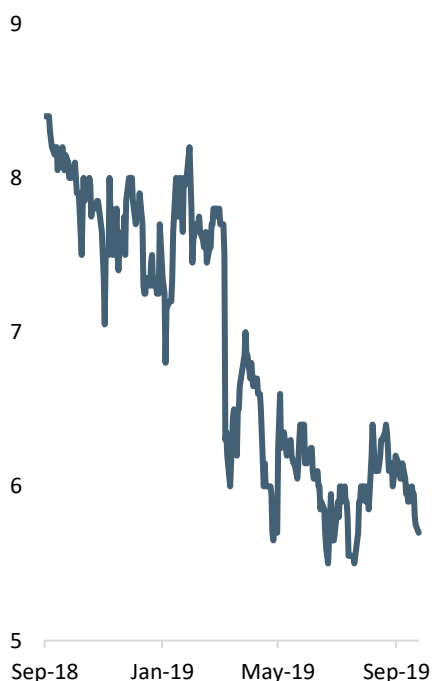


United Bank for Africa Plc. (UBA.NL)

Rating	STRONG BUY
Price	₦5.70
FVE	₦13.04
52-week range	₦5.40-8.40
Market Cap. (₦bn)	198,357
1-month Avg. Vol	2,640,768
Curr. PB	0.34x

UBA:NL - Share Price Trend



Analyst

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Initial View

Few Concerns in Q3

- UBA released 9M 19 results yesterday, with PBT and PAT expanding 24% and 32% YoY respectively, representing 78% and 87% of our estimate. While net interest income (+5% YoY, with related margin down 41bps YoY) was largely in line with our estimate, the deviation stemmed largely from non-interest revenue. Although, the net trading book weakened over Q3 19, cumulative over the 9M period, it remained strong when compared to same period in the prior year. Mark to market gains on fixed income securities (+110% YoY) and foreign exchange trading income (+14% YoY) came in higher than our estimate. Also, following the strong growth in loan book (+15% QoQ) over Q3, credit related fees grew almost 3x QoQ, with cumulative 9M net fee income expanding 25% YoY.
- On interest income, UBA grew the line by 11% YoY following higher interest on loans, investment securities, cash and interbank placements. Irrespective, the yield on assets contracted 37bps, as the increase across lines were more reflective of volume play, with interest earning assets expanding 10% YoY. Elsewhere, funding cost grew 18% YoY, with related WACF expanding 26bps YoY. The increase emanated from higher interest on placements and expansion in deposits (CASA proportion expanding 621bps YoY) with resultant increase in interest on deposits.
- Streamlining to the quarterly numbers, PBT and PAT declined 30% and 11% QoQ. Key surprise for us is the limited transmission of the material growth in loan book to actual interest on loans over the period. For context, while the loan book grew 15% QoQ, interest on loans declined by same percentage QoQ, reflecting lower yields on the additional loans. By our estimate, loan yield declined 119bps QoQ to 11.1%. Also, interest on investment securities declined 16% QoQ, but related yield improved 17bps QoQ reflecting 9% QoQ moderation in investment securities. On the positive, interest expense (19% QoQ) declined at a much faster pace, following lower interest on customer deposit and interbank takings, both of which outweighed jump in interest on borrowings (+33% QoQ). On the deposit, both term deposit and CASA declined 10% and 2% QoQ respectively. However, CASA proportion improved to 173bps to 75.6%. Also, largely reflecting the growth in loans in our view, loan loss provision increased 152% QoQ to ₦3.5 billion in Q3, with overall 9M figure of ₦6.7 billion (-38% YoY). NIR on the other end declined 26% QoQ following declines across trading lines and a reversal of FX gains booked in Q2 19.

- While we await further clarity on the Nigerian operation from management, we believe the performance across key lines over 9M 19 is decent. However, we are worried on the impact of the growth in loans on asset quality and the limited transmission to earnings in Q3 19.
- We value UBA at **₦13.04** which implies **STRONG BUY** by our recommendation. We note however, that the banks valuation may remain depressed in the near-term given the regulatory overhang over the industry. Nonetheless, at current levels and based on our FY 19E dividend of **₦0.94**, we view expected dividend yield of 16% as attractive and could be compelling to investors. On our numbers, UBA is trading on FY19 P/B multiple of 0.34x, which is at a discount Tier 1 average of 0.8x.

Summary of Results

N'million	9M 19	9M 18	YoY (pps)	Q3 19	Q2 19	QoQ
Gross Earnings	404,983	356,603	13.57%	127,582	153,203	-16.72%
Net Interest Income	158,914	150,698	5.45%	48,791	52,048	-6.26%
Non-Interest Revenue	107,080	87,666	22.15%	34,564	46,879	-26.27%
Operating Expenses	(161,621)	(149,085)	8.41%	(52,034)	(57,643)	-9.73%
Impairment	(6,663)	(10,674)	-37.58%	(3,543)	(1,406)	151.99%
PBT	98,233	79,111	24.17%	27,959	40,118	-30.31%
PAT	81,628	61,698	32.30%	24,889	28,075	-11.35%
EPS	2.39	1.80	32.30%	0.73	0.82	-11.35%
N'million	9M 19	9M 18	YoY (pps)	Q2 19	QoQ	
Loans	1,936,012	1,595,909	21.31%	1,687,506	14.73%	
Investment Securities	1,396,175	1,595,746	-12.51%	1,540,826	-9.39%	
Total Assets	4,960,895	4,507,545	10.06%	5,102,123	-2.77%	
Deposits	3,372,903	3,177,318	6.16%	3,510,237	-3.91%	
Total Liabilities	4,405,367	3,997,880	10.19%	4,559,665	-3.38%	
Net Assets	555,528	509,665	9.00%	542,458	2.41%	
BVPS	16.24	14.90	9.00%	15.86	2.41%	
	9M 19	9M 18	change (pps)	Q3 19	Q2 19	change (pps)
Assets Yields	8.36%	8.69%	-0.33%	7.84%	8.82%	-0.98%
WACF	4.33%	4.08%	0.26%	4.08%	4.93%	-0.85%
Net Interest Margin	4.46%	4.87%	-0.41%	4.11%	4.32%	-0.21%
Cost-Income Ratio	60.76%	62.55%	-1.78%	62.42%	58.27%	4.16%
Cost of Risk	0.46%	0.89%	-0.43%	0.71%	0.32%	0.40%
ROE	19.59%	16.14%	3.45%	18.13%	20.69%	-2.55%

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

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