

Price	₦6.70
FVE	₦13.04
52-week range	₦5.40-9.25
Market Cap. (₦bn)	229,136
1-month Avg. Vol	23,843,260
Curr. PB	0.45x

UBA:NL - Share Price Trend



Analyst

Emmanuel Adeleke

Emmanuel.Adeleke@arm.com.ng

United Bank for Africa Plc. (UBA.NL)

Initial View

Red flags in Q4 performance, appealing dividend

- UBA released its audited FY 2019 results on Friday evening with PBT and PAT expanding 4.2% YoY and 13.3% YoY respectively. The growth in earnings was supported by improved performance in interest income and Non-interest revenue. Interestingly, rest of Africa operations continued to impress, contributing circa 47% to PBT (FY 18: 41%). UBA's FY 19 PAT of ₦89.1 billion prints lower than our forecast of ₦94.3 billion, representing a 5% deviation to our estimates. Though operating income came in line with our estimates, the deviation stemmed from a higher net loan loss provision reported over the period. While impairment loss on loans declined by 58% YoY, recoveries in allowance for credit loss were significantly lower (₦2.3 billion in FY 19 vs ₦37.0 billion in FY 18). That said, UBA declared a final dividend of ₦0.80/share (final dividend in 2018: ₦0.65) which translates to a dividend yield of ~12% based on last closing price.
- On interest income, UBA recorded a 10.8% expansion while asset yield flat lined at 8.3%. The expansion was largely driven by increases on earnings on investment securities (+14% YoY) and loans (+7% YoY). While average yield on loans moderated (-137 bps YoY), yield on investment securities (+233 bps YoY)¹ helped keep overall asset yield intact. On the other hand, funding cost expanded at a faster pace (+16.3% YoY) with WACF printing higher by 11 bps. The increase reflected more expensive term deposits with CASA (as a share of total deposit) moderating to 73.5% (FY 18: 76.9%). Overall, NII expanded 7.9% YoY with related margin weakening by 18 bps to 4.5%.
- Elsewhere, UBA recorded a growth of 21.3% YoY in Non-Interest revenue against the backdrop of better electronic banking fees, credit related fees, trading gains on fixed income securities. In addition, UBA recorded a lower FX revaluation loss of ₦10.2 billion compared to a loss of ₦31.5 billion in 2018.
- Streamlining to the quarterly numbers, UBA reported a 70% QoQ decline in EPS (₦0.22/share), making it the lowest EPS since Q4 2011 where the bank recorded a loss of ₦0.58/share. From our breakdown, the moderation in earnings reflected lower NIR (-49.8% QoQ) and higher loan loss provisioning (+227% QoQ). On the former, the only line item

¹ Largely from the rest of Africa operation

that stood out was a loss of ₦2.6 billion (vs gain of ₦8.9 billion in Q3 2019) in credit related fees. While this figure is not entirely clear to us, we think it could be related to reclassification on the bank's income line. Nonetheless, we will get more clarity on this from management. The last straw that broke the camel's back was an increase in loan loss provisioning on interbank loans as well as other assets. Again, we will be seeking more information on this.

- On a positive note, NII (+29% QoQ) came in strong mirroring an expansion in interest income (+15% QoQ) and lower funding cost (-0.6% QoQ). Growth in interest income was reflective of expansions in loan book (+6.5% QoQ) and investment securities (+12.6% QoQ). Asset yield printed higher by 79 bps. For funding cost, WACF moderated by 24 bps reflective of lower interest expense on interbank takings.
- The stock currently trades at a current P/B of 0.45x which is at a premium to its one-year average of 0.43x. Our last communicated FVE on UBA is ₦13.04 which translates to a BUY rating on the stock. We will revisit our numbers after further discussion with management.

Summary of Results

N'million	FY 19	FY 18	YoY (pps)	Q4 19	Q3 19	QoQ
Gross Earnings	529,248	465,494	13.70%	124,265	127,582	-2.60%
Net Interest Income	221,875	205,646	7.89%	62,961	48,791	29.04%
Non-Interest Revenue	124,418	102,572	21.30%	17,338	34,564	-49.84%
Operating Expenses	(217,167)	(197,342)	10.05%	(55,546)	(52,034)	6.75%
Impairment	(18,252)	(4,529)	303.00%	(11,589)	(3,543)	227.10%
PBT	111,287	106,766	4.23%	13,054	27,959	-53.31%
PAT	89,089	78,607	13.33%	7,461	24,889	-70.02%
EPS	2.60	2.30	13.33%	0.22	0.73	-70.02%
N'million	FY 19	FY 18	YoY (pps)	Q3 19	QoQ	
Loans	2,061,147	1,715,285	20.16%	1,936,012	6.46%	
Investment Securities	1,571,550	1,637,132	-4.01%	1,396,175	12.56%	
Total Assets	5,604,052	4,869,738	15.08%	4,960,895	12.96%	
Deposits	3,832,884	3,349,120	14.44%	3,372,903	13.64%	
Total Liabilities	5,006,074	4,367,130	14.63%	4,405,367	13.64%	
Net Assets	597,978	502,608	18.98%	555,528	7.64%	
BVPS	17.49	14.70	18.98%	16.24	7.64%	
	FY 19	FY 18	change (pps)	Q4 19	Q3 19	change (pps)
Assets Yields	8.16%	8.21%	-0.05%	8.62%	7.84%	0.79%
WACF	3.74%	3.71%	0.03%	3.84%	4.08%	-0.24%
Net Interest Margin	4.47%	4.65%	-0.18%	5.08%	4.11%	0.97%
Cost-Income Ratio	62.71%	64.03%	-1.31%	69.17%	62.42%	6.75%
Cost of Risk	0.89%	0.26%	0.62%	2.14%	0.71%	1.42%
ROE	14.90%	15.64%	-0.74%	5.17%	18.13%	-12.96%

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 reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

Copyright © 2020 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorised use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.
