

**UNIBANK EQUITY FLASHNOTE UPDATE, (UNIB) | 3Q 2019**
**3Q FY2019 – Exceptional Profitability**

Unibank reported solid 3Q 2019 results:

- More than tripled net income;
- Widened margins;
- Highest TTM ROE since 2014.

Armenbrok kept the Bank's outlook at Positive

<b>Rating</b>	<b>Positive</b>
<b>Price (30 Sep 19, USD):</b>	<b>0.48</b>
<b>Target Price (USD)*:</b>	<b>0.52</b>
<b>Market Cap. (USD M):</b>	<b>82.99**</b>
<b>Free Float</b>	<b>6.8%</b>
<b>Moody's</b>	<b>B2, "Stable"</b>

\*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	0.0071	0.0084
P/E	n/a	588.22	44.55	32.33	27.44
P/BV	n/a	1.12	1.27	1.21	1.19
TBV (mIn USD)	73.03	74.12	68.22	69.16	70.07
ROE	-1.5%	0.2%	2.7%	3.8%	4.4%
Shares outstanding(M)	172.89*	Market Cap. (USD M)		82.99	

\*Does not include preferred shares.

Trading Volume	19,199	Trading Value (USD)	9,274
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(01.07.19-30.09.19)

(01.07.19-30.09.19)

Source: Company data, Armenbrok estimates, AMX.

**UNIB Stock Price Since IPO**


Source: AMX.

## Macroeconomic Update

During July, August and September y/y growth of GDP was exceptional - 8.3%, 7.6% and 7.5%, respectively. As a result, 9M GDP surged by 7.1% relative to the same period a year ago; CPI went up by 1.6% y/y. Key contributors to the 9M growth were Services, Industry and Trade by a respective increase of 15.5%, 9.7%, and 8.8%. Construction volume improved by 4.4%. Conversely, Electricity production and Agricultural output contracted by 2.2% and 4.8%, respectively. Exports expanded by 7.9%, standing at USD 1,909.2mln; Imports went up by 4.7%. In September, for the second time this year, The Central Bank cut the refinancing rate by 0.25pps, setting it 5.5%; yields on 10-year AMD-denominated Treasury bonds dropped by 0.45pps over previous quarter, standing at 9.29%; Armenian Dram appreciated against both USD and EUR, standing at 475.97 and 519.81, respectively.

## Banking Sector Update

During 3Q 2019 total assets of Armenian banking sector went up by 2.64% over 2Q 2019 and stood at AMD 5.4trln (c/v USD 11.3bln), which implies YTD increase of 8.7%. The growth was financed by a comparable YTD increase in liabilities and equity – 9.17% and 6.16%, respectively. Assets were 15.2% financed by shareholders' funds. Largest share in the structure of Total Assets pertained to Loans – 62.1%. Total Loan Portfolio of banking sector grew by 15.11% y/y, standing at AMD 3.4trln (c/v USD 7bln). Customer deposits equalled to AMD 3.2trln (c/v USD 6.7bln) – an increase of 17.78% y/y. Net profits of Armenian banks surged by 46.64% y/y, rounding to AMD 22.6bln (c/v USD

47.4mIn). Such an impressive increase in profitability moved both trailing twelve month (TTM) ROA and ROE up to 1.4% and 9%, respectively. Average AMD lending rates were 0.13pps down for maturities of up to 1 year and 0.70pps up for longer maturities; USD lending rates changed in same direction; no major changes were recorded in deposit rates.

## Quarterly Highlights

- Aimed at providing customers with high-quality service, Unibank continued expansion and modernization of its branch network in 3Q 2019. The Bank opened “Noragavit” branch in Yerevan and renovated “Mashtots” branch. They will serve both private and corporate clients by providing full package of banking services. The branches have spacious service halls, which are equipped with queue management system and payment terminals.
- Chain of electronics stores “VLV Electronics” awarded Unibank as the best partner in 2019. Key success factors were affordable terms of lending and quick processing of loan applications. Daily, the Bank receives 1,500 applications and each of them requires only 1 minute for final decision.
- Unibank took part in Armenia EXPO 2019, organized on 12-14 September. The Bank introduced its business loans designed in accordance with specifics of enterprises, economic environment and market development perspectives.

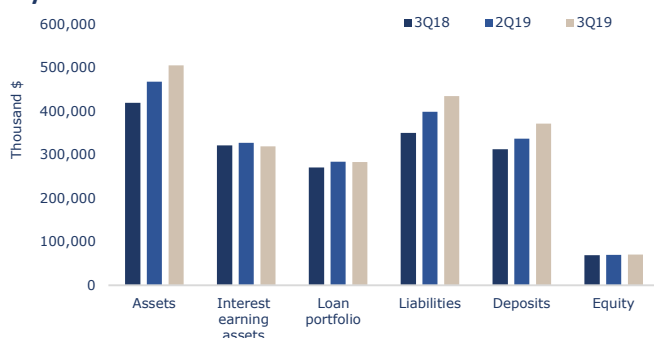
## Funding Sources and Structure

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 85.4% 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 10mIn 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 5mIn has been received and disbursed into target clients entirely as of April 2019.

## Operations

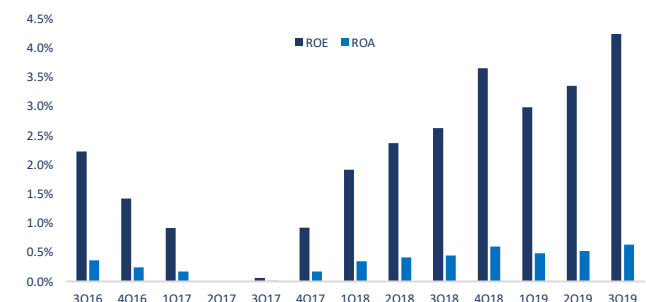
In 3Q 2019, Unibank reported a net income of AMD 440.5mIn (c/v USD 925K), an impressive 3x increase over 3Q 2018 and 13.1% surge over 2Q 2019. As a result, 9M net profit rounded to AMD 973.7mIn (c/v USD 2mIn), a 27% improvement relative the same period last year. The main source of income growth was net trading income which stood at AMD 740mIn instead of AMD 3.6mIn loss in 3Q 2018. Total operating income went up by 9.37%. Reduction of profit tax expenses by 22.06% contributed in net income increase, as well. Improvements were achieved in Bank’s margins: profit margin widened by 0.52pps over previous quarter, while spread between interest earning and spending margins went up by 0.15pps.

### Key Financial Indicators of Unibank



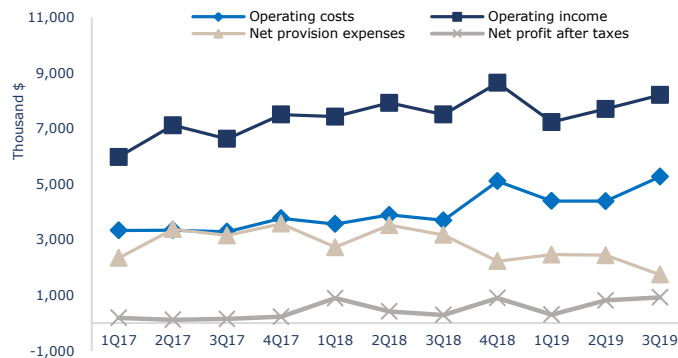
Source: Company data, Armenbrok.

### ROE & ROA

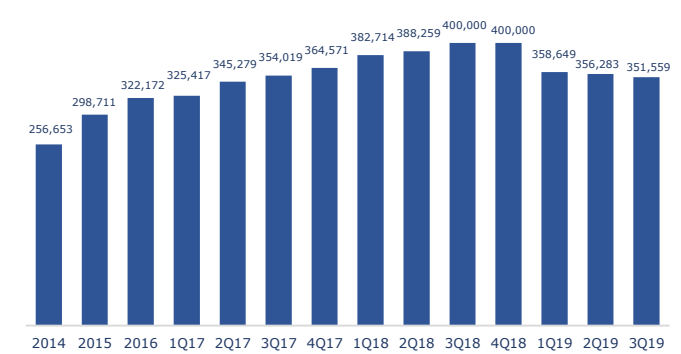


Source: Company data.

Assets of the bank increased relative to 2Q 2019 and 3Q 2018, respectively by 8.01% and 20.59%. Equity financed 13.92% of assets – on par with the industry average. Bank's loan portfolio surged by 4.75% relative to 3Q 2018. Conversely, interest earning assets declined by 0.81% reducing their share in total assets to 63.09%. Both TTM ROA and ROE improved over 2Q 2019 and 3Q 2018 standing at 0.63% and 4.25%, respectively.

**Profitability of Unibank**


Source: Company data, Armenbrok.

**Customer Base of Unibank**


Source: Company data.

The retail loans of the bank declined by 1.01% relative to 2Q 2019. A reduction was reported in the number of retail customers, as well, mainly coming from credit cards and consumer loans. However, this has a seasonal character and is expected to converge to the average by the end of the year. The bank had 348,390 retail and 3,169 corporate customers as of 30.09.2019.

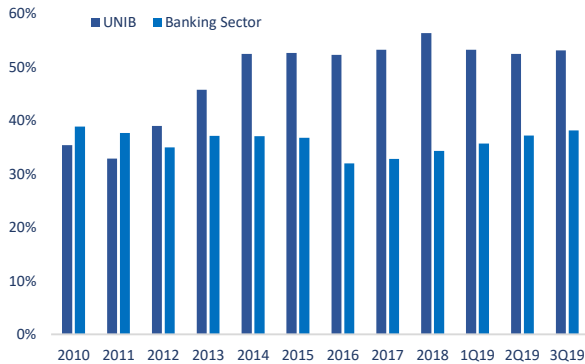
Unibank Selected Ratios	3Q19	2Q19	1Q19	4Q18	3Q18	2Q18	1Q18	4Q17	3Q17
Capital Adequacy Ratio	14.33%	15.08%	15.27%	14.55%	16.11%	16.84%	15.69%	17.04%	17.92%
Liquidity Ratio	30.31%	24.99%	25.44%	26.87%	25.80%	24.25%	24.87%	25.30%	28.00%
Cost to Income Ratio	64.22%	56.97%	60.70%	59.11%	49.24%	49.16%	47.98%	50.28%	49.57%
Loan Portfolio/Assets	56.08%	60.71%	62.44%	63.21%	64.55%	67.19%	66.99%	66.57%	67.11%
Equity/Assets	13.92%	14.86%	15.35%	15.70%	16.43%	17.14%	16.70%	17.51%	18.75%
Profit Margin	6.88%	6.36%	2.45%	6.49%	2.37%	3.21%	6.93%	1.72%	1.17%
Interest Earning Margin (TTM)	12.48%	12.53%	13.18%	13.61%	13.99%	13.99%	13.61%	13.18%	12.86%
Interest Spending Margin (TTM)	5.03%	5.24%	5.49%	5.78%	6.05%	6.55%	7.03%	7.55%	8.10%
Spread	7.44%	7.29%	7.69%	7.84%	7.94%	7.44%	6.58%	5.63%	4.76%
ROE (TTM)	4.25%	3.36%	2.78%	3.65%	2.62%	2.37%	1.92%	0.92%	0.06%
ROA (TTM)	0.63%	0.52%	0.45%	0.60%	0.44%	0.42%	0.35%	0.17%	0.01%

Main Financial Indicators	3Q19/2Q19	3Q19/3Q18
Operating costs	20.06%	42.66%
Operating income	6.51%	9.37%
Assets	8.01%	20.59%
Interest earning assets	-2.50%	-0.81%
Loan portfolio	-0.23%	4.75%
Liabilities	9.20%	24.21%
Interest incurring liabilities	8.71%	23.86%
Deposits	10.20%	18.71%
Equity	1.20%	2.19%
Total income	4.67%	8.56%
Interest income	-3.59%	-2.76%
Net provision expenses	-28.63%	-45.04%
Net profit after taxes	13.10%	214.98%

## Relative Positioning of the Bank / Banking Sector Overview

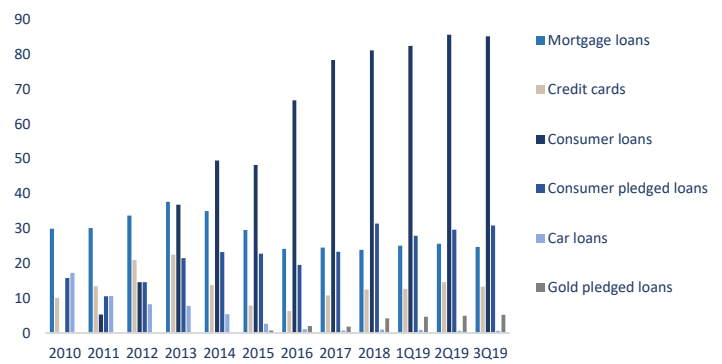
Unibank positions itself as a retail bank. Retail loans comprise 53.14% of the Bank's loan portfolio, in contrast to whole banking sector where retail loans represent 38.20% only. Largest shares in the portfolio belong to general consumer and secured consumer loans – 53.30% and 19.30%, respectively; mortgages are the close third, holding 15.43% of total.

**Share of Retail Loans in Total**



Source: Company data, CBA.

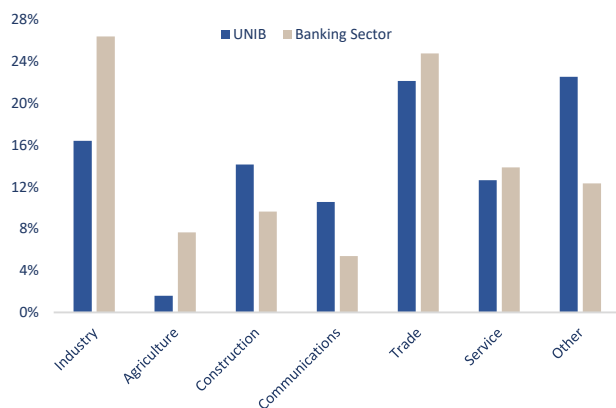
**Dynamics of Retail Loan Portfolio (mln USD)**



Source: Company data.

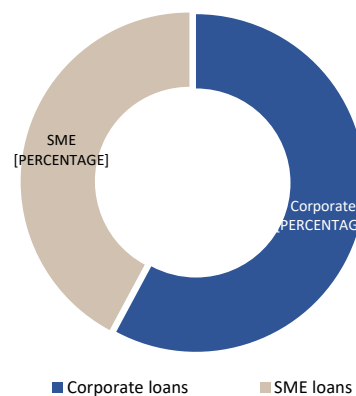
Commercial loans represent 46.86% of the credit portfolio and are split between Corporate and SME with proportions of 58% and 42%, accordingly. Share of Corporate loans went up by 4pps and 7pps relative to 2Q 2019 and 3Q 2018, respectively. Currently Bank's management exerts active efforts towards expansion of SME portfolio, in line with the Bank's strategy of endorsing the micro/medium entrepreneurship in Armenia. Major components of commercial portfolio are Trade, Manufacturing and Construction loans, which represent 30.48%, 15.55% and 15.09% of total commercial portfolio, respectively.

**Structure of Commercial Loan Portfolio as of 30.09.19**



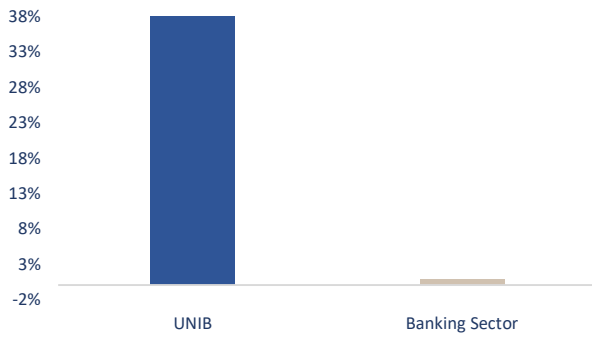
Source: Company data, CBA.

**Business Loan Portfolio Structure as of 30.09.19**

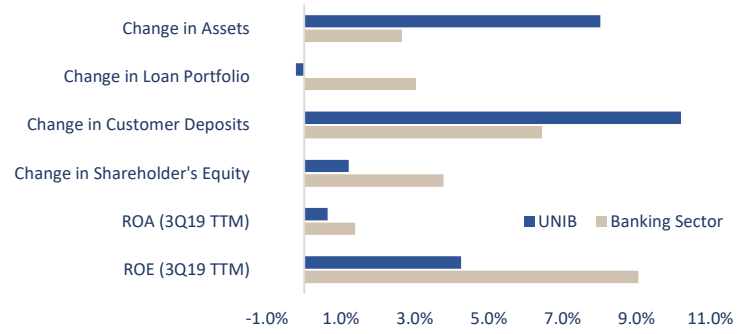
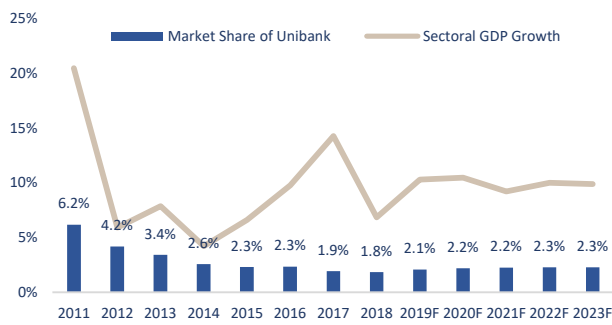


Source: Company data.

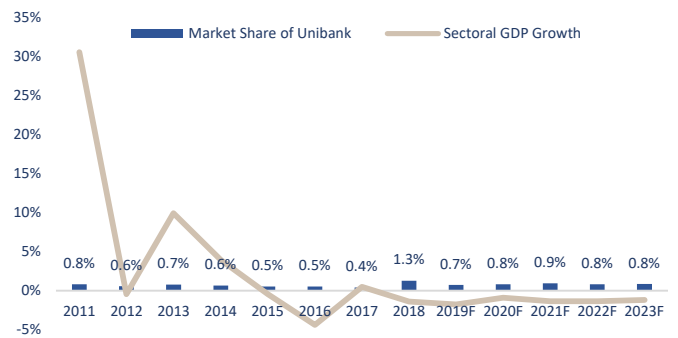
According to the financial results of 3Q 2019, compared to previous quarter, Unibank's Loan Portfolio and Equity grew less than industry's average. On the contrary, growth of Bank's Total Assets, Deposits and Net Profit surpassed the average growth rate of the whole banking sector. The above average growth rates of profitability makes 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 (3Q19/2Q19)**


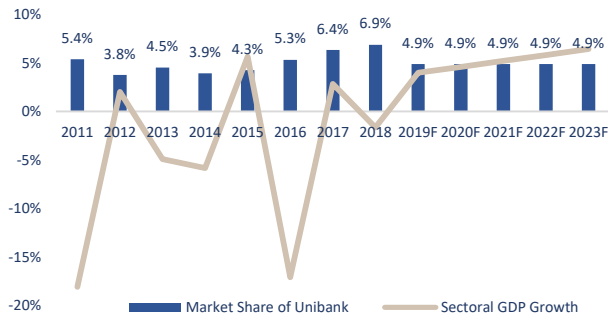
Source: Company data, CBA.

**Unibank vs Banking Sector (3Q19/2Q19)**

**Valuation**
**Unibank Industry Loan Portfolio**


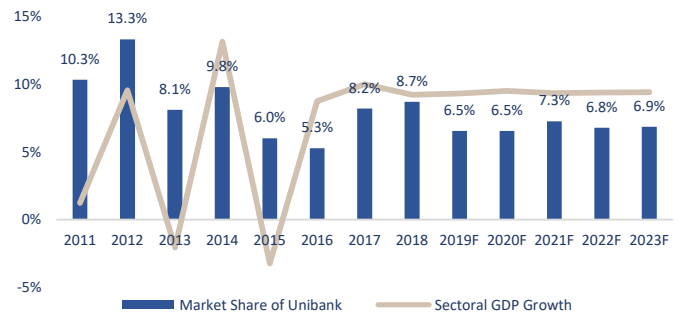
Source: Company data, CBA, Armstat, Armenbrok estimates.

**Unibank Agricultural Loan Portfolio**


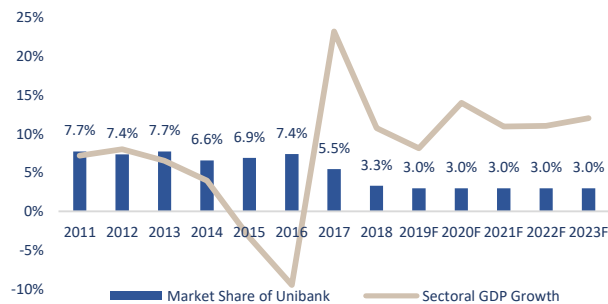
Source: Company data, CBA, Armstat, Armenbrok estimates.

**Unibank Construction Loan Portfolio**


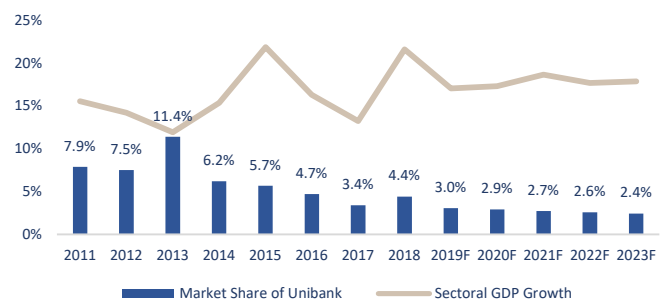
Source: Company data, CBA, Armstat, Armenbrok estimates.

**Unibank Communications Loan Portfolio**


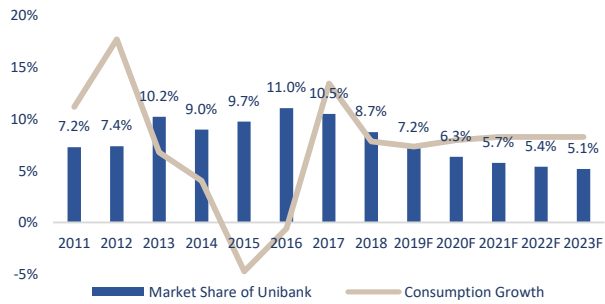
Source: Company data, CBA, Armstat, Armenbrok estimates.

**Unibank Trade Loan Portfolio**


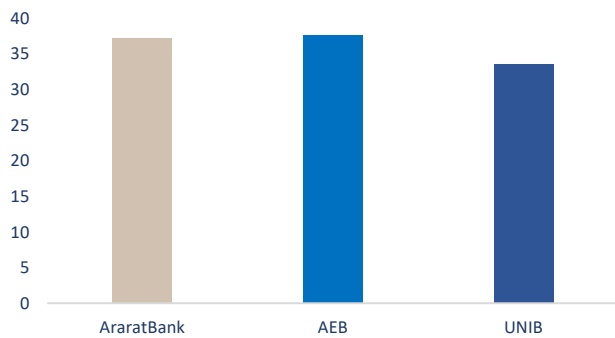
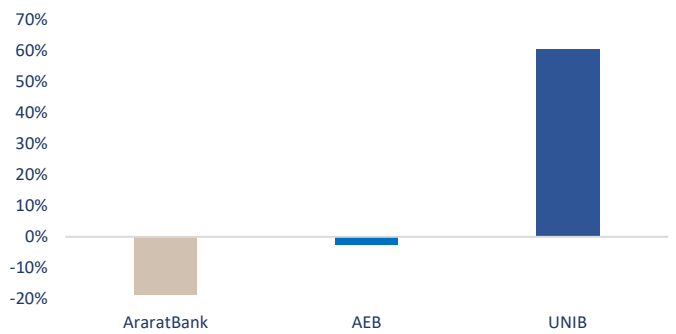
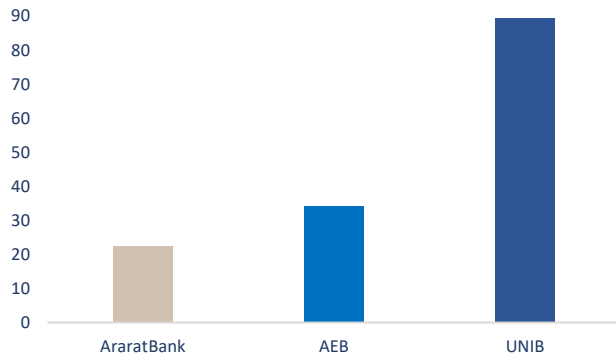
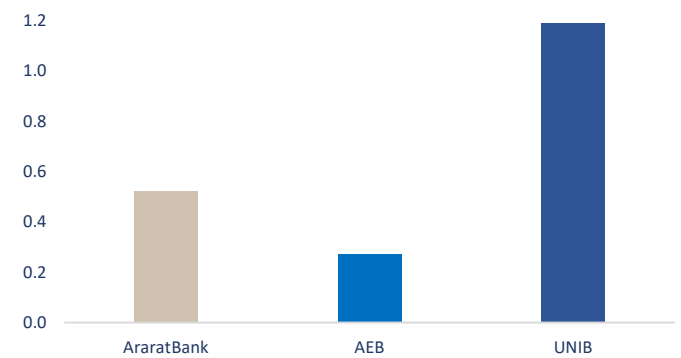
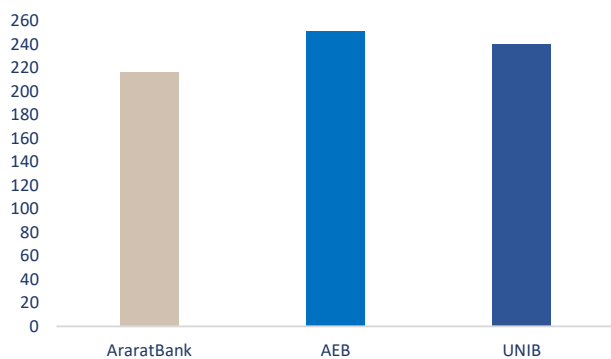
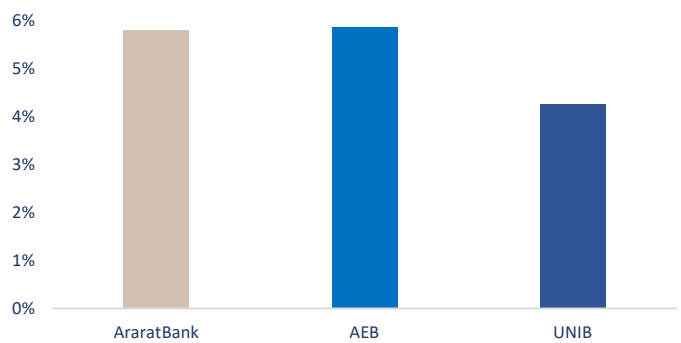
Source: Company data, CBA, Armstat, Armenbrok estimates.

**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 (3Q19/3Q18 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 8.49% to 19.41%. The share of Mortgage loans will stand at 13.09% - an increase by 3.91pps over 2018.
- **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 7.3% throughout 2020 (vs. 5.6% in 2017 and 7.8% in 2018).
- **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 9M 2019 results came in below expectations, indicating a 10.12% decline in the portfolio.
- **Low Liquidity in Stock Market.** While the trading volumes on AMX skyrocketed in recent years (currently 79 issues of 17 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, 9M 2019

Ticker	List	Cur.	Quantity	Maturity	Coupon	YTM	Coupon payments	Trading volume	Trading value
UNIBB3	Abond	USD	50,000	11.09.2020	5.75%	5.60%	Quarterly	6,152	623,547
UNIBB4	Abond	USD	50,000	13.05.2021	5.50%	5.45%	Quarterly	690	69,339
UNIBB5	Bbond	AMD	25,000	13.02.2020	10.00%	9.36%	Quarterly	688	6,953,220
UNIBB6	Bbond	USD	50,000	22.10.2021	5.50%	5.50%	Quarterly	5,046	509,515
UNIBB7	Bbond	AMD	50,000	22.10.2020	10.00%	10.00%	Quarterly	12,002	122,333,948
UNIBB8	Bbond	AMD	50,000	12.11.2020	10.00%	9.63%	Quarterly	5,606	56,799,049
UNIBB9	Bbond	USD	10,924	20.03.2022	5.00%	5.10%	Quarterly	1,784	178,683

Source: AMX.

In the first nine months of the year, Unibank had seven listed tranches at stock exchange market. Throughout the mentioned period, bank's bonds trading volume and trading value as a percentage of total market comprised 4.9% and 4.4%, respectively.



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