



Rating	<b>STRONG BUY</b>
Price	₦7.50
FVE	<b>₦13.04</b>
52-week range	₦6.55 – ₦11.95
Market Cap. (₦Mn)	256,496
1-month Avg. Vol	20,604,560
Curr. PB	0.53x

**UBA.NL - Share Price Trend****Analyst(s)****Oluwasegun Akinwale**[Oluwasegun.akinwale@arm.com.ng](mailto:Oluwasegun.akinwale@arm.com.ng)**United Bank for Africa Plc. (UBA.NL)****Stock Report****Rest of Africa to drive earnings growth in near term**

- UBA earnings dragged over full-year 2018, with EPS growing at the slowest pace in five- years by 1.4% YoY to ₦2.30 due to decline across income lines - net interest income (-0.96% YoY) and non-interest revenue (-14% YoY). On the former, the pressure was induced by increase in funding cost (+40bps YoY) which, overlaid with a decline in assets yield (-52bps YoY), resulted in Net Interest Margin (NIM) contraction by 94bps YoY. Elsewhere, following loss on the bank's derivative position of ₦31.5 billion, total NIR declined over the year. However, we note that, if adjusted for unsustainable lines on net trading and other income, sustainable NIR would have declined by just 3.4% YoY to ₦78 billion over FY 18 from ₦80 billion in FY 17, with EPS expansion of 137% YoY. Overall, we note that UBA's reported earnings growth over FY 18, emanated largely from a decline in loan-loss provision by 86% YoY to ₦4.5 billion following additional write back over Q4 18.
- At its full year 2018 analysts conference call, management guided to increased focus on Kenya, Ghana, Cote D'Ivoire and Uganda as the key market for loan growth over 2019. Coupled with the expectation of loan growth in the manufacturing, trade finance, agriculture backward integration and oil & gas sectors in Nigeria, management guided to loan growth of 12% over 2019. With the expectation of an early resolution on its exposure to Ghana bulk purchasing company and a possible reclassification of the 9Mobile (after the minimum 6 months waiting period) management expects NPL to decline to 5% in FY 19 (FY 18: 6.4%). As a result, management expects Cost of

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Risk during the year to be approximately 1%, cost to income ratio of below 60% and ROAE of ~18% (FY 18: 15.2%).

- While noting the sluggish performance over 2018, we believe UBA growth story across Africa remain compelling. Particularly, we expect meaningful growth in earnings over 2019 on the back of strong retail deposit growth, increase in loan book, expansion in trading book and net fee income, and healthier asset quality. Consequently, we see FY 19E earnings growth of 15% YoY to ₦90.2 billion (lower than prior estimate of ₦102.5 billion), with FY 20F and FY 21F growth forecasts of 6% and 5% respectively. Overall, we maintain our STRONG BUY recommendation with a revised FVE of ₦13.04 (previously: ₦14.10). UBA trades at a FY 19F price-to-book of 0.8x, a discount to Tier 1 average of 1.0x. At current price, our expected dividend of ₦0.94 over FY 19F translates to a dividend yield of 12.5%. Key risks include decline in loan book and sticky NPLs which could necessitate higher than expected loan-loss provision.
- ***Rest of Africa to support loan growth, albeit short of guidance.*** As mentioned earlier, management guided to a 12% YoY growth in gross loan book over 2019, with the growth largely anchored on credit creations across Kenya, Ghana, Cote D'Ivoire and Uganda, with a much slower pace of growth in Nigeria. While we reckon with the stronger growth in the Rest of Africa in FY 18 of 5% (Nigeria: 3.5%) to ₦501.5 billion, we believe the low level of quality obligors, projects and the elevated non-performing loans (~10% in FY 18) in the rest of Africa will keep actual value of loan book at a low level. In Nigeria, management reinforced the bank's appetite for exposure to manufacturing, trade finance, agriculture and oil & gas. While we believe the improving economic fundamentals suggests increased activities across these sectors, we expect the bank to maintain its conservative approach to credit creation in Nigeria. Overall, we forecast a much slower growth in loan book of 5% YoY to ₦1.8 trillion, compared to management guidance.
- ***Improving asset quality, risks not faded yet.*** With the hold off on the reclassification of 9mobile exposure in 2018 due to the mandatory 6 months waiting period, NPL ratio moderated just 30bps YoY to 6.5%. Also, management guided that the group's second single largest exposure of ₦20 billion (with coverage of 85%) to bulk distribution company (BDC) in Ghana is expected to be cleared out over H1 19. While we expect the reclassification of 9Mobile to have a more solid impact on NPL going into 2019, we believe late settlement of the exposure to BDC Ghana might delay reclassification until H1 2020. As a result, we expect a much slower contraction in NPL ration to 5.5% compared to management guidance of 5%. Furthermore, despite the bank coverage on BDC Ghana of 85%, we do not rule a likely haircut at settlement,

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as such we model 0.70% cost of risk over FY 19 with loan loss provision of ₦12.6 billion (FY 18: ₦4.5 billion).

- ***Lower assets yield to neuter moderating funding cost.*** Over 2019, we aligned our deposit growth expectation with management guidance of 12% YoY with much of the expansion expected to come from current and savings deposit line, given the solid growth in both lines over 2018. Surprisingly, most of the expansion in deposits emanated from Nigeria (29.1% YoY and Rest of Africa: 8.1% YoY) as the bank's digital banking drive gained traction over 2018. Consequently, we expect CASA as a share of total deposit to print at 77.6% by FY 19E (FY 17: 76.9%). As such, we expect moderation in funding costs of 12bps YoY.
- On funding income, with moderating treasury yields in the domestic market, we believe that expansion in treasury assets will be the differentiating factor for interest on investment securities. Also, after a 126bps YoY cut in loan yields over 2018, we project sticky loan yields over 2019. Consequently, we estimate asset yield contraction by 31bps YoY to 9.0% in FY 19E (FY 18: -52bps YoY). Therefore, net interest margin is estimated to contract by 21bps YoY.
- ***NIR to support earnings growth over the near term.*** We estimate increase in non-interest revenue (+14% YoY) over 2019 to ₦116 billion (FY 19F: 2.2%, FY 20F: 5.9%), largely reflecting growth in net fee income (+16.3% YoY to ₦76.1 billion). Credit related fees, trade service income, e-banking income, remittance income and fund transfer income should drive the growth. Also, improvement in trading (+9% YoY) and other income (+11% YoY) should provide support. On net trading income, our follow-up engagement with management revealed that the group's derivative position increased \$500 million to \$850 million at the end of 2018, this alongside our expectation of volume play in treasury assets, informs our view of a better performance on the trading line.
- ***Rest of Africa to drive earnings growth in near term.*** Net impact of our overall adjustment translates to PBT of ₦114.1 billion and EPS of ₦2.55 (+10.8% YoY) over 2019. We forecast EPS of ₦2.80 (+9.8% YoY) and ₦2.92 (+4.3% YoY) over FY 20F and FY 21F respectively. UBA trades at a FY 19E P/B of 0.8x, a discount to Tier 1 average of 1.0x. At current price, our expected dividend of ₦0.94 over FY 19E translates to a dividend yield of 12.5%.

## Summary of Results and Forecasts

Balance Sheet (₹ million)	2017	2018A	2019E	2020E	2021E
<b>Assets</b>					
Inv. Securities	1,247,951	1,656,571	1,838,794	2,022,673	2,184,487
Net loans	1,650,891	1,715,285	1,803,823	1,902,981	1,964,076
Interest-earning assets	3,817,565	4,608,249	5,064,469	5,503,910	5,853,079
<b>Total assets</b>	<b>3,435,587</b>	<b>4,237,347</b>	<b>4,603,149</b>	<b>5,049,980</b>	<b>5,599,152</b>
<b>Liabilities</b>					
Borrowings	567,950	713,391	642,052	719,098	769,435
Deposits	2,733,348	3,349,120	3,751,294	4,089,608	4,566,729
Interest-bearing liabilities	3,435,587	4,237,347	4,603,149	5,049,980	5,599,152
Total liabilities	3,540,040	4,367,130	4,732,932	5,179,763	5,728,935
<b>Shareholders' Equity</b>	<b>529,434</b>	<b>502,608</b>	<b>566,236</b>	<b>635,909</b>	<b>708,564</b>

Income Statement	2017	2018A	2019E	2020E	2021E
Gross Earnings	444,590	465,494	518,368	569,959	604,278
Interest Income	325,657	362,922	401,654	450,692	477,957
Interest Expense	(118,025)	(157,276)	(175,832)	(204,330)	(227,615)
Net Interest Income	207,632	205,646	225,822	246,362	250,342
Non-Interest Revenue	118,933	102,572	116,714	119,267	126,321
Staff Costs	68,972	71,158	77,690	84,022	89,988
Other Costs	120,680	126,184	134,899	139,196	142,243
Total Costs	189,652	197,342	212,589	223,218	232,230
PBT	104,222	106,766	117,739	127,606	133,067
Provision Charge	(32,895)	(4,529)	(12,627)	(15,224)	(11,784)
Tax	(26,674)	(28,159)	(30,612)	(31,901)	(33,267)
Minorities	2,544	3,248	6,099	6,699	6,986
Net Profit	77,548	78,607	87,127	95,704	99,801

Key YoY growth rates (%)	2017	2018A	2019E	2020E	2021E
Loans	9.7%	3.9%	5.2%	5.5%	3.2%
Interest Earning Assets	15.3%	20.7%	9.9%	8.7%	6.3%
Deposits	10.0%	22.5%	12.0%	9.0%	11.7%
Interest Bearing Liabilities	16.8%	23.3%	8.6%	9.7%	10.9%
Assets	16.1%	19.7%	8.8%	9.7%	10.7%
Gross Earnings	20.3%	4.7%	11.4%	10.0%	6.0%
Costs	24.4%	4.1%	7.7%	5.0%	4.0%
PBT	15.0%	2.4%	10.3%	8.4%	4.3%
PAT	7.3%	1.4%	10.8%	9.8%	4.3%
EPS	7.3%	1.4%	10.8%	9.8%	4.3%

Per-share data (₹)	2017	2018A	2019E	2020E	2021E
No of common shares (mn)	34,199,421	34,199,421	34,199,421	34,199,421	34,199,421
EPS	2.27	2.30	2.55	2.80	2.92
DPS	0.85	0.85	0.94	1.04	1.08
BVPS	15.48	14.70	16.56	18.59	20.72

Balance-sheet ratios (%)	2017	2018A	2019E	2020E	2021E
Loan/Assets	40.6%	35.2%	34.0%	32.7%	30.5%
Deposit/Liabilities	77.2%	76.7%	79.3%	79.0%	79.7%
Loans/Deposits	60.4%	51.2%	48.1%	46.5%	43.0%
Assets/Equity	7.69	9.69	9.36	9.15	9.09
Asset Quality	2017	2018A	2019E	2020E	2021E
NPLs/Gross Loans (%)	6.7%	6.4%	5.5%	5.0%	5.5%
Margins (%)	2017	2018A	2019E	2020E	2021E
Asset Yield	9.1%	8.6%	8.3%	8.5%	8.4%
WACF	3.7%	4.1%	4.0%	4.2%	4.3%
NIM	5.82%	4.88%	4.67%	4.66%	4.41%
Costs (%)	2017	2018A	2019E	2020E	2021E
Cost/Income	58.1%	64.0%	62.1%	61.1%	61.7%
Effective tax rate	25.6%	26.4%	26.0%	25.0%	25.0%
RoAE	15.9%	15.2%	16.3%	15.9%	14.8%
RoAA	2.0%	1.8%	1.7%	1.7%	1.6%

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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