



Interim Earnings Report

3 months ended 31st March, 2013**Recommendation: NEUTRAL*****Expanded funding base drives revenue gains***

- United Bank for Africa Plc. (UBA) reported 18% YoY growth in gross earnings to N61.8bn for the 3 months to March 2013, 5% ahead of our estimates. PBT and PAT stood at N17.2bn and N15.6bn, the respective YoY growths of 12% and 19% putting the items 34% and 44% ahead of our estimates.
- UBA's revenue growth largely reflected a strong expansion in funding base though assets remained focused on money market assets. Amid a 4% QoQ loan book contraction, investment securities expanded 8% QoQ while money market assets rose 26%. The expansion in these items drove total earning assets 11% higher QoQ, which was already ahead of the 7% expansion in our FY 13E. Accordingly, aided by 50bps QoQ increment in asset yields, interest income rose 26% QoQ to N44.4bn which was 5% ahead of our estimates.
- Non-interest revenue also rebounded from a weak Q4 12, rising 13% QoQ to N17.5bn -6% ahead of our estimates. The improvements came from resurgent fee income (+51% QoQ) and was aided by trading gains (+29% QoQ) while the 'other operating income' moderated 42% QoQ. The recovery across revenue items drove gross earnings 25% higher QoQ.

Income Statement Data

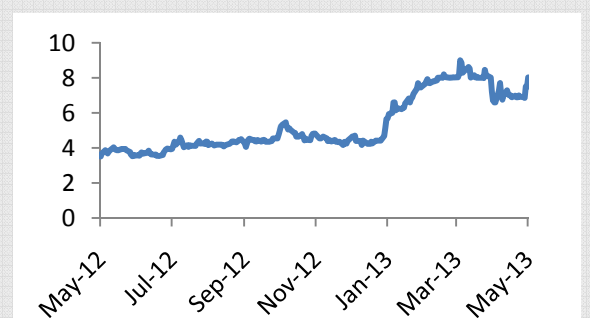
	2013- 3 'm	2012- 3 'm	%chg
Revenue	61,847	52,400	18%
PBT	17,156	15,300	12%
Tax	(1,593)	(2,200)	-28%
PAT	15,563	13,100	19%

Balance Sheet Data

	2013-Mar 'm	2012 -Dec 'm	%chg
Cash	900,826	714,115	26%
Loans	634,121	658,922	-4%
Deposits	1,928,723	1,720,008	12%
Fixed Asset	69,552	70,746	-2%
Net Assets	209,387	192,467	9%

Stock Data

Price	N8.25
52 week range	N3.51– N9.00
Market Cap. (N'm)	266,761.22
1-month Avg. Vol	34,504,061
Curr. PE	5.2x
Bloomberg Ticker	UBA NL
Reuters Ticker	UBA.LG

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

Adeolu Omotola

adeolu.omotola@arm.com.ng

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- The expanded balance sheet was largely a result of a further 12% QoQ growth in deposit to N1.93 trn (FY 13E: N1.86 trn) though a more rapid 30% QoQ rise in interest expense to N17.2bn (FY 13E: N16.8 bn) suggests more expensive funding during the quarter. The increased exposure to the interbank liabilities (+53% QoQ) likely also helped drive a 20bps QoQ increase in WACF to 3.2%--in line with our estimates.

Opex in line, lower loan loss still putting profits ahead

- Q1 13 operating expenses of N27.3bn was 3% ahead of our forecasts coming in 1% lower QoQ. However, the volatility in sub-components persisted; personnel expenses contracted 46% to N9.7bn while 'other opex' tripled QoQ to N15.9bn, (again) reversing the pattern in Q4 12. Nonetheless, due to stronger revenue performance from UBA, CIR of 61.2% was 180bps behind our estimate.
- Provisions contracted sharply QoQ to N177mn (Q4 12: N2.4bn) and was materially below our N2.7bn estimate for Q1 13. Thus, as with Q4 12, the lower charges (which translate to a marginal 0.1% cost of risk) significantly contributes to PBT of N17.2bn being 34% ahead of our forecast while PAT of N15.6bn was 44% ahead, reflecting a 600bps lower-than-expected tax rate of 9%.
- The lower impairment charges (-93% QoQ) was aided by the stronger QoQ revenue rebound in driving PBT 140% higher QoQ while the tax credit in Q4 12 pegged PAT growth to 26% QoQ. Corresponding margins were 400bps and 100bps higher respectively.

Still cautious on provisions despite forecasts upgrade

- Q1 13 results manifest expected improvements in operating performance, though at a somewhat stronger pace than anticipated. The 50bps QoQ increment in Q1 13 asset yields brings this metric in line with our estimate with relatively slow recovery reflecting our expectations about the impact of UBA's continued money market focus.
 - However, with deposits tracking ahead of our FY 13E we have revised funding base higher which drives a 7% upward revision to total earning assets to N2.4trn. Thus, our Q2 13E interest income is 10% higher than previous translating into 3% QoQ growth.
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- We also made mild tweaks to NIR but continue to expect this to weaken in view of recently implemented regulatory caps on fees. Our revised Q2 13E of N16.5bn is 5% lower QoQ but 2% higher than previous. Overall, we expect revenues to flatten QoQ at N62bn and FY 13E gross earnings are now at N248bn, 6% higher than previous.
 - The upward revision to funding base also impacts Q2 13E interest expense which is 11% higher than previous at N18.1bn, a 3% implied QoQ growth. Nevertheless, we expect the relative cost effect to remain steady and our WACF estimate is unchanged at 3.2% for FY 13E.
 - With opex tracking closing close to our estimates over the last two quarters, we have maintained our ~N27bn quarterly run-rate. However, based on upward revisions to revenue, implied FY 13E CIR is now 50bps lower at 62.5%.
 - We also maintain our quarterly provision run-rate for the rest of 2013 pending clarity on drivers of lower charges in Q1 13. Part of our caution is informed by the fact that Q1 12 write-backs gave way to provision in subsequent quarters, a pattern that will likely recur in FY 13. Nonetheless, the downside from the Q1 impairment charges has helped moderate FY provisions estimate and drives our FY 13E cost of risk 40bps lower to 1.1%.
 - Upward revenue revisions and smaller total provisions are primarily responsible for a 13% upward revision to both our FY 13E PBT and PAT estimates of N57.5bn and N48.9bn (EPS: N1.5).

Mild fair value increment matched by price gain

- The increment in profits drove a mild 3% rise in our fair value estimate to **N8.3**. Whilst UBA's current PE of 5.2x, forward PE of 6.2x and P/Bv of 1.4x remain at mild discounts to respective peer averages of 6.9x, 6.3x and 1.4x, a further 3% gain today (+81% YTD) pegs upside from FV estimate at 1%. Consequently, we maintain a **NEUTRAL** rating on the stock.
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Summary of forecasts

Quarterly					
Income Statement (N'm)	Q2 2013E	Q3 2013E	Q4 2013E	Q1 2014E	
Net interest income	27,514	27,547	27,539	27,842	
Non-interest income	16,531	16,550	16,545	19,524	
Total Revenue	44,044	44,097	44,084	47,365	
Total Operating Costs	(27,726)	(27,759)	(27,751)	(29,367)	
Operating Profit	16,318	16,338	16,333	17,999	
Impairment Charge	(2,873)	(2,876)	(2,875)	(3,324)	
Pre-tax Profit	13,445	13,462	13,458	14,675	
Tax	(2,343)	(2,346)	(2,345)	(2,201)	
Post-tax Profit	11,102	11,115	11,112	12,474	
Annual					
Income Statement (N'm)	2012A	3m'2013A	2013E	2014E	2015E
Net interest income	91,617	27,159	109,759	113,639	123,467
Non-interest income	67,599	17,474	67,100	79,689	85,709
Total Revenue	159,216	44,633	176,859	193,328	209,176
Total Operating Costs	- 102,592	- 27,300	- 110,537	- 119,864	- 127,597
Operating Profit	56,624	17,333	66,322	73,465	81,579
Impairment Charge	- 4,560	- 177	- 8,802	- 13,566	- 14,915
Pre-tax Profit	52,010	17,156	57,283	59,899	66,664
Tax	- 533	- 1,593	- 8,628	- 8,985	- 14,666
Post-tax Profit	51,477	15,563	48,654	50,914	51,998
Balance Sheet (N'm)					
Assets	2012A	2012A	2013E	2014E	2015E
Cash & Short term funds	714,572	906,972	857,933	735,405	756,146
Due from banks	28,513	30,115	25,207	33,323	34,462
Net Loans	658,922	634,121	747,747	889,083	929,636
Fixed Assets	70,746	69,552	75,621	83,307	86,156
Other Assets	800,170	793,621	814,184	1,035,786	1,065,459
Total Asset	2,272,923	2,434,381	2,520,692	2,776,904	2,871,860
Liabilities					
Deposits	1,720,008	1,928,723	1,967,756	2,101,852	2,187,379
Due to banks	57,780	88,234	115,073	37,985	39,060
Borrowings	168,239	159,274	149,596	177,265	184,886
Other liabilities	134,429	48,763	64,441	207,653	182,282
Total liabilities	2,080,456	2,224,994	2,296,866	2,524,755	2,593,607
Shareholders' fund	192,467	209,387	223,825	252,149	278,253
Key Data					
EPS Rep GAAP	1.60	0.49	1.50	1.57	1.60
DPS	0.50	-	0.68	0.78	0.88
BVPS	5.95	6.48	6.92	7.80	8.61
ROE	27%	8%	22%	20%	19%
ROA	2.3%	0.7%	1.9%	1.8%	1.8%
Key Ratios					
Loan to Asset	29%	26%	30%	32%	32%
Cost to income	64%	61%	63%	62%	61%
Net Profit Margin	26%	27%	20%	19%	18%
Liquidity ratio	42%	46%	42%	36%	36%
Capital adequacy ratio	23%	28%	26%	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
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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