



Initial View

9 months ended 30th September, 2014**Recommendation: STRONG BUY**

- United Bank for Africa Plc. (UBA) reported 12% YoY growth (6M 14: +10%YoY) in gross earnings to ₦205.8 billion for the 9 months to September 2014. PBT was 2% lower YoY (6M 14: -13%YoY) at ₦42.5 billion while PAT declined 10% YoY to ₦33.6 billion (6M 14: +20%YoY).

Revenues moderate from high base

- Q3 14 gross earnings was flat (+1%) QoQ at ₦69.4 billion, 2% above our estimates. Interest income improved, rising 5% QoQ to ₦50.9 billion but was not as strong as we expected, falling 7% short of our estimates. Much of the gains was from volume growth as earnings assets expanded 7% on aggregate driven by loans (+10% to ₦1 trillion) and securities (+6% to ₦731 billion). Nonetheless, the accretion was tempered by a 50bps QoQ dip in asset yields. On the flip side, non-interest revenue (NIR) declined but not as much as we expected, falling 7% QoQ to ₦19.4 billion, 18% ahead of our estimates. The outperformance suggests to us that CBN's restoration of charges on ATM withdrawals helped cushion expected industry-wide pressures on NIR. Regardless, fee income contracted 14% QoQ to ₦12 billion with trading gains (+25% QoQ) providing some offset.

Income Statement Data

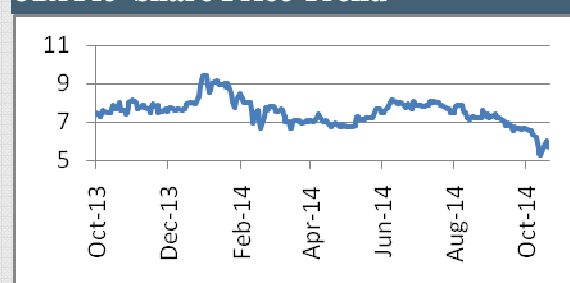
	2014 – 9M'm	2013 – 9M'm	%chg
Revenue	205,838	184,459	12%
PBT	42,543	43,428	-2%
Tax	(8,915)	(6,057)	47%
PAT	33,628	37,371	-10%

Balance Sheet Data

	2014-Sept 'm	2013 -Dec 'm	%chg
Cash	747,090	717,587	4%
Loans	991,189	937,620	6%
Deposit	2,093,385	2,161,182	-3%
Fixed Asset	82,470	75,409	9%
Net Assets	246,151	235,036	5%

Stock Data

Price	₦5.66
52 week range	₦5.23 – ₦9.58
Market Cap. (N'm)	188,323.72
1-month Avg. Vol	14,294,576
Curr. PE	4x
Bloomberg Ticker	UBA: NL
Reuters Ticker	UBA.LG

UBA Plc- Share Price Trend**Analyst(s)**

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But costs expand more markedly, dampening profits

- Matching asset growth, deposit-driven 7% expansion in funding base pushed interest expense 6% higher QoQ to ₦24.1 billion, 13% ahead of our estimates. Buttrussing the wholly volume driven nature of the rise, annualized WACF shaved off 10bps to 3.9%.
- In addition, operating expenses rose 8% QoQ to ₦32.2 billion, in line with our estimates. Whilst personnel expenses fell 18% QoQ to ₦12.2 billion, other opex jumped 38% to ₦18.6 billion with rise in the latter reflecting both investments in platform as well as greater regulatory costs. Annualised CIR came in at 67.5%, 50bps ahead of FY14 estimate.
- On a positive note, after tripling QoQ in Q2 14, impairment charges collapsed 8% QoQ in Q3 14 to ~₦300 million, 90% behind our estimates. This helped offset some of the cost growth but was too small to avert damage to bottom-line. Cost of risk improved 10bps from 6M 14 to 0.3% and remains well short of our 1% FY14 estimate.
- Largely reflecting higher interest expense and opex, Q3 14 PBT declined 11% QoQ to ₦13.7 billion but was ahead of our estimates by a similar magnitude mainly on higher expected impairments. A 43% lower tax charge QoQ helped moderate feed-through to bottom-line with Q3 14 PAT 5% higher QoQ and 2% ahead of our estimates. Overall, 9M 14 PBT margin of 21% is flat from 6M but 300bps behind YoY while PAT margin of 16% is 100bps lower than 6M 14 but 400bps behind YoY.

Significant price pressures lead to rating upgrade

- The resumption of balance sheet expansion for UBA reinvigorates the potential for asset creation to meet expectations. Considering key line items are in line with projections, our revisions, and consequent changes to FVE, are likely to be mild. However, UBA has been one of the names most affected by recent market weakness and the significant cutback in prices make valuation discounts more compelling: current PE and P/Bv of 4x and 0.7x compare favourably with respective peer averages of 6x and 1x respectively. Based strictly on the upside opened up by the price contraction, our rating (**FVE: ₦9.3**) on UBA is likely to climb two notches to **STRONG BUY**.
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Summary of forecasts

Quarterly Forecasts	Q4 2014E	Q1 2015E	Q2 2015E	Q3 2015E	
Net interest income	31,933	30,871	31,008	31,615	
Non-interest income	18,794	18,921	18,997	19,377	
Total Revenue	50,727	49,792	50,084	50,992	
Total Operating Costs	(33,248)	(32,720)	(32,851)	(33,508)	
Operating Profit	17,479	17,072	17,233	17,483	
Impairment Charge	(4,187)	(6,079)	(6,104)	(6,226)	
Pre-tax Profit	13,292	10,992	11,129	11,257	
Tax	(3,377)	(841)	(844)	(861)	
Post-tax Profit	9,954	10,151	10,192	10,396	
Income Statement ('000)	2013A	3Q 2014A	2014E	2015E	2016E
Net interest income	103,231	81,960	113,893	123,981	135,263
Non-interest income	73,762	56,429	75,223	75,986	80,982
Total Revenue	176,993	138,389	189,116	199,967	216,246
Total Operating Costs	107,851	93,460	126,708	131,405	139,374
Operating Profit	69,142	44,929	62,408	68,562	76,872
Impairment Charge	13,078	2,347	6,534	24,416	25,687
Pre-tax Profit	56,058	42,543	55,874	44,146	51,185
Tax	9,457	8,915	12,292	8,829	11,261
Post-tax Profit	46,601	33,628	43,582	35,317	39,924
Balance Sheet ('000)					
Assets	2013A	3Q 2014A	2014E	2015E	2016E
Cash & Short term funds	717,587	747,090	765,511	745,765	742,095
Due from banks	26,251	18,232	28,099	41,018	45,213
Net Loans	937,620	991,189	1,060,927	1,315,407	1,465,805
Fixed Assets	75,409	82,470	70,248	102,546	113,032
Other Assets	885,429	812,660	885,120	1,213,460	1,401,601
Total Assets	2,642,296	2,651,641	2,809,904	3,418,196	3,767,746
Liabilities					
Deposits	2,161,182	2,093,385	2,306,363	2,798,738	3,053,761
Due to banks	60,582	82,095	64,785	79,510	70,201
Borrowings	104,519	159,533	142,528	159,019	196,564
Other liabilities	80,977	70,477	77,743	143,117	189,544
Total liabilities	2,407,260	2,405,490	2,591,419	3,180,384	3,510,070
Shareholders' fund	235,036	246,151	218,485	237,812	257,677
Key ratios					
EPS	1.55	1.12	1.42	1.15	1.30
ROE	20%	5%	20%	15%	15%
ROA	1.8%	0.5%	1.3%	1.1%	1.1%
Loan to Asset	35%	39%	38%	39%	39%
Cost to income	61%	69%	68%	66%	65%
Net Profit Margin	21%	17%	14%	13%	13%
Capital adequacy ratio	23%	22%	17%	16%	15%
Liquidity ratio	33%	35%	33%	27%	25%

Source: Company financials, ARM Estimates

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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