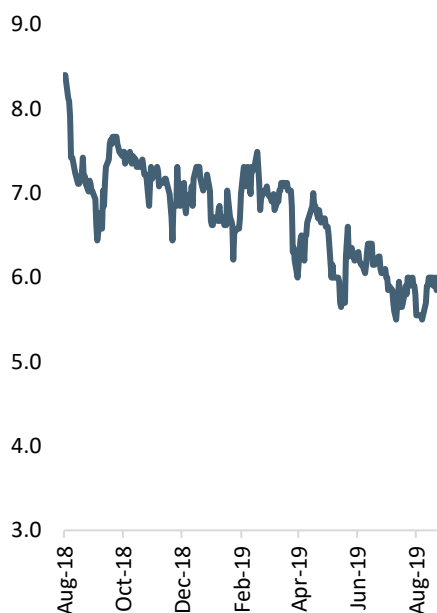


Rating	STRONG BUY
Price	₦5.85
FVE	₦13.04
52-week range	₦5.40-8.45
Market Cap. (₦bn)	200,067
1-month Avg. Vol	7,750,126
Curr. PB	0.38x

UBA:NL - Share Price Trend



Analyst

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United Bank for Africa Plc. (UBA.NL)

Initial View

Strong NIR offsets moderation in NIM

- UBA released H1 19 results on Friday, with PBT and PAT expanding 21% and 30% YoY respectively, both coming ahead of our estimate. While net interest income (-1% YoY, with related margin down 100bps YoY) was largely in line with our estimate, the deviation stemmed largely from non-interest revenue. Mark to market gains on fixed income securities (+191% YoY) and foreign exchange trading income (+128% YoY) came in higher than our estimate, even as fee income (11% YoY) delivered strong growth. The bank declared interim dividend of ₦0.20 (same as prior year). Our expected full year dividend of ₦0.94, translates to dividend yield of 16% at current pricing.
- On interest income, contrary to declines reported by both ZENITH and GUARANTY, UBA grew the line by 9.4% YoY following higher interest on loans, investment securities, cash and interbank placements. Irrespective, the yields on assets contracted 82bps, as the increases across lines were more reflective of volume play, with interest earning assets expanding 16% YoY. On the other hand, following growth in customers deposits by 21% (CASA proportion expanding 109bps YoY), interest on deposits increased 38% YoY. Coupled with 70% YoY increase in interbank takings, the decline in borrowings had no effect, with interest expense increasing 24% and related cost of funds expanding 15bps YoY to 4.3%.
- Streamlining to the quarterly numbers, while PBT grew 33% QoQ, a higher effective tax pushed PAT lower by 2.1% QoQ. Key surprises for us during the quarter is the material jump in interest expense (+34% QoQ), which was not translated to an equal expansion in interest income (+8% QoQ). As a result, annualised NIM contracted 60bps QoQ. Non-interest revenue on the other end, came in strong (82% QoQ), reflective of strong gains on net fee income and mark to market gains on fixed income and fx trading. Another positive, is the decline in provisioning (18% QoQ), with credit loss over the first half declining 54% YoY to ₦3.1 billion and cost of risk 50bps YoY to 0.4%.
- While the performance across key lines is decent, coupled with strengthening of the asset quality, with moderation in NPL to 5.6% (FY 18: 6.5%), the jump in customers deposit (21% YoY) led to a further contraction in loan to deposit ratio (bank) to 48% from 53% in FY 18.

- 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 16.1% as attractive and could be compelling to investors. On our numbers, UBA is trading on FY19 P/B multiple of 0.4x, which is at a discount Tier 1 average of 0.8x.

Summary of H1 2019 Results

N'million	H1 19	H1 18	YoY (pps)	Q2 19	Q1 19	QoQ
Gross Earnings	277,401	244,670	13.38%	153,203	124,198	23.35%
Net Interest Income	110,123	111,076	-0.86%	52,048	58,075	-10.38%
Non-Interest Revenue	72,516	57,376	26.39%	46,879	25,637	82.86%
Operating Expenses	-109,587	-103,704	5.67%	-57,643	-51,944	10.97%
Impairment	-3,120	-6,732	-53.65%	-1,406	-1,714	-17.97%
PBT	70,274	58,140	20.87%	40,118	30,156	33.03%
PAT	56,739	43,792	29.56%	28,075	28,664	-2.05%
EPS	1.66	1.28	29.56%	0.82	0.84	-2.05%
N'million	H1 19	H1 18	YoY (pps)	Q1 19	QoQ	
Loans	1,687,506	1,543,865	9.30%	1,689,668	-0.13%	
Investment Securities	1,540,826	1,303,422	18.21%	1,600,387	-3.72%	
Total Assets	5,102,123	4,267,653	19.55%	5,114,757	-0.25%	
Deposits	3,510,237	2,901,204	20.99%	3,530,890	-0.58%	
Total Liabilities	4,559,665	3,771,401	20.90%	4,571,540	-0.26%	
Net Assets	542,458	496,252	9.31%	543,217	-0.14%	
BVPS	15.86	14.51	9.31%	15.88	-0.14%	
	H1 19	H1 18	change	Q1 19	QoQ	change
Assets Yields	8.50%	9.32%	-0.82%	8.82%	8.35%	0.46%
WACF	4.31%	4.16%	0.15%	4.93%	3.75%	1.18%
Net Interest Margin	4.57%	5.53%	-0.96%	4.32%	4.92%	-0.61%
Cost-Income Ratio	60.00%	61.56%	-1.56%	58.27%	62.05%	-3.78%
Cost of Risk	0.37%	0.87%	-0.50%	0.32%	0.40%	-0.08%
ROE	20.92%	17.65%	3.27%	20.69%	21.93%	-1.24%

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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