

UNIBANK EQUITY FLASHNOTE UPDATE, (UNIB) | 2Q 2019
2Q FY2019 – Improved Profitability

Unibank reported strong 2Q2019 results:

- Sufficiently increased net income and assets;
- Improved TTM ROE and ROA;
- Higher trading volume of the bank's securities relative to the market.

Armenbrok kept the Bank's outlook at Positive

Rating	Positive
Price (30 June 19, USD):	0.48
Target Price (USD)*:	0.52
Market Cap. (USD M):	82.99**
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 19F	FY 20F
EPS	-0.0026	0.0004	0.0054	0.0113	0.0172
P/E	n/a	588.22	44.55	20.44	13.40
P/BV	n/a	1.12	1.27	1.20	1.17
TBV (mIn USD)	73.03	74.12	68.22	69.44	71.31
ROE	-1.5%	0.2%	2.7%	5.9%	7.1%
Shares outstanding(M)	172.89*	Market Cap. (USD M)		82.99	

*Does not include preferred shares.

Trading Volume	27,474	Trading Value (USD)	13,247
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(01.04.19-30.06.19)

(01.04.19-30.06.19)

Source: Company data, Armenbrok estimates.

UNIB Stock Price Since IPO


Source: AMX.

Macroeconomic Update

During the first half of the year, Armenian GDP expanded by 6.5% relative to the same period a year ago; CPI went up by 2%. Services, Trade and Industry were the main drivers of the growth by a respective increase of 15.3%, 8.9%, and 6.9%. Construction volume improved by 4.7%. Conversely, Electricity production declined by 5.5%. Agricultural output contracted as well - by 7.4%. Exports declined by 0.5%, standing at USD 1,173.8mIn; Imports went up by 0.5%, widening trade deficit by USD 17.4mIn compared to the same period of the previous year. The Central Bank's refinancing rate remained unchanged at 5.75%; yields on 10-year AMD-denominated Government bonds stood at 9.7%, 0.2pps less than in the previous quarter. Armenian dram appreciated against both USD and EUR, standing at 477.11 and 543.19, respectively.

Banking Sector Update

As of June 2019, total assets of Armenian banks stood at AMD 5.3trIn (c/v USD 11bln), 6.4% increase since the beginning of the year. The growth was financed by a comparable increase in liabilities and equity – 6.64% and 4.8%, respectively. Loans accounted for 62.3% of total assets, rounding to AMD 3.3trIn (c/v USD 6.8bln), a respective growth of 4% over 1Q 2019. Customer deposits went up as well – 3.8% relative to 1Q 2019. Assets were 15% financed by shareholders' funds. For the 2Q 2019, net profits of the banking system stood at AMD 22.4bln, an increase of 39% relative to the same period a year ago. This brought the trailing twelve month (TTM) ROA to 1.3%;

TTM ROE stood at 8.5%. Average AMD lending rates were 0.42pps down for maturities of up to 1 year and 0.08pps for longer maturities; USD lending rates were little changed; no major changes were recorded in deposit rates.

Quarterly Highlights

- Unibank further enlarged its regional network by introducing two new branches, including 50th jubilee branch of the bank opened in the city of Ararat. Main drivers of bank's branch network expansion are the growing number of customers and the necessity to provide them a high-quality service. In order to further improvement of the bank's operational efficiency, Executive Board of the Bank is included with a new member.
- The bank continues its support of small businesses and offers products specifically designed for their needs. During the quarter, in the framework of "Women in Business" program over USD 10mln loans were issued to business women for the development and expansion of their enterprises. The program is being implemented by Unibank together with the Netherlands Development Bank FMO.
- Aimed at making credit funding more available for small and medium enterprises the bank cut annual interest rates for entrepreneurs applying for Visa Business Card – 15% for AMD and 12% for USD.
- Unibank took part in the "Caucasus SME Banking Club Conference 2019" organized in Tbilisi. During the Conference the bank was awarded with "The most innovative bank" certificate, as one of the most innovative banks in SME sphere among CIS countries.

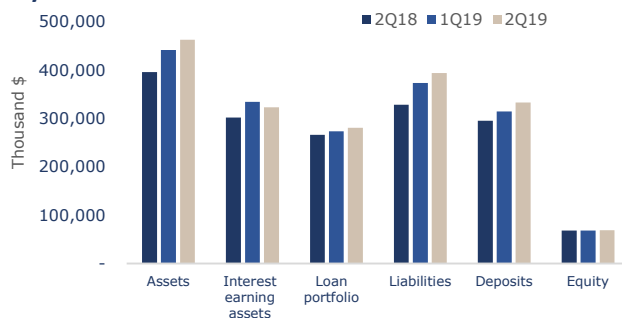
Funding Sources and Structure

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 84.6% 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 10mln 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 5mln has been received and disbursed into target clients entirely as of April 2019.

Operations

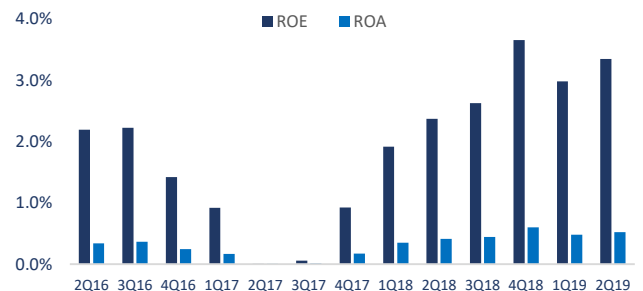
In 2Q 2019, Unibank generated a net income of AMD 322.3mln (c/v USD 669K), an increase relative to 1Q 2019 and 2Q 2018, respectively by 52.8% and 61.9%. The growth was financed by net fee and commission income, net trading income and other operational income which went up by 17.4%, 31.5% and 54.9% over 1Q 2019 respectively. The bank's combined net fee and trading income stood at AMD 974mln (c/v USD 2mln), 2.5x more than in the same period a year ago. Operating costs went down slightly over 1Q 2019 - by 0.02%. Instead, bank's profit tax expenses declined by 82.5%. However, bank's margin plunged by 0.39pps relative to 1Q 2019, rounding to 7.05%. This trend of contracting margin is observed in the industry as a whole, and Unibank is not an exception from this perspective.

Key Financial Indicators of UNIB



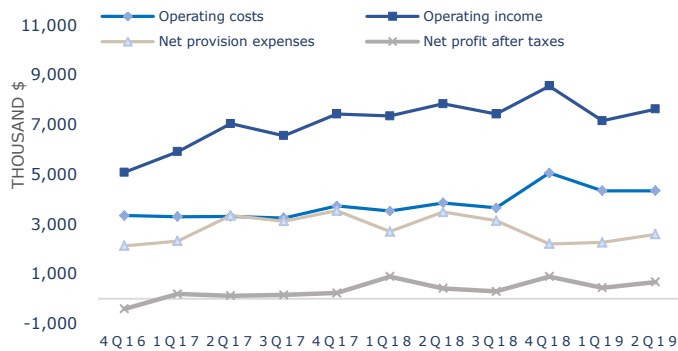
Source: Company data, Armenbrok.

ROE & ROA

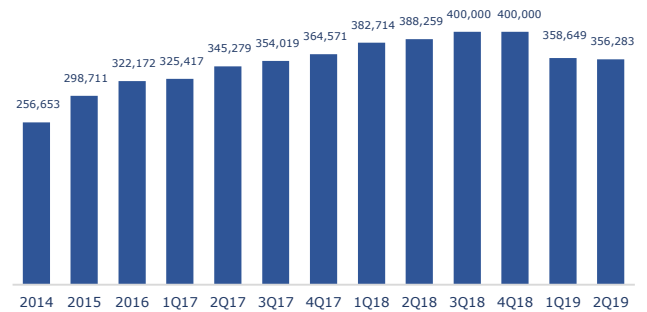


Source: Company data.

Assets of the bank went up by 4.7% over the previous quarter of the year and were 14.9% financed by equity – on par with the industry average. Despite an increase in loan portfolio, total interest earning assets declined by 3.3% and 3.8% relative to 1Q 2019 and 2Q 2018, respectively – comprising 69.9% of total. TTM ROA and ROE rounded to 0.5% and 3.4% respectively, a slight improvement over 1Q 2019 and 2Q 2018 and the second highest since 2014.

Profitability of UNIB


Source: Company data, Armenbrok.

Customer Base of UNIB


Source: Company data.

The retail loans of the bank declined by 7.8% relative to 1Q 2019, as did the number of retail 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 353,188 retail and 3,095 corporate customers.

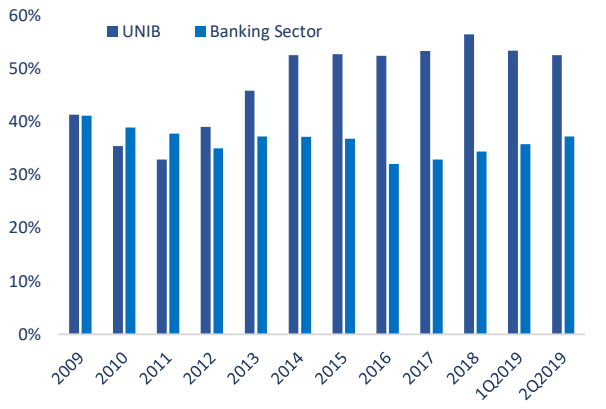
Unibank Selected Ratios	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17
Capital Adequacy Ratio	15.08%	15.27%	15.03%	16.11%	16.84%	15.69%	17.04%	17.92%	18.80%
Liquidity Ratio	24.99%	25.44%	26.87%	25.80%	24.25%	24.87%	25.30%	28.00%	29.06%
Cost to Income Ratio	56.97%	60.70%	59.11%	49.24%	49.16%	47.98%	50.28%	49.57%	47.02%
Loan Portfolio/Assets	60.71%	61.87%	63.21%	64.55%	67.19%	66.99%	66.57%	67.11%	65.09%
Equity/Assets	14.86%	15.50%	15.70%	16.43%	17.14%	16.70%	17.51%	18.75%	18.10%
Profit Margin	5.27%	3.59%	6.49%	2.37%	3.21%	6.93%	1.72%	1.17%	0.86%
Interest Earning Margin (TTM)	12.30%	12.93%	13.61%	13.99%	13.99%	13.17%	12.75%	12.42%	12.82%
Interest Spending Margin (TTM)	5.24%	5.49%	5.78%	6.05%	6.55%	7.03%	7.55%	8.10%	8.52%
Spread	7.05%	7.44%	7.84%	7.94%	7.44%	6.14%	5.20%	4.32%	4.30%
ROE (TTM)	3.35%	2.98%	3.65%	2.62%	2.37%	1.92%	0.92%	0.06%	0.01%
ROA (TTM)	0.52%	0.48%	0.60%	0.39%	0.42%	0.34%	0.17%	0.01%	0.00%

Main Financial Indicators	2Q19/1Q19	2Q19/2Q18
Operating costs	-0.02%	12.72%
Operating income	6.52%	-2.74%
Assets	4.74%	16.76%
Interest earning assets	-3.33%	7.17%
Loan portfolio	2.77%	5.49%
Liabilities	5.54%	19.98%
Interest incurring liabilities	5.97%	19.15%
Deposits	6.09%	12.89%
Equity	0.37%	1.19%
Total income	4.29%	-1.41%
Interest income	-0.25%	-12.09%
Net provision expenses	14.43%	-25.64%
Net profit after taxes	52.82%	61.86%

Relative Positioning of the Bank / Banking Sector Overview

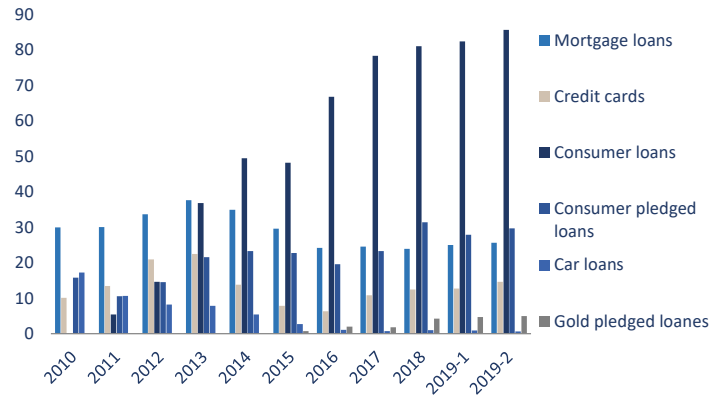
Unibank positions itself as a retail bank. Retail loans account for 52.5% of the Bank's loan portfolio, as opposed to whole banking sector where retail loans comprise 37.2% only. With 53.2% and 18.4% respectively, general consumer and secured consumer loans represent the largest share in retail portfolio; mortgages are the close third, holding 15.9% of total.

Share of Retail Loans in Total



Source: Company data, CBA.

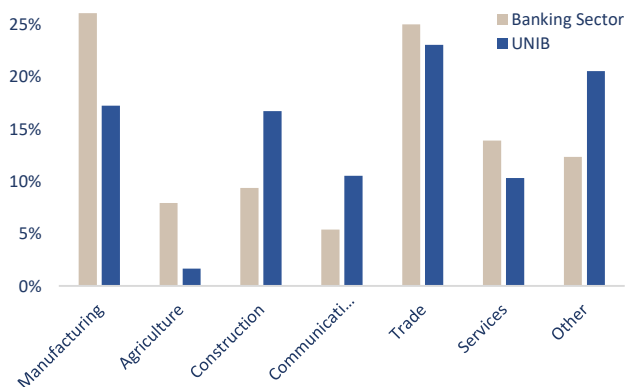
Dynamics of Retail Loan Portfolio (mln USD)



Source: Company data.

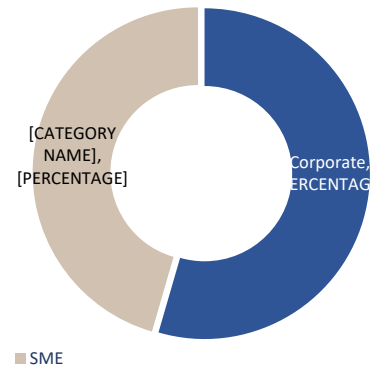
Commercial loans represent 47.5% of the credit portfolio and are split between Corporate and SME with proportions of 54% and 46%, accordingly. Share of SME loans is gradually increasing (compared to 44.2% a quarter ago), in line with the Bank's strategy of endorsing the micro/medium entrepreneurship in Armenia. Commercial portfolio of the bank is biased towards Trade and Manufacturing, which represent 30% and 17.3% of total commercial loan portfolio. The share of Construction loans declines gradually, comprising 14.9% of total as of June 2019.

Structure of Commercial Loan Portfolio as of 30.06.19



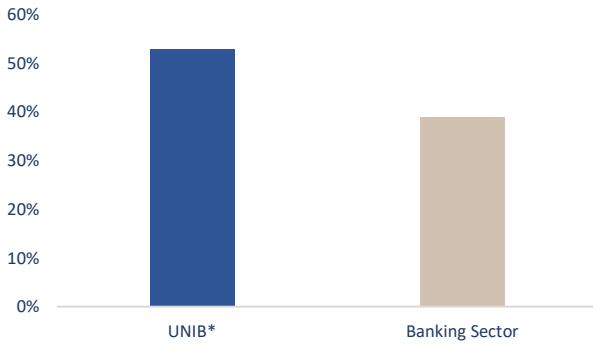
Source: Company data, CBA.

Business Loan Portfolio Structure as of 30.06.19

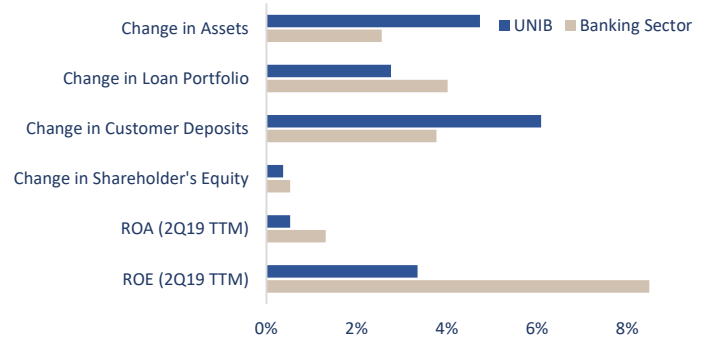
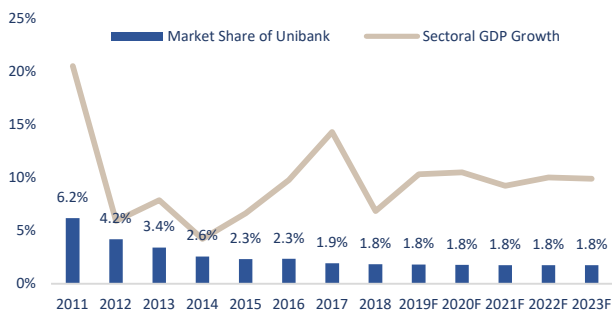


Source: Company data.

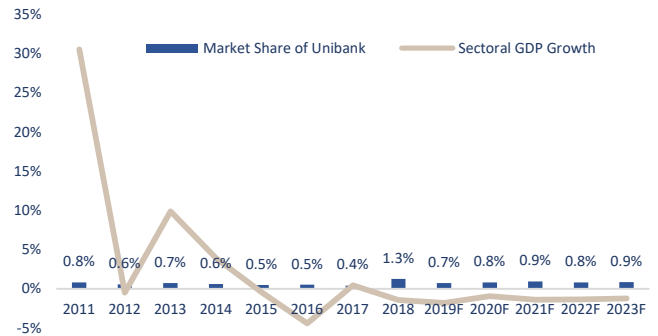
During 2Q 2019, total banking sector assets grew by 2.6%, rounding to USD 11bln. The increase in total loans was more muted - 4%. Although Unibank fell behind the market in terms of loan portfolio and equity growth, total assets, customer deposits and net income went up by more than industry's average. 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.

Change in Net Income (2Q19/1Q19)


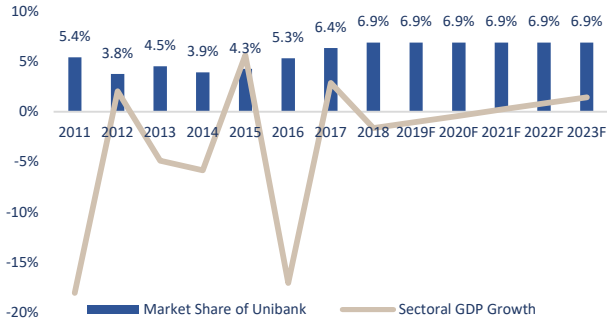
Source: Company data, CBA.

UNIB vs Banking Sector (2Q19/1Q19)

Valuation
Unibank Industry Loan Portfolio


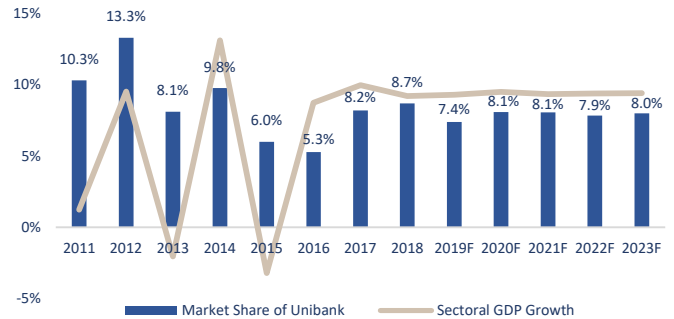
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Agricultural Loan Portfolio


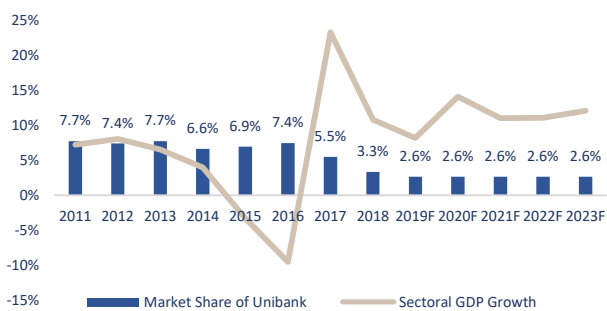
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Construction Loan Portfolio


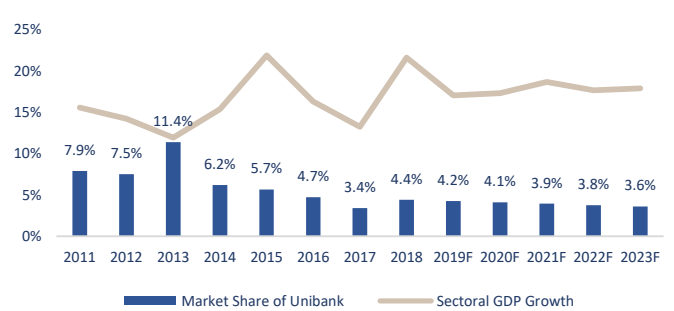
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Communications Loan Portfolio


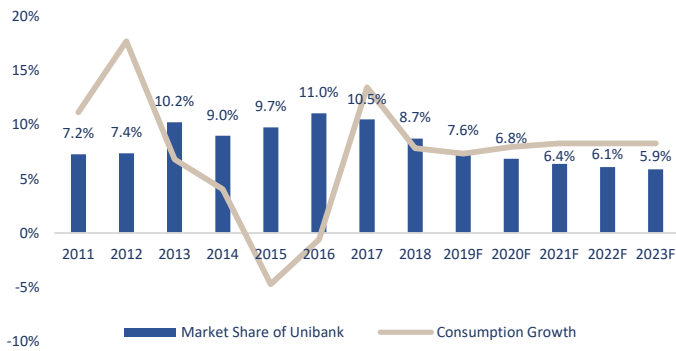
Source: Company data, CBA, Armstat, Armenbrok estimates.

Unibank Trade Loan Portfolio


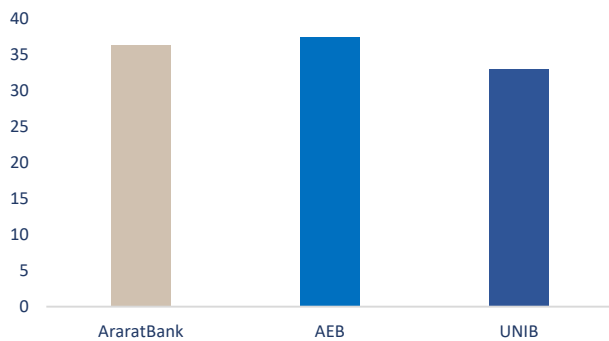
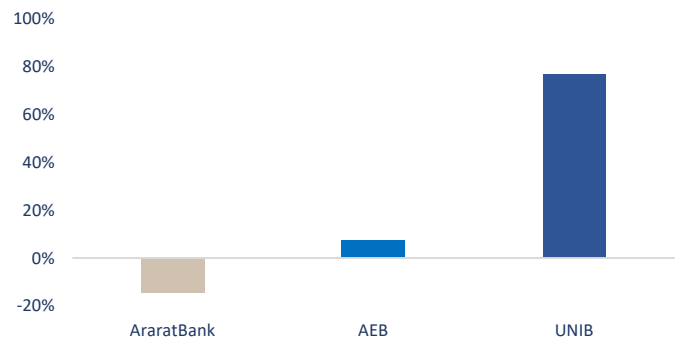
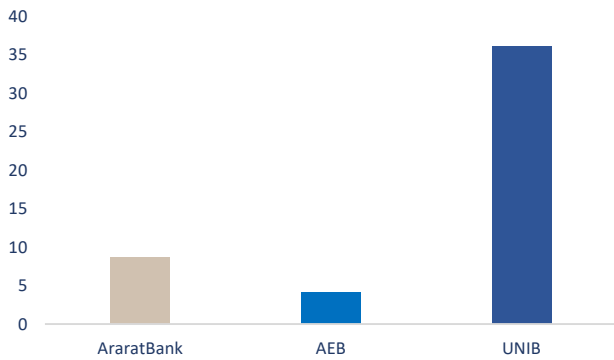
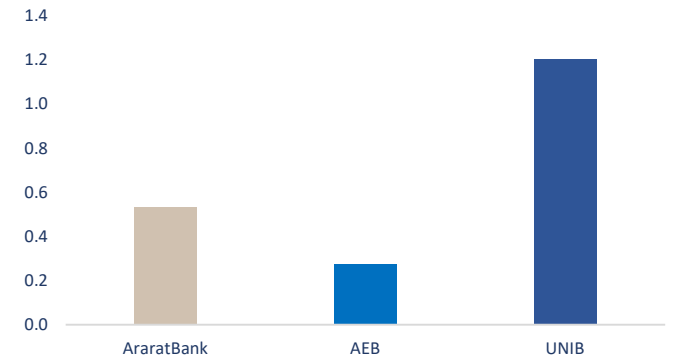
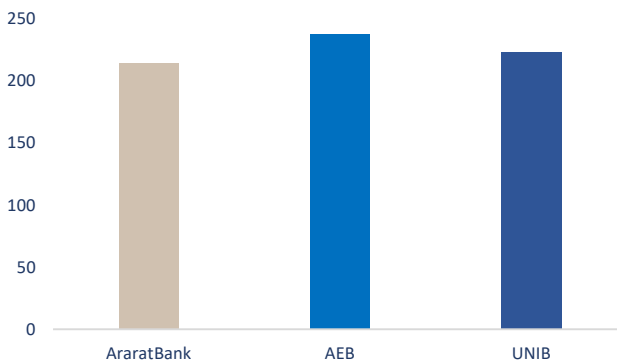
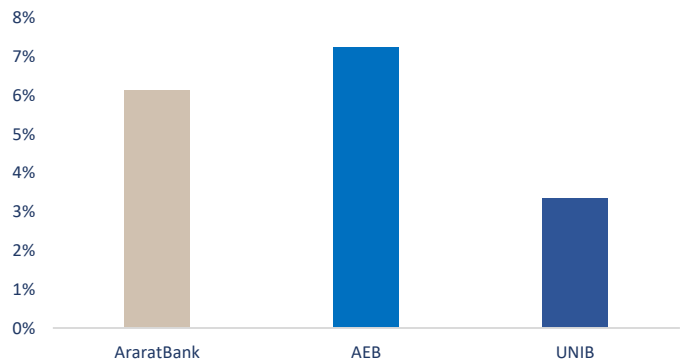
Source: Company data, CBA, Armstat, Armenbrok estimates.

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 (2Q19/2Q18 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 11pps rounding to 51.76%. An increase is anticipated in Trade and Service loans, as well. Service Loans will improve their share in total loans from 8.49% to 12.12%. The share of Mortgage loans will stand at 12.52% - an increase by 3.34pps over 2018.
- **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 1H 2019 results came in below expectations, indicating a 9.7% decline in the portfolio.
- **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, 1H 2019

Ticker	List:	Cur.	Quantity	Maturity	Coupon (%)	YTM (%)	Coupon payments	Trad. VOL:	Trad. VAL:
UNIBB3	Abond	USD	50,000	11.09.2020	5.75%	5.24%	Quarterly	4,512	457,652
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%	5.50%	Quarterly	3,703	373,669
UNIBB7	Bbond	AMD	50,000	22.10.2020	10.00%	10.00%	Quarterly	8,654	88,323,010
UNIBB8	Bbond	AMD	50,000	12.11.2020	10.00%	9.63%	Quarterly	2,879	29,202,097

In the first half of the year, Unibank had six listed tranches at stock exchange market. In Q2 2019 the bank announced allocation of USD-denominated bonds with a total nominal volume of USD 1,092,400. Bonds have a maturity of 3 years and 5% coupon rate. Throughout the mentioned period, bank's bonds trading volume and trading value as a percentage of total market comprised 4.4% and 4.2%, respectively.



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