

## UNIBANK EQUITY FLASHNOTE UPDATE, (UNIB), Q4 2018

### Strong Q4 FY18; Record Net Earnings

Unibank reported strong Q42018 results:

- Earnings increased more than 3.7x Y-o-Y;
- TTM ROE and ROA are at the highest level since 2013;
- Stock price is up 4.4% relative to Q2 2018;

Armenbrok kept the Bank's outlook at Positive.

Rating:	POSITIVE*
Price (31 Dec 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.

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	0.0069	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%	3.5%	1.1%	1.1%
Number of shares (m)	172.89*	Market Cap (USD M)		84.71	
*Does not include preferred shares.					
Trading Volume	251,759	Trading Value (USD)		119,892	
(01.01.18 – 31.12.18)		(01.01.18 – 31.12.18)			

Source: Company data, Armenbrok estimates



UNIB Stock Price Since IPO

## Macroeconomic Update

In Q4 2018, GDP of Armenia saw a growth of 5.3% in real terms, bringing the 12-month real growth to 5.8% since the beginning of the year. A major portion of the growth came from Services and Electricity production – 17.5% and 8.3%, respectively – followed by Wholesale trade – 5.3%. The volumes of industrial output and construction remained on the same level; agricultural output declined for the second month in a row (8.3%). Total exports reached USD 2.2bln – 9% increase y-o-y; total imports reached USD 4.5bln – 24% increase y-o-y. Trade deficit of the country widened to USD 2.3bln. The Central Bank cut the refinancing rate by 25bps to 5.75%; yields on 10-year AMD-denominated G-bonds stood at 9.61% by the end of Dec. 2018, almost on the same level as a month ago. Armenian dram remained unchanged relative to USD and depreciated by 0.88% relative to EUR – 483.75 and 556.6, respectively.

## Banking sector update

As of Dec 2018, total assets of the banking sector stood at AMD 4.9trln (c/v USD 10.2bln), a 14% increase over the same period a year ago. Loan portfolio grew by 16.3%, reaching AMD 3.1trln (c/v USD 6.3bln); loans comprised 61.9% of total assets, a 1.2pps improvement relative to the same period a year ago. Total assets are 15.5% financed by equity; liabilities went up by 14.6%, while customer deposits grew by 11.2%. For the FY 2018, the net profits of the banking sector improved by an impressive 78.73% relative to that of FY 2017 – AMD 62.2bln (c/v USD 128mln) vs AMD 34.8bln (c/v USD 71.7mln), respectively. Trailing twelve month ROE stood at 8.7%. Average AMD lending rates went down by 85bps as opposed to USD rates which appreciated by 98bps; no major changes were recorded in deposit rates.

## Quarterly Highlights

- New issuance of bonds.  
Unibank issued a new tranche of AMD-denominated bonds for AMD 500mln. Yielding 10% p.a., the entire volume was successfully placed at Armenian Stock Exchange.

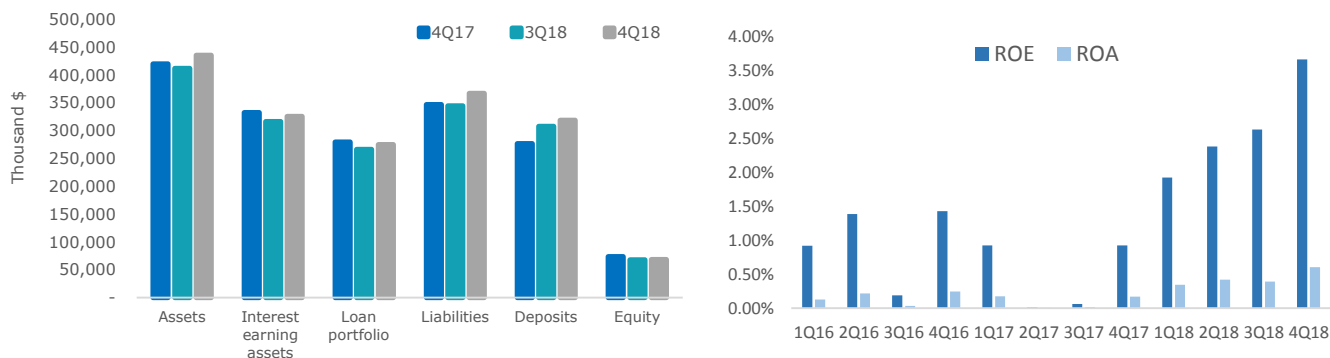
- The bank installed an automated processing system for the unsecured loans of up to AMD 2mln. Now it will take no more than few minutes to assess the creditworthiness of the borrower and provide a decision, thus significantly saving the client's time.
- To support women's entrepreneurship in Armenia Unibank together with the Dutch Development Bank (FMO) started implementing the Women in Business program, designed to provide female business owners or managers with up to half a million US dollar loans at 10.5% interest rate. The loan repayment term is up to 60 months. Loans are granted to businesswomen engaged in production, trade, medicine, tourism (including hotel and restaurant business), services and other sectors.
- In line with its mission to support Armenian border communities, Unibank donated computer classrooms to two border schools located in Khachik and Shanghat. Thus, the bank has already helped open as many as seven computer classrooms and ArMath labs in Armenia and Artsakh, with the 8th one planned to be started in Spitak soon.
- Unibank has decided to extend the deadline for forgiving its individual customer's fines and penalties for bad loans. The decision to extend the deadline applies to overdue loans, which were calculated and reflected in the bank's off-balance account and were repayable in 271 days or more as of May 31, 2018. The bank plans to forgive fines and penalties, and will set a new repayment schedule for the rest of the loans and interests, which will allow customers to restore their credit history.
- Unibank has been awarded a prize at SPEAR's Russia Wealth Management Awards 2018 for the best Private Banking customer service in CIS countries. The acknowledgement of the Bank's high-quality activities by the experts of the prestigious SPEAR'S Russia journal confirms the achievements of Unibank Privé in the field of private banking and wealth management and the expanding of its services spectrum in CIS and European countries

## 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 86.8% 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.

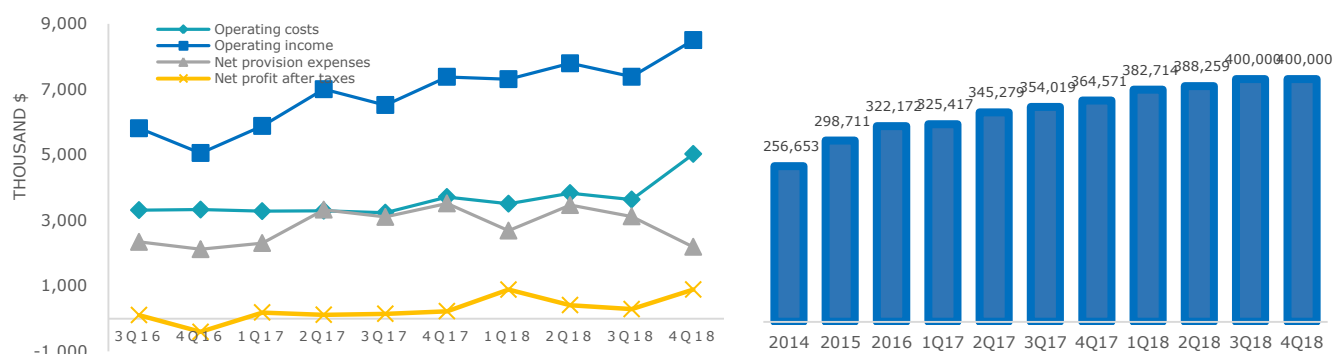
## Operations

Q4 2018 was a quite successful quarter for Unibank. During the quarter, the bank recorded a net income of AMD 429.6mln (c/v USD 890K), 3.1x and 3.9x more than in Q1 18 and Q4 17, respectively. Net income for the FY 2018 stood at AMD 1.2bln (c/v USD 2.5mln), an impressive 17.7x improvement over the same period a year ago. Assets increased by 3.6% year-over-year, while loan portfolio remained almost on the same level. The growth of assets was financed by a 5.9% increase in liabilities – including a 15.1% upsurge in customer deposits – while shareholders' equity contracted by 15.1%. The ROA and ROE stood at 0.6% and 3.7%, respectively, the highest level since 2014.



Source: Company data, Armenbrok.

Operating costs increased significantly (by 38.3%) as did operating income (by 15.2%). Interest earning assets comprised 74.8% of total, up by 3% relative to Q3 18. Net provision expenses were reduced by an impressive 29.8%, indicating the improved quality of the loan portfolio. Net interest margin surged to 8.6%, 60bps more than a quarter ago.



Source: Company data, Armenrok.

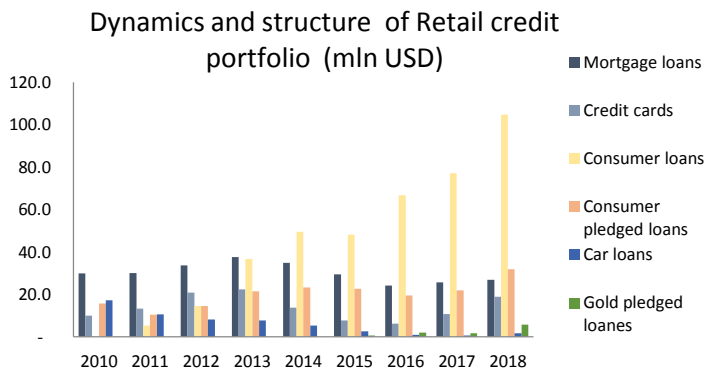
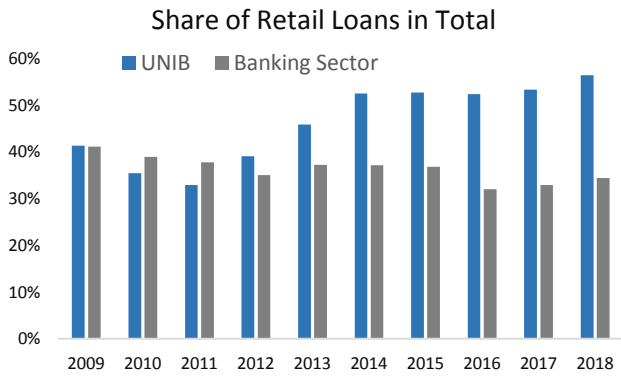
The Bank maintained its strong presence in retail lending, although its market share declined to 7.5% - the fourth in Armenia. Total number of customers remained unchanged at 400K relative to Q3 18.

Unibank Selected Ratios	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Capital Adequacy Ratio	15.03%	16.11%	16.84%	15.69%	17.04%	17.92%	18.80%	18.80%
Liquidity Ratio	26.87%	25.80%	24.25%	24.87%	25.30%	28.00%	29.06%	29.06%
Cost to Income Ratio	59.11%	49.24%	49.16%	47.98%	50.28%	49.57%	47.02%	55.75%
Loan Portfolio/Assets	63.21%	64.55%	67.19%	66.99%	66.57%	67.11%	65.09%	62.53%
Equity/Assets	15.70%	16.43%	17.14%	16.70%	17.51%	18.75%	18.10%	19.10%
Profit Margin	6.49%	2.37%	3.21%	6.93%	1.72%	1.17%	0.86%	1.49%
Interest Earning Margin	19.90%	13.99%	13.76%	3.53%	3.72%	3.17%	3.20%	3.37%
Interest Spending Margin	11.34%	6.05%	6.51%	1.60%	1.72%	1.86%	2.09%	2.19%
Spread	8.56%	7.94%	7.26%	1.94%	1.99%	1.31%	1.11%	1.18%
ROE	3.65%	2.62%	2.37%	1.92%	0.92%	0.06%	0.01%	0.87%
ROA	0.60%	0.39%	0.42%	0.34%	0.17%	0.01%	0.00%	0.17%

Main Financial Indicators	4Q18/3Q18	4Q18/4Q17
Operating costs	38.29%	35.43%
Operating income	15.18%	15.19%
Assets	5.60%	3.58%
Interest earning assets	3.03%	-2.06%
Loan portfolio	3.41%	-1.64%
Liabilities	6.52%	5.86%
Interest incurring liabilities	6.57%	5.44%
Deposits	3.52%	15.07%
Equity	0.91%	-7.16%
Total income	12.12%	3.99%
Interest income	-79.16%	-82.73%
Net provision expenses	-29.78%	-37.69%
Net profit after taxes	207.18%	292.87%

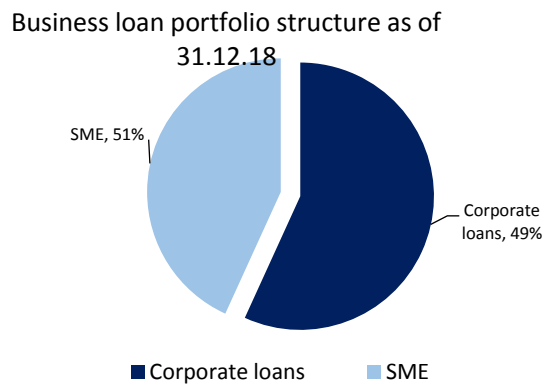
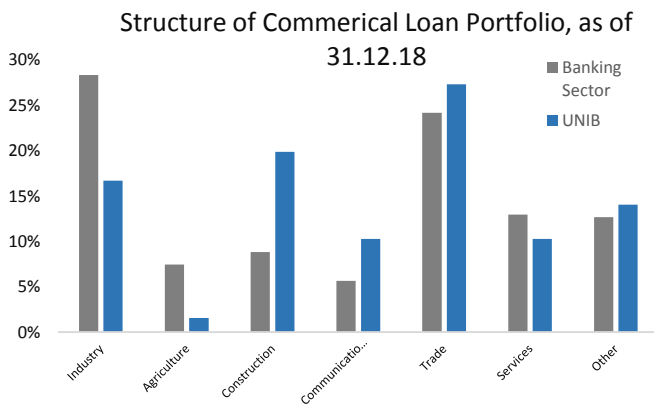
# Relative Positioning of the Bank / Banking Sector Overview

Unibank positions itself as a retail bank. Retail loans represent 56.4% of the Bank’s loan portfolio, as opposed to banking sector where retail loans comprise 34.4% only. Credit cards and secured consumer loans are the most rapidly growing segments, with a growth rate of 76% and 45%, respectively. As of YE 2018, General consumer loans hold 55.1% of the retail portfolio.



Source: Company data, CBA.

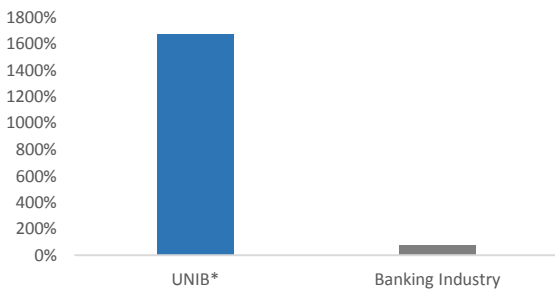
Commercial loans represent 43.6% of the credit portfolio and are split between Corporate and SME with proportions of 57% and 43%, accordingly. Share of SME loans is gradually increasing, in line with the Bank's strategy of endorsing the micro/medium entrepreneurship in Armenia. Commercial portfolio of the Bank is biased towards Trade and Construction, which represent 27.3% and 19.9% of commercial loan portfolio total, making the Bank slightly more sensitive to cyclical changes in the macro-environment of the country.



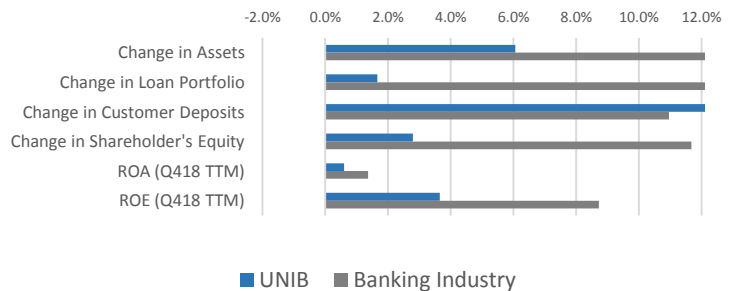
Source: Company data, CBA.

In 2018, total banking sector assets grew by 14.4%, rounding to USD 10.2bln. Total loans increased by 17% year-over-year, comprising 61.9% of assets. Unibank considerably outperforms the market in terms of asset utilization with a Loans-to-Assets ratio of 63.2%. The Bank also reported a significantly higher increase in Net Profits – 17.7x vs 75.6% of banking sector.

Change in Net Income (4Q18 / 4Q17)



UNIB vs Banking Sector (4Q18 / 4Q17)

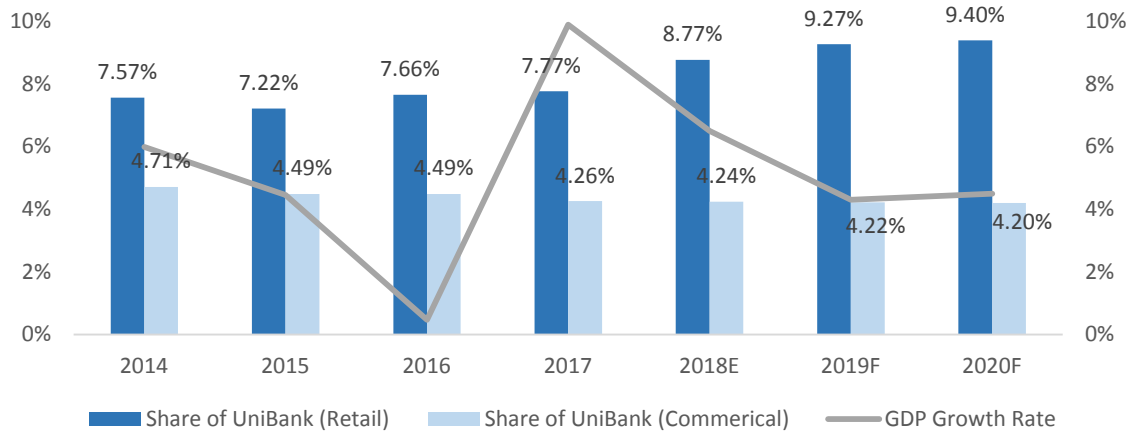


Source: Company data, CBA.

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.

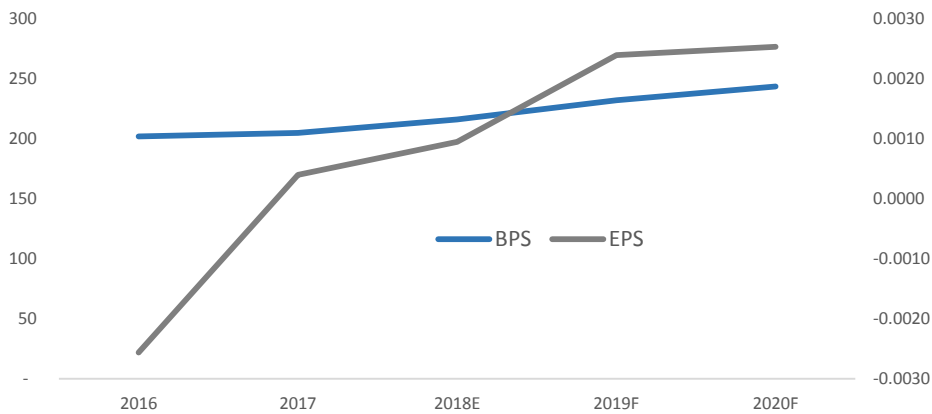
# Valuation

## Growth of GDP and Unibank's Share in Total Loans



Source: Company data, Armenbrok estimates.

## Book Value per Share and Earnings per Share

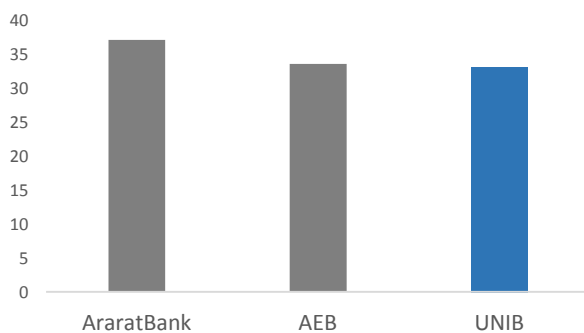


Source: Company data, Armenbrok estimates.

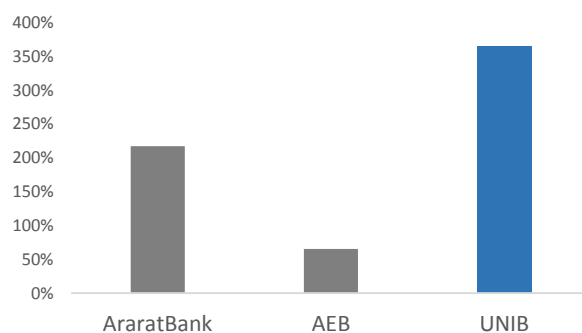
Based on the estimates, in our base case scenario we expect Bank's book value per share to reach USD 0.52 vs. current market value of USD 0.49. Unibank's shares are among the actively traded ones in the market, holding about 6% of total market volume. Relative data on comparable public companies are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

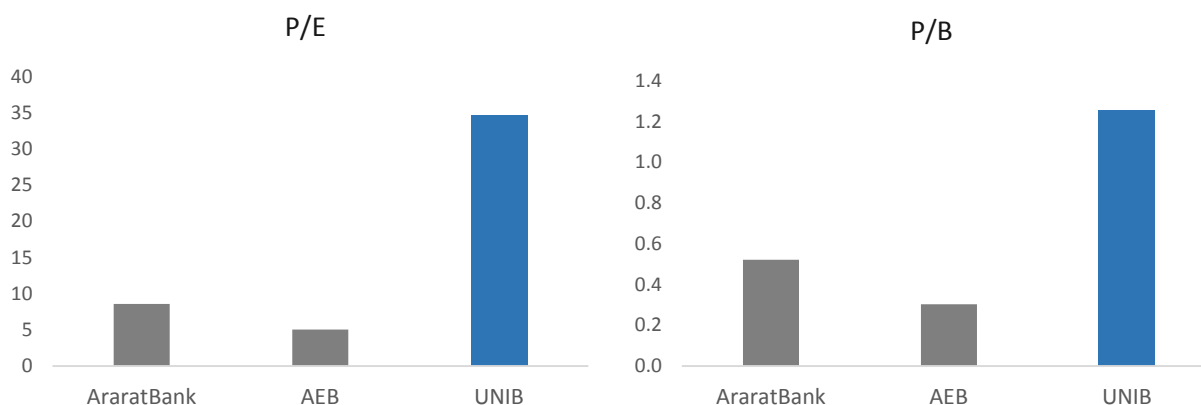
### UniBank Comparable Public Companies

#### Book Value (AMD bln)



#### Net Income Growth (2018/2017)





## 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 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, Q4 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 14.2% of the Bank's retail 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, 4Q 2018

Ticker	List:	Cur.	Quantity	Maturity	Coupon (%)	YTM (%)	Coupon payments	Trad. VOL:	Trad. VAL:
UNIBB3	Abond	USD	50,000	11.09.2020	5.75%	5.43%	Quarterly	15,978	1,606,050
UNIBB4	Abond	USD	50,000	13.05.2021	5.5%	5.17%	Quarterly	2,736	281,500
UNIBB5	Bbond	AMD	25,000	13.02.2020	10.00%	9.06%	Quarterly	1,744	17,702,080
UNIBB6	Bbond	USD	50,000	22.10.2021	5.5%	5.33%	Quarterly	890	89,700

UNIBB7	Bbond	AMD	50,000	22.10.2020	10.00%	9.2%	Quarterly	-	-
UNIBB8	Bbond	AMD	50,000	12.11.2020	10.00%	9.2%	Quarterly	-	-

Unibank currently has six listed tranches at stock exchange market. Throughout the Q4 of 2018 Unibank's Bonds trading volume and trading value as a percentage of total market comprised 2.4% and 2.1%, respectively.



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#### 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](mailto:research@armenbrok.com)  
[www.armenbrok.am](http://www.armenbrok.am) | [www.armenbrok.com](http://www.armenbrok.com)