

TECHNO

FUNDA

City Union Bank Ltd. (CUB)

Stock Idea

BUY

Nifty: 8,238

Sensex: 26,867

CMP	Rs110.6
BUY range	Rs105-Rs110
Stop Loss	Rs90
Target Price	Rs145+
Potential Upside/Downside	+31%
Tenure	6-9 Months

Key Stock Data

Sector	Banking
Bloomberg/Reuters	CUBKIN/CTBK.BO
Shares o/s (mn)	598
Market cap. (Rs mn)	65,720
Market cap. (US\$ mn)	975
3-m daily average vol.	168,318

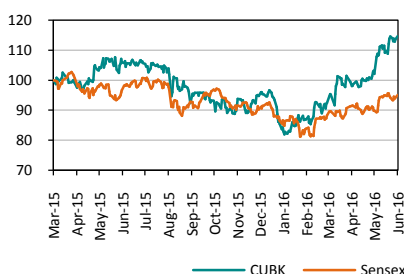
Price Performance

52-week high/low	Rs112/77		
	-1m	-3m	-12m
Absolute (%)	12	21	8
Rel to Sensex (%)	6	15	10

Shareholding Pattern (%)

FII/NIIs/OCBs/GDR	39.0
MFs/Banks/FIs	9.6
Non Promoter Corporate	7.9
Public & Others	43.4

Relative to Sensex



Source: Capitaline

Investment Rationale

NIMs at peak but sustainable levels still healthy: CUB's NIMs touched a rich 3.96% level in Q4FY16 and could be topping out given the relatively low correction in yield on funds (-26bps YoY) vis-à-vis cost of funds (-52bps YoY). Also, the shift to MCLR may eventually bring in the yield correction. However, given CUB's focus on mid-market business and its improving CASA franchise, we believe CUB could sustain NIM levels of 3.5-3.6% going forward.

Healthy loan growth to provide earnings momentum, fees can surprise positively: CUB's CD ratio expanded 300bps YoY to 78% in FY16 with loans expanding at a stronger 17% YoY vis-à-vis deposits that grew 13% YoY. We believe the growth in loan book is likely to average 17% FY16-FY18E while keeping the CD ratio steady.

The other income on the other side was at a healthy ~29% of net income in Q4FY16 and a little higher at ~29.5% in FY16. On a full year basis, other income was flattish at 1.4% YoY in FY16. We believe other income can add better momentum going forward and increase at ~10% CAGR FY16-FY18E.

Return ratios to stay healthy: CUB delivered 15.6% RoE and 1.5% RoA with 10x leverage in FY16. The scope to expand leverage and RoE therefore remains strong. As stated earlier, we expect CD ratio to stay stable though the incremental loan growth should continue to stay robust, adding to incremental leverage. We believe CUB's RoE/RoAs should sustain above FY16 levels with a positive bias.

Valuations: CUB trades at 14.8x FY16 basic EPS Rs7.44 and 2.15x FY16 BV Rs51.0. Presuming a sustained profit momentum of ~14% FY16-FY18E, CUB's EPS should increase to Rs9.67 in FY18E. At a P/E multiple of 15x FY18E EPS, CUB could trade at a fair value of Rs145.

Key risk

Asset quality: CUB reported a rise in GNPA's from 1.86% in FY15 to 2.41% in FY16. The net NPAs increased from 1.3% to 1.5%. However, on the positive side, the PCR improved 200bps YoY to 60%. Secondly, the bank's SMA2 (4.4% of loans) and restructured book (96bps) is declining and the higher slippages in Q4FY16 were outsized due to a one off slippage in a steel account.

Monthly Chart:



Weekly Chart:



Source: Falcon7

Technical Overview

- Stock made all time high of Rs.105.55 in month of June 2015 and after a consolidation of 12months stock breached the previous high and the recent high of the stock is Rs.112.25.
- On monthly chart, upward sloping trend line breakout level is at around Rs.112.50 and the rally can be faster on breach of this level.
- On weekly chart, the stock is showing rounding pattern break-out by crossing the neckline level of around Rs.105.
- On daily chart, the stock is trading above the key moving averages i.e. 50DMA Rs.100.70, 100DMA Rs. 93.64 and 200 DMA Rs 91.47.
- Considering all above factors we can build long position in the stock with 6-9 months perspective and target can be placed at around 145, with the stop loss of 90 (stop loss intraday and spot basis). Since past few days the stock is showing strong momentum, so it may retrace in near-term which can be considered as buying opportunity to accumulate the stock in the range of 105-110.

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