



Equity Research | United Bank for Africa Plc.

ARM Research

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31 March 2014

Initial View

FY 2013 ended 31st December 2013

Recommendation: NEUTRAL

Revenues surge despite flat balance sheet

- United Bank for Africa Plc. (UBA) reported 19% YoY growth in gross earnings to ₦259.5billion for the 12 months to December 2013. PBT stood at ₦56.1billion, 8% higher YoY, while PAT of ₦46.6billion represents a 9% YoY decline, largely reflecting the resumption of taxation after a negligible charge supported FY 2012 PAT.
- UBA declared a dividend of 50k which represents a payout ratio of 28% and dividend yield of ~7.2% as at last close.
- Q4 13 gross jumped to ₦75billion despite (+23% QoQ; 21% above estimates) despite flat total earning assets and marginal increment in asset yields. Both revenue lines showed marked improvement with interest income of ₦52.9billion, 16% ahead of estimates (+20% QoQ) and non interest revenue of ₦22billion, 33% ahead of estimates and exceeding prior quarter by a similar margin. Aside the QoQ deviation after a relatively steady quarterly run-rate through 9M 13, the Q4 outcome is also in contrast to Q4 12 when revenues actually contracted sharp from the, again, relatively stable trends through 9M 12. This suggests to us that current results might bear the imprints of some FY

Income Statement Data

	2013- 12 'm	2012 - 12 'm	%chg
Revenue	259,462	217,602	19%
PBT	56,058	52,010	8%
Tax	9,457	533	1674%
PAT	46,601	51,477	-9%

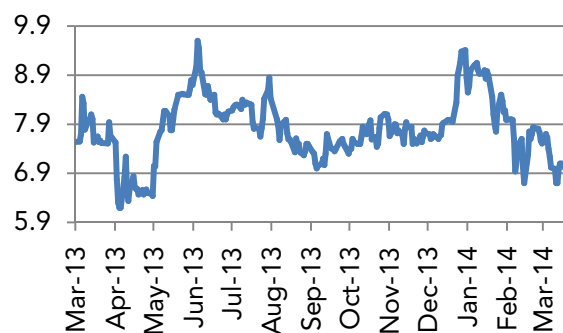
Balance Sheet Data

	2013-Dec 'm	2012 -Dec 'm	%chg
Cash	716,803	714,115	0.4%
Loans	937,620	658,922	42%
Deposit	2,161,182	1,720,008	26%
Fixed Asset	75,409	70,746	7%
Net Assets	235,036	192,467	22%

Stock Data

Price	₦6.97
52 week range	₦6.40 - ₦10.56
Market Cap. (N'm)	229,880.27
1-month Avg. Vol	16,652,033
Curr. PE	4.6x
Bloomberg Ticker	UBA: NL
Reuters Ticker	UBA.LG

UBA Plc - Share Price Trend



Analyst(s)

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accounting adjustments especially as international subsidiaries' results have generally been included in interim numbers.

- Potential adjustments to revenues were mirrored in associated costs with interest expense jumping 44% QoQ to ₹27.9billion, 54% ahead of estimates. On relatively flat funding base of ~₹2.3trillion in line with our forecasts, the rise in interest expense drove WACF 40bps higher to 3.6% compared with our 3.3% estimate.

Spike in impairments fails to derail topline gains

- Further bolstering performance, operating expenses contracted 14% QoQ to ₹24.4billion—12% ahead of our estimates. Considering UBA had earlier communicated salary increases effective Jan 2013, the Q4 declines in opex appears primarily driven by depreciation & amortization expenses which on a FY basis is 43% lower YoY. FY CIR of 60.9% is 330bps lower than both 9M 13 and FY 12 levels and, factoring in stronger revenue, 410bps behind our FY estimates.
 - Disappointingly, after a Q3 jump truncated the H1 pattern of negligible provisioning, Q4 13 brought a four-fold QoQ spike to ₹10.1billion bringing FY charges to ₹13.1billion. The jump was driven by portfolio as well as specific loan impairments which respectively contributed ₹4.3billion and ₹7.3billion to FY impairments, in addition to a ₹1.5billion write-off on loans and advances. Nonetheless, NPL ratio remains quite low at 1.2%.
 - Overall, revenue and opex gains overcompensated for the Q4 jump in provisions leading PBT 24% higher QoQ to ₹12.6billion—6% behind our estimates—while PAT (₹9.23billion) was only 3% higher QoQ but 17% behind our estimates. The weaker PAT performance reflects a higher effective tax rate of 27% in the quarter vs. 12% in Q3 13 and our 17% estimate. Effective tax rate was 17% in FY 13 vs. 1% in FY 12. Overall, FY PBT margin of 22% was 200bps lower than each of 9M 13 and FY 12 while PAT margin of 18% is 200bps lower than 9M 13 but 600bps weaker YoY.
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Price pressures signal ratings upgrade

- UBA's positive Q4 13 performance suggests some scope for upward revision to our forecasts though we still intend to clarify the drivers of the Q4 revenue jump. Furthermore, valuation metrics of 4.6x current PE and 0.9x P/Bv compare favourably with peers' 6x and 1.3x respectively. In line with industry, the stock has come under pressure recently, widening the upside potential to our current FV estimate of ₦8.3. Coupled with likelihood that forecast revisions will be upward, we envisage UBA's rating could be upgraded from current **NEUTRAL**.
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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	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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