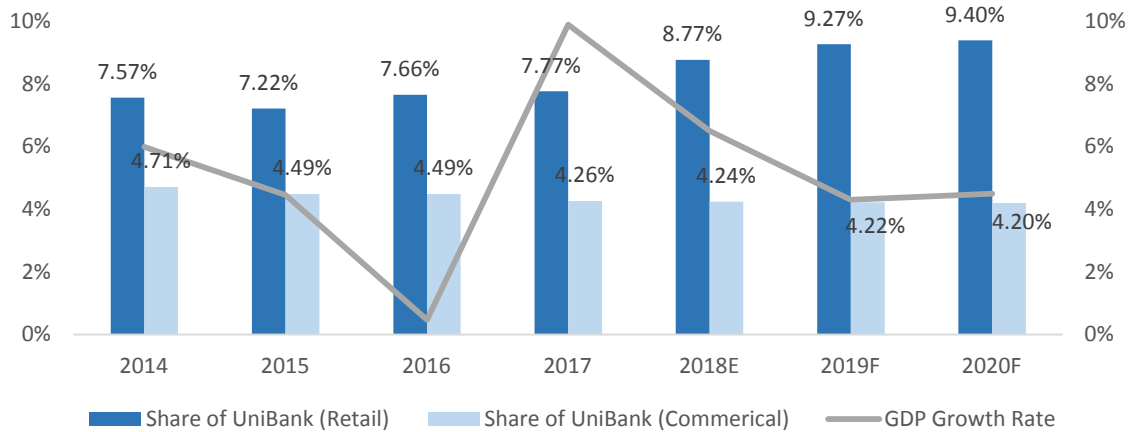


Source: Company data, CBA.

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.

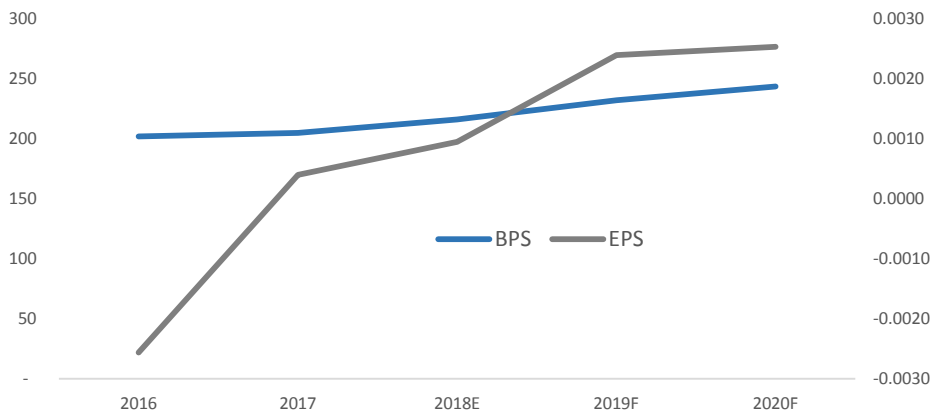
Valuation

Growth of GDP and Unibank's Share in Total Loans



Source: Company data, Armenbrok estimates.

Book Value per Share and Earnings per Share

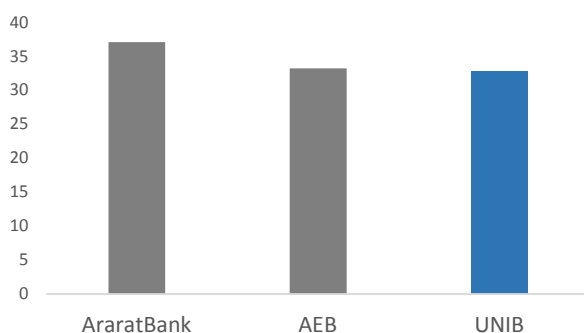


Source: Company data, Armenbrok estimates.

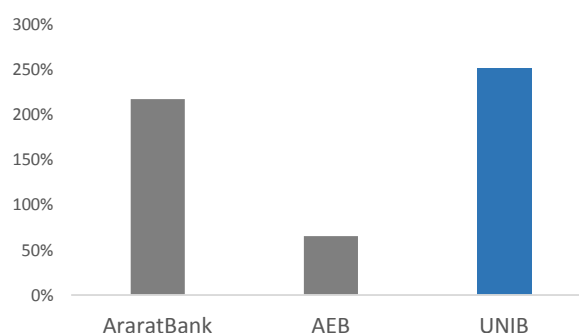
Based on the estimates, in our base case scenario we expect Bank's book value per share to reach USD 0.52 vs. current market value of USD 0.48. Unibank's shares are among the actively traded ones in the market, holding about 6% of total market volume. Relative data on comparable public companies are captioned in the charts below.

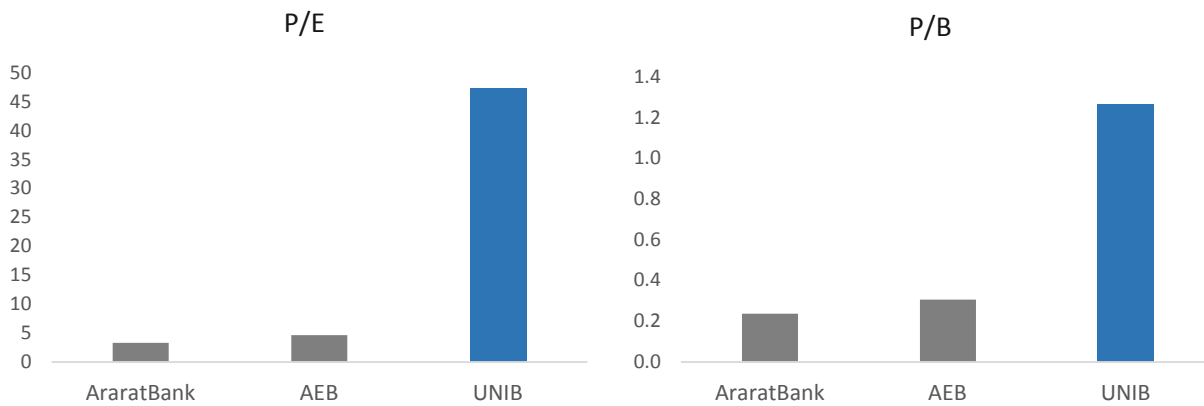
UniBank Comparable Public Companies

Book Value (AMD bln)



Net Income Growth (18Q3/17Q3)





Forecast

- Armenia GDP Growth:** In our Base Case scenario, represented above, we forecast RA's nominal GDP growth of 6.5% for 2018, 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 increased to 8.8% as of 3Q 2018, relative to 7.8% as of the end of 2017). 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.
- Slowdown in Residential Mortgage Growth.** While this segment has grown quickly historically, Q3 18 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 on Nasdaq OMX Armenia skyrocketed in recent years (currently 57 issues of 15 issuers are 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, 3Q 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	4,654	47,551,980
UNIBB3	Abond	USD	50,000	11.09.2020	5.75%	5.70%	Quarterly	14,685	1,545,940
UNIBN4	Abond	USD	50,000	13.05.2021	5.5%	5.5%	Quarterly	2,736	276,626
UNIBB5	Bbond	AMD	25,000	13.02.2020	10.00%	10.00%	Quarterly	1,044	10,592,254

Unibank currently has four listed tranches at stock exchange market. Throughout the Q3 of 2018 Unibank's Bonds trading volume and trading value as a percentage of total market comprised 2.9% and 2.7%, respectively. In October-November the Bank plans to issue new tranches of USD and AMD denominated bonds.



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