

Union Bank of India (UNIBAN)

Rs 326

Strong return ratios command higher multiple...

Union Bank is among the top six public sector banks in India in terms of its balance sheet size. Currently it accounts for 3.2% market share in business done by scheduled commercial banks in India. The bank has a reach of 2,805 branches. On the NIM front, it reported margins of 3.2% in Q4FY10 but we expect sustainable NIM to be in the range of 2.6-2.8%. The bank has grown its profitability at 35% CAGR over FY08-10. We expect PAT of Rs 3034 crore for FY12E, implying 19% CAGR over FY09-12E supported by 20% CAGR in balance sheet.

Core business performance consistent

Union Bank is growing above the industry average for the past couple of years after the induction of fresh young talent (under Nav Nirman programme). The momentum in business growth is expected to continue and we expect deposits and advances to report 21% and 22% CAGR over FY09-12E to Rs 2,47,952 crore and Rs 1,74,269 crore.

Asset quality improvement: Targets nil NNPA

The bank has cumulative restructured assets worth Rs 4955 crore (~4% of the total loan book). The bank witnessed ~7% slippage on this account adding to GNPA. The total stressed portfolio of 6.3% (4.1% restructured and 2.2% GNPA) will be keenly watched, going forward. The bank maintains a coverage ratio of over 70% to combat asset quality shocks. For FY12E, we see GNPA@2.3% and NNPA@0.8%.

Return ratios to remain strong

The bank has delivered RoA of 1.2-1.3% and RoE of over 22% from FY08-10. We forecast RoA of 1.2% and RoE of 22% for FY12E.

Valuation

At the CMP of Rs 326, the bank is trading at 1.3x FY12E ABV. We expect a re-rating of the valuation multiple on the back of above industry business growth, stable NIM and asset quality and strong return ratios. Hence, we value the bank at 1.5x FY12E ABV of Rs 240 and arrive at a target price of Rs 358. This would provide 10% upside from these levels.

Exhibit 1: Valuation Summary

Year to March	FY08	FY09	FY10	FY11E	FY12E
Net Profit (Rs cr)	1387.0	1820.9	2170.1	2540.8	3033.9
EPS (Rs)	27.5	36.0	43.0	50.3	60.1
Growth (%)	64.1	31.3	19.2	17.1	19.4
P/E (x)	11.4	8.7	7.3	6.2	5.2
Price / Book (x)	2.8	2.2	1.8	1.4	1.2
PABV (x)	3.0	2.4	2.0	1.6	1.3
GNPA (%)	2.2	2.0	2.2	2.3	2.3
NNPA (%)	0.2	0.3	0.8	0.9	0.9
RoNA (%)	1.2	1.3	1.2	1.2	1.2
RoE (%)	22.1	22.6	22.6	22.2	22.0
ABV (Rs)	109.9	135.1	155.8	191.3	239.7

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	: Buy
Target	: Rs 358
Target Period	: 3 months
Potential Upside	: 10%

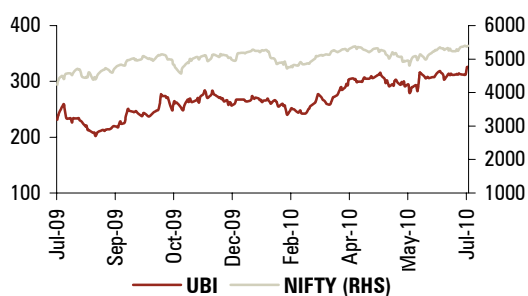
Stock data

Market Capitalisation	Rs 16467 crore
GNPA (FY10)	Rs 2671 crore
NNPA (FY10)	Rs 965 crore
52 week H/L	349 / 200
Equity capital	Rs 505 Crore
Face value	Rs. 10
DII Holding (%)	12.2
FII Holding (%)	18.5

Price movement

	1m	3m	6m	12m
UBI	1.4	1.7	18.7	34.6
BOI	13.3	6.5	-1.3	15.4
BOB	-2.1	13.9	31.2	74.6
Canara Bank	9.3	16.0	19.5	83.1

Price Performance



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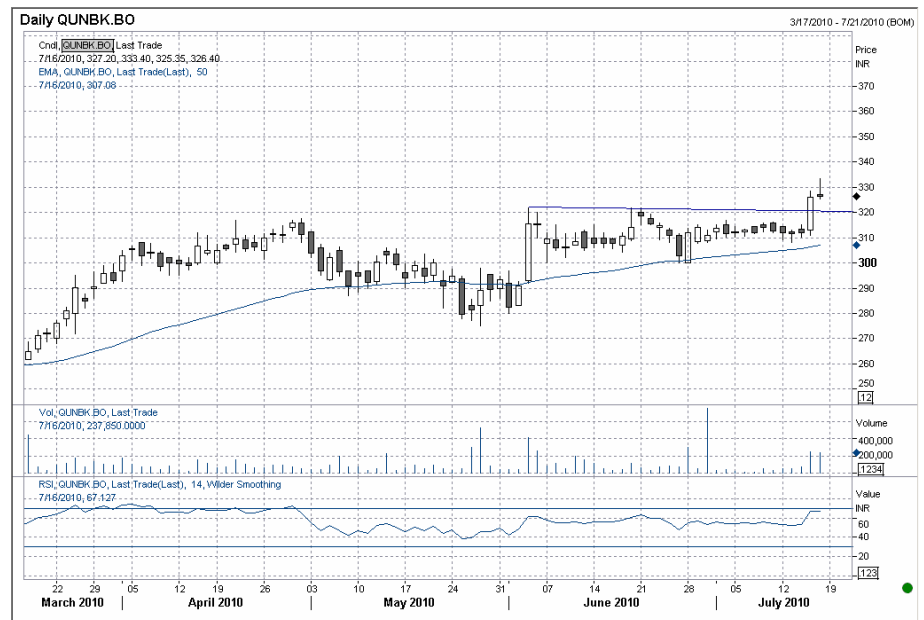
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Technical Outlook

The stock has been in a strong uptrend consistently forming higher top and higher bottom on the daily chart. It had been consolidating sideways in the range of Rs 320-322 on the higher side and Rs 308-304 on the lower side for the last five weeks, thus forming a strong base for a fresh leg upwards.

The smart up-move in yesterday's session has seen the stock registering a break-out from the sideways consolidation range. It must be noted that this break-out has been accompanied by a sharp increase in trading as well as delivery volumes, which is suggestive of increased participation in the stock.

Rising short-term moving averages are also acting as a cushion on every correction indicating strength in the current up move. Among momentum oscillators, the daily RSI has remained in a rising trajectory whereas the daily MACD is on the verge of generating a crossover buy signal above the trigger line suggesting build-up of momentum on the upside.



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