



Equity Research | United Bank for Africa Plc

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Full Year Earnings Report

12 months ended 31st December, 2012

Recommendation: NEUTRAL

After worrisome delays, results moderately upbeat

- United Bank for Africa Plc. (UBA) reported 35% YoY growth in gross earnings to N220bn for the 12 months to December 2012. FY 12 PBT and PAT stood at N52bn and N54.8bn, from respective losses of N26.6bn and N6.8bn in FY 11. UBA also announced a dividend of N0.50, a 30% payout ratio, lagging our 45% payout forecast.
- Q4 12 gross earnings of N49bn were 13% behind our estimates whilst N7.2 billion PBT was 28% ahead of our N5.6bn estimates. At N12.4 billion, Q4 12 PAT was 253% ahead of our forecast due to a N5.2bn tax writeback in Q4 12.

Q4 revenues weaker across board

- UBA's loan book contracted 5% QoQ where we had forecast 4% growth in line with management guidance for 4-7% YoY growth for FY 12. However, sustained growth in funding base helped drive a 9% QoQ growth in total earning assets, which expanded 3pps as a proportion of total assets to 91.6%. Nonetheless, much of the growth remained in low-yielding money market assets which expanded a further 33% QoQ on the heels of a 21% increase in the preceding quarter. Consequently, an 80bps contraction in assets (vs. our 20bps estimate) led interest income 10% lower QoQ and 8% short of our estimates at N35.2bn.

Income Statement Data

	2012- FY 'm	2011 - FY 'm	%chg
Revenue	220,100	163,700	35%
PBT	52,010	(26,600)	N/A
Tax	(533)	19,800	N/A
PAT	54,800	(6,800)	N/A

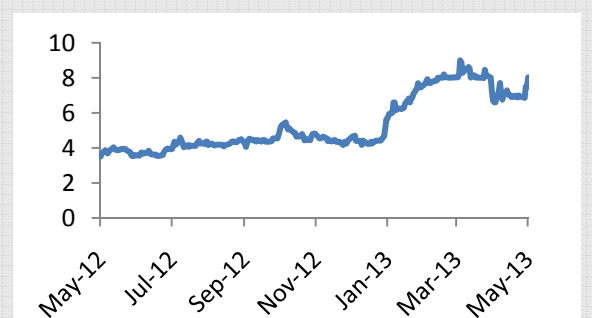
Balance Sheet Data

	2012-Dec 'm	2011 -Dec 'm	%chg
Cash	714,115	538,742	33%
Loans	658,922	692,739	-5%
Deposits	1,720,008	1,614,719	7%
Fixed Asset	70,746	66,151	7%
Net Assets	192,467	211,238	-9%

Stock Data

Price	N8.02
52 week range	N3.51– N9.00
Market Cap. (N'm)	259,324.24
1-month Avg. Vol	31,954,895
Curr. PE	5x
Bloomberg Ticker	UBA NL
Reuters Ticker	UBA.LG

UBA Plc - Share Price Trend



Analyst(s)

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- The softer revenue base extended to non-interest revenue which, at N15bn, was 22% short of our Q4 12 forecast and 13% lower QoQ, failing to reflect the traditional seasonal strength we had anticipated. Fee income was particularly muted, contracting 32% QoQ while trading income of N3.2bn was 4% lower QoQ, after a much stronger performance in H1 12. The weaker fee income was likely (at least in part) related to the removal of N100 monthly flat fee on cards which we reported as at Q3 12.

As cost containment fails to lift operating performance

- The removal of this fee, along with reduction in minimum account opening balance, was aimed at attracting cheaper deposits after an uptick in funding costs in Q2 12 and appeared to be successful in this regard as UBA followed 9% QoQ deposit growth in Q3 12 with a further 7% rise in Q4 12. Positively, after failing to reflect deposit growth in Q3 12, interest expense contracted 16% QoQ to N13.3bn, falling 13% short of our forecast, and putting reported FY 12 WACF at 3%--30bps lower than we had anticipated.
- On the other hand, Q4 12 operating expenses rose 7%QoQ to N28bn, matching our forecast, with much of the QoQ growth coming from personnel expenses (+126%) which had been restrained in Q3 12 in the face of a surge in other opex that quarter. Incidentally, the latter component moderated 64% in Q4 12.
- As a consequence of lower revenues, CIR was 1ppt ahead of our estimates at 64%. Nevertheless, this maintains the broad improvement in this metric over the 78% quarterly average in FY 11.
- Largely on weaker revenues, Q4 12 operating profit of N9.8bn was well below our N14.9bn forecast and 37% weaker QoQ.

Lower loan loss and tax write-backs bolster bottom-line

- At N2.4bn, impairment charge was 6% lower QoQ after reversing net write-backs through H1 12 in the preceding quarter. This was however well below our N9bn estimate for the quarter which had anticipated a typical spike in this metric across the industry in audited financial particularly in view of potential charges on the Air Nigeria loan. Accordingly, FY 12 cost of risk of 0.7% was below our 1.5% estimate.
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- The lower charges helped put Q4 12 PBT of N7.2bn--which was 45% lower QoQ--28% ahead of our estimates in spite of weaker than expected operating performance. A N5.2bn tax credit helped push PAT 3% higher QoQ to N12.4bn. Thus, while PBT margin was 8ppt lower QoQ at 14%, PAT margin was 4ppt higher at 25%.

Scope for improved operating performance still clouded by potential provisions

- The 80bps contraction in asset yields in Q4 12 is at par with the average for tier 1 banks which have now all released FY 12 results. Consequent upon subsequent improvement in Q1 13 results we have also factored in an uptick in asset yields for UBA--though at 40bps our expected uptick is pegged at half of the average Q1 13 improvement due to the larger extent of the bank's rotation into money market assets. Coupled with expected expansion in earning assets as funding base broadens, we expect interest income to recover from a weak Q4 rising 21%QoQ in our Q1 13E and underpinning a 20% QoQ rise in Q1 13E gross earnings to N59.4bn for . Our FY 13E revenue of N236bn implies 9% YoY growth.
 - Furthermore, we expect the impact of recent initiatives which have helped moderate funding costs to persist and expect 27% QoQ rise in Q1 13E interest expense to N16.9bn, largely on account of higher forecast deposit levels. Nonetheless, in line with peer trends in Q1 13, we also envisage a moderate uptick in costs and forecast a relatively mild 20bps deterioration in WACF by FY 13.
 - The uptick in CIR, which would tend to belie management's target of driving this metric below 50% over the near to medium term appears to justify our cautious stance in maintaining a 60% floor over our forecast horizon. Our FY 13E sees higher quarterly opex average based on rising pattern since Q2 12, though this is tempered by potential impact of ongoing efforts to centralize back-end operations. Nevertheless, Q1 13 traditionally marks a slow start for opex and we forecast a mild 3% QoQ contraction to N26.8bn in Q1 13E with forecast CIR at 63%.
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- Based on the persistence of charges in Q4 12, UBA's expectations for the N3.4bn charge taken on the Air Nigeria loan to potentially reverse has apparently not materialized and we have continued to accrue our N2.1bn/quarter estimate on this exposure into 2013. Our view appears to be supported by the QoQ loan book contraction which could be evidence of declassification of the N34bn exposure although UBA's failure to report any asset quality metrics somewhat clouds the picture. Coupled with general provision estimates, we envisage impairment charge could rise 18% QoQ in Q1 13E. Our FY 13E provision translates into estimated cost of risk of 1.5%.
 - Having been responsible for the main improvements relative to our expectations our belief that the resumption of provision in H2 12 is more likely to persist going forward is primarily responsible for our FY 13E PBT estimate of N51bn being flat YoY whilst PAT at N42bn (FY 13E EPS: N1.32) is 15% lower YoY largely on account of the base impact of Q4 12 tax credit which puts FY 12 tax rate at 1%.

Reduced upside informs downgrade

- Driven by revisions to our cost of equity, our fair value estimate for UBA is 22% higher than previous at **N8.1**. Boosted by the Q4 12 tax credit, UBA's current PE of 5x compares favourably with peer average of 6.95x while forward PE of 6x and P/Bv of 1.35x are at smaller discounts to peer average of 6.4x and 1.4x respectively. After a strong 76% YTD gain, upside from our FV estimate has reduced to 1% over the last closing price and we downgrade the stock two notches from BUY to **NEUTRAL**.
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Summary of forecasts

Quarterly					
Income Statement (N'm)	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E	
Net interest income	25,656	25,143	25,656	26,169	
Non-interest income	16,492	16,162	16,492	16,821	
Total Revenue	42,148	41,305	42,148	42,991	
Total Operating Costs	(26,553)	(26,022)	(26,553)	(27,084)	
Operating Profit	15,595	15,283	15,595	15,907	
Impairment Charge	(2,833)	(2,776)	(2,833)	(2,890)	
Pre-tax Profit	12,762	12,506	12,762	13,017	
Tax	(1,978)	(1,938)	(1,978)	(2,018)	
Post-tax Profit	10,784	10,568	10,784	10,999	
Annual					
Income Statement (N'm)	2011A	2012A	2013E	2014E	2015E
Net interest income	75,297	91,617	102,625	105,737	119,889
Non-interest income	63,411	67,599	65,966	83,302	91,385
Total Revenue	138,708	159,216	168,591	189,039	211,274
Total Operating Costs	- 107,716	- 102,592	- 106,212	- 117,204	- 128,877
Operating Profit	30,992	56,624	62,379	71,835	82,397
Impairment Charge	- 22,628	- 4,560	- 11,333	- 26,176	- 21,124
Pre-tax Profit	- 28,487	52,010	50,808	45,659	61,273
Tax	18,849	- 533	- 7,912	- 9,132	- 15,318
Post-tax Profit	- 9,638	51,477	42,896	36,527	45,955
Balance Sheet (N'm)	2011A	2012A	2013E	2014E	2015E
Assets					
Cash & Short term funds	507,837	714,572	714,244	668,892	697,637
Due from banks	23,413	28,513	36,912	58,301	61,350
Net Loans	666,999	658,922	742,550	854,888	911,408
Fixed Assets	52,852	70,746	73,824	79,502	83,659
Other Assets	685,081	800,170	893,270	988,470	1,034,586
Total Asset	1,936,182	2,272,923	2,460,800	2,650,053	2,788,640
Liabilities					
Deposits	1,444,780	1,720,008	1,856,374	2,021,011	2,144,490
Due to banks	18,854	57,780	22,639	36,524	38,294
Borrowings	192,123	168,239	203,748	170,447	181,260
Other liabilities	113,668	134,429	176,582	199,666	178,707
Total liabilities	1,769,425	2,080,456	2,259,343	2,427,649	2,542,752
Shareholders' fund	166,757	192,467	201,457	222,404	245,888
Key Data					
EPS Rep GAAP	0.82	1.60	1.33	1.12	1.41
DPS	-	0.50	0.60	0.56	0.78
BVPS	5.16	5.95	6.23	6.88	7.60
ROE	-6%	27%	21%	16%	19%
ROA	-0.5%	2.3%	1.7%	1.4%	1.6%
Key Ratios					
Loan to Asset	34%	29%	30%	32%	33%
Cost to income	78%	64%	63%	62%	61%
Net Profit Margin	-6%	26%	18%	14%	16%
Liquidity ratio	36%	42%	40%	35%	35%
Capital adequacy ratio	10%	23%	23%	22%	23%

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
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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