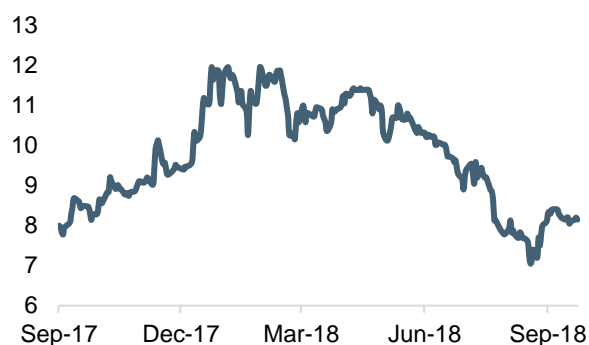


Price	₦8.20
FVE (<i>last communicated</i>)	₦14.10
52-week range	₦7.00 – ₦13.50
Market Cap. (₦'mn)	280,435
1-month Avg. Vol	15,112,800
Curr. P/B	0.61x

UBA:NL - Share Price Trend



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United Bank for Africa Plc. (UBA.NL)

Initial View

Funding Cost thwart Earnings Growth

- United Bank for Africa (UBA) released 9M 2018 results with earnings printing in line with our expectation as EPS expanded slightly by 1.3% YoY to ₦1.80/share. Despite growth in Non-Interest Revenue and moderation in loan-loss provision over the period, the earnings was weighed down by sharp jump in funding cost.
- Funding cost, a thwart in earnings.** Over 9M 2018, interest expense rose to a record high, with interest expense as at 9M 2018 already matching the amount recorded over FY 17. Higher interest expense (+37.85 YoY to ₦118.2 billion) over the period reflected a jump in funding cost on customer deposits (+44% YoY to ₦79.1 billion) and an increase in borrowing cost (+30% YoY to ₦33.1 billion). Consequently, funding cost (WACF) printed at 4.1% (+43bps YoY). Importantly, higher interest expense on customer deposits mirrored higher term deposits as a share of total deposit which expanded to a record high of 30.6% (FY 17: 25.4%) over the review period. Elsewhere, we believe the growth in its borrowing cost is linked to the principal repayment of its subordinated bond of ₦35 billion which it issued in September 2011. On the other hand, growth in interest income¹ (+13% YoY to ₦268.9 billion) was not enough to withstand the pressure from funding cost. Consequently, Net Interest Income fell 1.0% YoY to ₦150.7 billion.
- Fee income boost earnings.** On the positives, net fee income expanded by 9.4% YoY to ₦51.1 billion on the back of E-banking

¹ largely from interest income on investment securities

income (+27.6% YoY to ₦19.9 billion) and trade transactions income (+80% YoY to ₦13.5 billion). Also, other operating income rose 40% YoY to ₦4.2 billion. In line with our view of a moderation in trading income due to the bank's derivative maturity of \$300 million in Q3 18, trading income declined 6.0% YoY to ₦32.4 billion.

- ***Lower Loan-Loss Provision.*** Providing some cheer to the bank earnings was a moderation in loan loss provisioning to ₦10.7 billion (-17.3% YoY) reflecting decline in specific provisioning to ₦10.6 billion, and ₦3.7 billion in recoveries. Consequently, annualized cost of risk printed at 0.9% (9M 17: 1.1%). On other fronts, operating expenses increased slightly by 2.3% YoY to ₦149.1 billion with Cost-to-Income ratio inching higher by 104 bps YoY to 62.5%.
- ***Sluggish quarterly performance.*** Over Q3 alone, the bank reported EPS of ₦0.52 (-10.7% QoQ) due to a combination of lower NIMs and NIR (-9% QoQ to ₦30.3 billion). For context, despite WACF staying flat over the quarter, lower asset yields (-84 bps to 11.2%) during the period suppressed NIMs (-250 bps to 6.0%) lower. Also, lower NIR in the quarter mirrored lower trading (-13% QoQ to ₦11.9 billion) and other income (-105% QoQ). Elsewhere, impairment charge moderated 25.3% QoQ to ₦3.9 billion.
- Although UBA's result wasn't impressive but it was in line with our expectation, with earnings expected to advance higher over FY 18 on the back of higher interest income, lower loan-loss provision, and resilience in fee income. That said, we will be seeking clarity from management on the decline in its CASA ratio as a share of total deposit.
- The stock is trading at a P/B of 0.61x, a discount to peer average of 0.92x. Our last communicated FVE on UBA is ₦14.10 which translates to a **STRONG BUY** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

Summary of Results and Forecast

¥ million	9M 2018	9M 2017	YoY (pps)	Q3 2018	Q2 2018	QoQ
Gross Earnings	356,603	322,695	10.51%	111,933	130,336	-14.12%
Net Interest Income	150,698	152,297	-1.05%	39,622	57,523	-31.12%
Non-Interest Revenue	87,666	84,603	3.62%	30,290	33,375	-9.24%
Operating Expenses	(149,085)	(145,699)	2.32%	(45,381)	(54,025)	-16.00%
Impairment	(10,674)	(12,909)	-17.31%	(3,942)	(5,278)	-25.31%
PBT	79,111	78,325	1.00%	20,971	31,585	-33.60%
PAT	61,698	60,920	1.28%	17,906	20,056	-10.72%
EPS	1.80	1.78	1.28%	0.52	0.59	-10.72%
¥ million	Q3 2018	Q2 2018	QoQ			
Loans	1,595,909	1,543,865	3.37%			
Total Assets	4,507,545	4,267,653	5.62%			
Deposits	3,177,318	2,901,204	9.52%			
Total Liabilities	3,997,880	3,771,401	6.01%			
Net Assets	509,665	496,252	2.70%			
BVPS	14.90	14.51	2.70%			
	9M 2018	9M 2017	change	Q3 2018	Q2 2018	change
Assets Yields	8.69%	9.03%	-0.33%	11.21%	12.04%	-0.84%
WACF	4.08%	3.64%	0.43%	4.35%	4.31%	0.04%
Net Interest Margin	4.87%	5.77%	-0.90%	6.00%	8.49%	-2.49%
Cost-Income Ratio	62.55%	61.50%	1.04%	64.91%	59.43%	5.48%
Cost of Risk	0.89%	1.08%	-0.19%	0.97%	1.36%	-0.39%
ROE	16.14%	16.00%	0.14%	22.95%	22.45%	0.51%

Source: Company Financials, ARM Research

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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