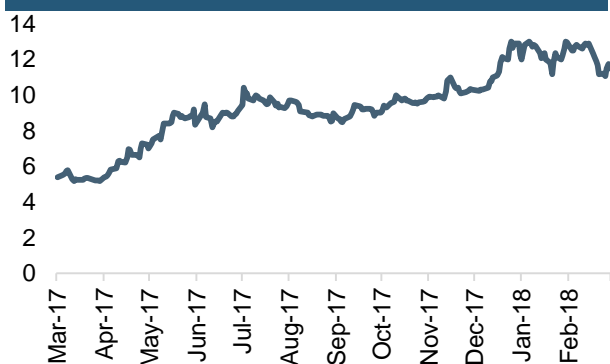


United Bank for Africa Plc. (UBA.NL)

Initial View

| | |
|-------------------------|-----------------|
| Price | ₦11.50 |
| FVE (last communicated) | ₦12.57 |
| 52-week range | ₦10.41 – ₦13.00 |
| Market Cap. (₦'mn) | 393,293 |
| 1-month Avg. Vol | 18,762,360 |
| Curr. PE | 5.31x |

UBA:NL - Share Price Trend



Analyst(s)

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Resilience in the face of higher NPLs

- UBA's FY 17 result disclosed EPS of ₦2.30 (+8% YoY) running slightly behind our estimate of ₦2.40 due to higher loan-loss provisioning and elevated bill from the taxman. Irrespective, earnings growth was supported by resilience in NIMs (+21bps YoY 5.8%) as well as strong trading income. (₦49 billion). The bank declared a final dividend of ₦0.65 which translates to dividend yield of 5.7%. Consequently, total FY 17 dividend comes to ₦0.85.
- Moderation in funding cost supports NIMs.** In sync with our call wherein we expected the impact of lower funding cost to offset any pressure from asset yield moderation, over the fourth quarter, UBA kept interest expense flat QoQ (₦32.2 billion) on the back of sizable scale back in interbank borrowings which moderated funding cost (-35bps QoQ to 3.8%). Consequently, NIMs expanded 29bps QoQ to 8.5%. To add, CASA as a share of total deposit improved from 73% in 9M 2017 to 75% in FY 2017.
- FX trading income boost NIR.** Over Q4 17, Non-interest revenue (NIR) rose 42% QoQ to ₦34.3 billion on the back of a double-fold increase in trading income. Parsing through the breakdown, the jump in trading income emanated from ₦11 billion booked on the FX trading leg, which we link to income generated from its swap position. The foregoing combined with sturdy fee income (₦19.2 billion) supported the jump in NIR. Cost to Income ratio declined to 48% (Q3 2017: 68%).

- **9-mobile exposure drives asset quality deterioration.** In line with peers that have released thus far, higher provisioning in Q4 has been a key theme. In our view, a sizable chunk of this stemmed from the exposure to 9mobile which banks have had to take a hair-cut based on the disparity between the carrying value and market value. Consequently, UBA booked ~~~₦~~20 billion in impairment over Q4 (9mobile exposure: ~~₦~~37.6 billion) with cost of risk expanding to 4.8% in the period (Q3 17: 0.9%). NPL ratio printed at 6.7%. Irrespective of higher loan loss provisioning, the impact of strong NIMs, sharp jump in NIR and lower operating expenses, drove a 29% QoQ increase in PBT to ~~₦~~27 billion, though higher taxes in the period (+318% QoQ), drove PAT lower (-5% QoQ) to ~~₦~~17.7 billion with EPS printing at ~~₦~~0.52 (Q4 17E: ~~₦~~0.72).
- The Bank will be holding a conference call Tomorrow, Tuesday March 27 at 3pm Lagos Time (3pm London/ 4pm Johannesburg/ 10am New York).
- UBA is trading at a P/B of 0.74x which is at a discount to peers of 1.7x. Our last communicated FVE on UBA is ~~₦~~12.57 which translates to a **NEUTRAL** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

Summary of Results and Forecast

| ₹'million | FY 2017 | FY 2017E | FY 2016 | YoY | Q4 2017 | Q3 2017 | QoQ |
|----------------------|--------------|--------------|--------------|---------|-------------|-------------|--------|
| Gross Earnings | 444,590 | 438,555 | 369,659 | 20.3% | 121,895 | 107,343 | 13.6% |
| Net Interest Income | 207,632 | 192,644 | 165,200 | 25.7% | 55,335 | 50,918 | 8.7% |
| Non-Interest Revenue | 118,933 | 122,852 | 105,689 | 12.5% | 34,330 | 24,205 | 41.8% |
| Operating Expenses | (188,610) | (192,086) | (152,501) | 23.7% | (42,911) | (50,895) | -15.7% |
| Impairment | (32,895) | (20,758) | (27,683) | 18.8% | (19,986) | (3,468) | 476.3% |
| PBT | 105,264 | 102,652 | 90,642 | 16.1% | 26,939 | 20,794 | 29.6% |
| PAT | 78,590 | 82,121 | 72,264 | 8.8% | 17,670 | 18,581 | -4.9% |
| EPS | 2.30 | 2.40 | 2.12 | | 0.51 | 0.52 | |
| DPS | 0.85 | 0.72 | 0.75 | | | | |
| ₹'million | FY 2017 | FY 2017E | FY 2016 | YoY | | | |
| Loans | 1,650,891 | 1,596,790 | 1,505,319 | 9.7% | | | |
| Total Assets | 4,069,474 | 3,685,156 | 3,504,470 | 16.1% | | | |
| Deposits | 2,733,348 | 2,647,927 | 2,485,610 | 10.0% | | | |
| Total Liabilities | 3,540,040 | 3,181,298 | 3,056,401 | 15.8% | | | |
| Net Assets | 529,434 | 503,858 | 448,069 | 18.2% | | | |
| BVPS | 14.59 | 14.70 | 12.35 | 18.2% | | | |
| | FY 2017 | FY 2016 | YoY (pps) | Q4 2017 | Q3 2017 | YoY (pps) | |
| Assets Yields | 9.1% | 9.0% | 0.2 | 9.5% | 9.5% | 0.0 | |
| WACF | 3.7% | 3.7% | 0.0 | 3.8% | 4.1% | (0.4) | |
| Net Interest Margin | 5.8% | 5.6% | 0.2 | 8.5% | 8.2% | 0.3 | |
| Cost-Income Ratio | 57.8% | 56.3% | 1.5 | 47.9% | 67.7% | (19.9) | |
| Cost of Risk | 2.0% | 1.8% | 0.2 | 4.8% | 0.9% | 3.9 | |
| ROE | 14.8% | 16.1% | -1.3 | 16.2% | 14.5% | 1.7 | |
| CAR | 20.0% | 20.0% | 0.0 | | | | |

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