



Rating	<b>STRONG BUY</b>
Price	₦10.95
FVE	<b>₦14.10</b>
52-week range	₦8.12 – ₦13.50
Market Cap. (₦mn)	374,484
1-month Avg. Vol	24,470,990
Curr. PB	0.78x

#### UBA.NL - Share Price Trend



#### Analyst(s)

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## United Bank for Africa Plc. (UBA.NL)

### Stock Report

#### *Solid Fundamentals Not Fully Priced in Yet*

We believe United Bank for Africa's (UBA) solid fundamentals and financial position remain intact. We upgrade our recommendation to **STRONG BUY** (previously: OVERWEIGHT) due to a slightly higher FVE of ₦14.10 (previously: ₦12.57). We expect its profitability to see meaningful improvement over 2018 on the back of deposit growth, increase in its loan book, expansion in its trading book, healthier asset quality, lower loan-loss provision, and resilience in fee income. Consequently, FY 18E earnings should print at ₦84.6 billion (+8% YoY). That said, we lift our earnings forecasts in FY 19F and FY 20F to 21% and 10% respectively. This is on the back of lower funding cost, expansion in non-interest revenue (NIR) and markedly lower loan-loss provision. UBA trades at a FY 18E price-to-book (P/B) of 0.5x, at an undemanding discount to Tier 1 average of 0.9x. At current price, our expected dividend of ₦0.98 over FY 18E translates to a dividend yield of ~10%. Key risks include a decline in loan book and sticky NPLs which implies a slower than expected moderation in loan-loss provision YoY.

#### • *Solid growth in deposit but should fall short of guidance.*

Over 2018, we expect deposit growth of 10% YoY to ₦3.0 trillion, relative to management's guidance of 18% YoY as FCY translation impact fades. Much of the expansion in deposit is expected to come from the tenured and savings deposit line, as the lower yield environment is expected to drive reversal in outflows over the period. Consequently, CASA as a share of total deposit should print at 73% by FY 18E (FY 17: 74.6%, Q1 18: 71.7%). Over Q1 2018, its deposit book expanded 4.1% QoQ on ₦2.85 trillion.

- Appetite for short-dated facility will support loan growth.*** Though management guided to a 15% YoY growth in its loan book, we forecast loan growth of ~8% YoY to ₦1.78 trillion as we expect the bank to be relatively conservative on credit creation in Nigeria in the last quarter. Management noted its strategy of reducing the duration of its loan book, reinforcing its appetite for short-dated facilities, though this requires a more aggressive stance on loan creation, due to the relatively higher frequency of loan maturity. That said, aside from the risk benefit on short-dated facility, it also helps to increase the velocity of its loan book and thus creates upside to credit related fee income. In other countries of operation, management stated its appetite for trade finance, manufacturing, and oil & gas/resources. For context, in markets such as Burkina Faso, the bank is active in Cotton Campaign<sup>1</sup>. In markets like Senegal and Ivory Coast, management seems positive on opportunities for infrastructure financing within the structures that fit into its risk acceptance criteria. In subsequent years, we forecast credit growth of about 10% apiece, largely emanating from credit growth in Nigeria.
- Facility Prepayment drives weakness in net loans over Q1 18.*** While decline in net loans over Q1 2018 should inform a more cautious approach towards loan growth, the drivers for this decline largely informs our view of a growth in the next 3 quarters. Firstly, the increase in provision reserve by ₦34 billion impacted on the net loans, as gross loan remains relatively flat. Furthermore, management noted that one of its Oil & Gas customer in Nigeria made notable prepayment of its facilities over the period, taking advantage of improved cash flow arising from stronger oil & gas production, oil price rally and proceeds of a debt capital market transaction consummated in the period. Also, management noted that one of its major customers in Ghana also made notable prepayment. From the bank's perspective, it is healthier to accommodate these prepayments of loans than experience default on obligations.
- NPL formation has peaked, healthier asset quality going forward.*** In prior year 2017, the spike in NPL ratio to 6.7% (+2.8pps YoY) was largely due to classification of its 9mobile exposure. So far, the bank has provided ~₦15 billion against the loan, which is 38% of its exposure. Given the expected hair-cut on the asset of 22%, we think concerns on this line are now largely muted. Furthermore, ₦89 billion outstanding loans (5.2% of loan book) has been restructured as at Q1 2018. Consequently, we expect improvement in asset quality over 2018 with NPL ratio over FY 18 estimated at 5.2% (-1.5pps YoY). Farther out, we forecast NPL ratio to print at 4.5% and 4.0% in the period FY 19F and FY 20F respectively.

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<sup>1</sup> i.e. aggregation and export value chain of the main agriculture sector in Burkina Faso

- ***Lower provisioning but slower than prior expectation.*** We have adjusted our Cost of Risk (CoR) slightly higher to 1.7% (previously 1.5%) given our conservative stance on exposure to Commerce (16%), Power (9%), and Consumer sectors (6%). In subsequent years (FY 19F and FY 20F), we estimate CoR of 1.2% and 1.0% accordingly. Net impact of these adjustment implies loan-loss provision of ₦30.3 billion over 2018 (-8.0% YoY), ₦23.7 billion over 2019 (-21.8% YoY), and ₦21.8 billion over 2020 (-7.9% YoY).
- ***Fee Income to support NIR over the near term.*** We estimate a benign non-interest revenue (NIR) growth over 2018 of 1.2% YoY to ₦120 billion (FY 19F: 4.5%, FY 20F: 7.5%), largely reflecting growth in net fee income (+17.5% YoY to ₦77.5 billion). Credit related fees, trade service income, e-banking income, remittance income, fund transfer income should drive the growth. Irrespective, we expect a moderation in trading (-20% YoY) and other income (-10% YoY). From our estimate, the bank has ~\$300 million derivative position which matures over Q3 18, and thus, we have taken a conservative approach of no new derivative position, which alongside lower yields on fixed income instruments, informs our view of a moderation in the trading line.
- ***Impact of lower yields will be largely muted on NIMs.*** We expect the lower interest environment to only impact yield on treasury assets, given the relatively sticky yield on loan book. Consequently, we estimate asset yield of 9.0% in FY 18E (FY 17: 9.1%). On the funding side, in line with trend over the first quarter, we expect further downward re-pricing of maturing deposit, to drive a downtrend in funding cost on deposit. However, the bank's ₦35 billion bond is expected to mature in September 2018, and we have factored a possible debt issuance to shore up its funding base, which brings overall funding cost slight higher by 10bps YoY to 3.8%. Therefore, Net Interest Margin (NIMs) is estimated to contract by 20bps YoY to 5.6%.
- ***Positive earnings growth in the near term.*** Net impact of our overall adjustment translates to PBT of ₦112.7 billion over FY 18E. Thus, we estimate EPS of ₦2.47 (+7.6% YoY). We forecast EPS of ₦3.00 (+21.3% YoY) and ₦3.29 (+9.6% YoY) over FY 19F and FY 20F respectively. UBA trades at a FY 18E P/B of 0.5x, at an undemanding discount to Tier 1 average of 0.9x. At current price, our expected dividend of ₦0.98 over FY 18E translates to a dividend yield of ~10%.

**Table 1: Financial Highlights**

(₹ million)	FY 16A	FY 17A	FY 18E	FY 19F	FY 20F
Gross Earnings	369,659	444,590	478,526	504,952	532,100
Loan-loss provision	(27,683)	(32,895)	(30,295)	(23,697)	(21,836)
PBT	90,642	105,264	112,761	136,796	149,940
PAT	72,264	78,590	84,570	102,597	112,455
Net Loans	1,505,319	1,650,891	1,782,046	1,974,725	2,183,570
Deposit	2,485,610	2,733,348	3,006,683	3,457,685	3,803,454
Shareholder's fund	448,069	529,434	731,887	796,770	867,887
Cost-Income ratio	56.30%	57.76%	58.47%	57.63%	57.36%
NIMs	5.61%	5.82%	5.60%	5.84%	5.84%
Loan-to-Deposit Ratio	60.56%	60.40%	59.27%	57.11%	57.41%
NPL	3.90%	6.70%	5.20%	4.50%	4.00%
EPS	1.99	2.30	2.47	3.00	3.29
DPS	0.75	0.85	0.99	1.20	1.32
BVPS	12.35	15.48	21.40	23.30	25.38

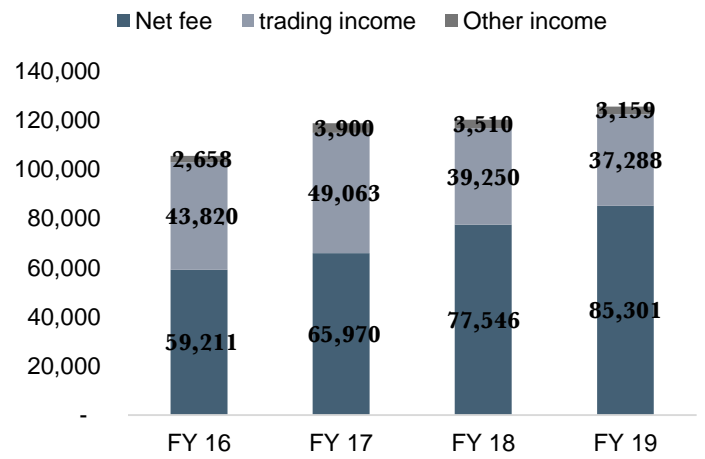
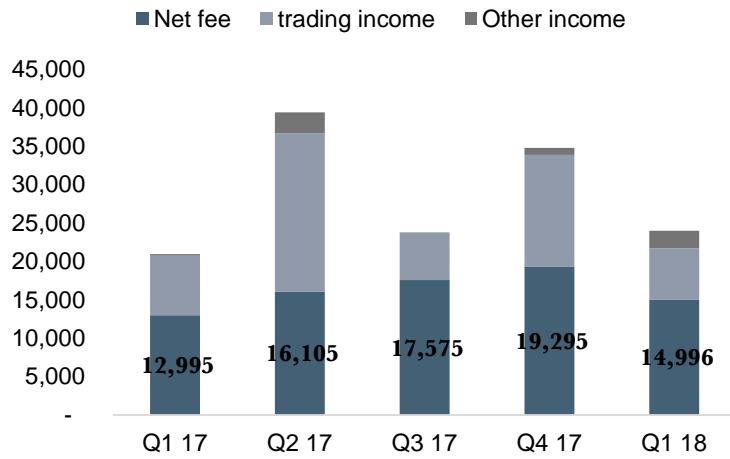
Source: Financials, ARM Research

**Table 2: Sensitivity analysis table for FY 18E (₹ million)**

Cost of risk	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
Impairment	7,527	15,053	22,580	30,106	37,633	45,160	52,686	60,213	67,739	75,266
EBIT-OPEX	118,388	118,388	118,388	118,388	118,388	118,388	118,388	118,388	118,388	118,388
PBT	110,861	103,335	95,808	88,282	80,755	73,228	65,702	58,175	50,649	43,122
Tax rate	22,478	20,952	19,425	17,899	16,373	14,847	13,321	11,795	10,269	8,743
PAT	88,384	82,383	76,383	70,382	64,382	58,381	52,381	46,380	40,379	34,379
EPS (₹)	2.58	2.41	2.23	2.06	1.88	1.71	1.53	1.36	1.18	1.01

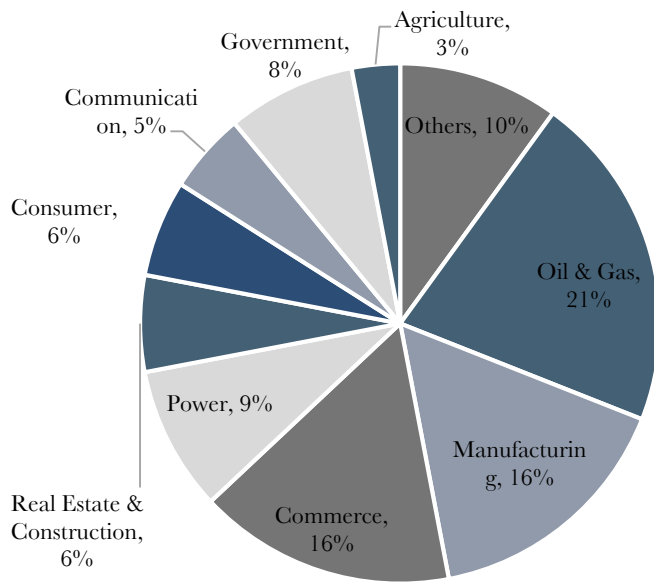
Source: Financials, ARM Research

**Figure 1: Non - Interest Revenue (₹ millions)**

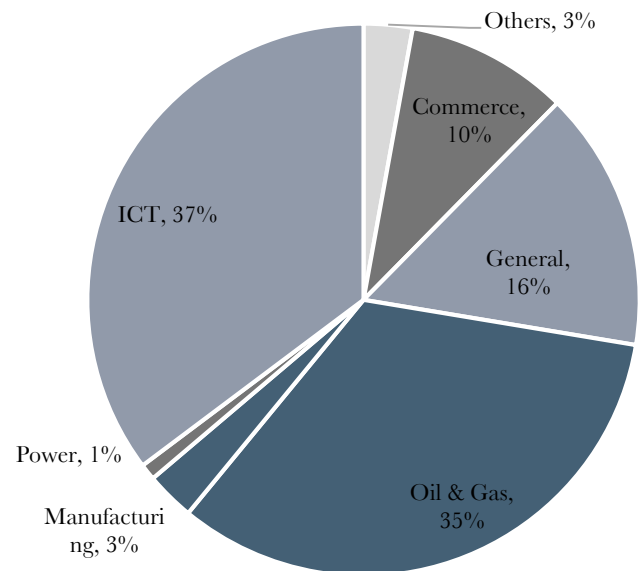


Source: Company Financials, ARM Research

**Figure 2: Loan Composition (FY 17)**



**Figure 3: NPL Composition (FY 17)**



Source: Company Financials, ARM Research

## Summary of Results and Forecasts

Balance Sheet	2017	2018E	2019E	2020E	2021E
<b>Assets</b>					
Inv. Securities	1,247,951	1,372,746	1,441,383	1,369,314	1,300,849
Net loans	1,650,891	1,782,046	1,974,725	2,183,570	2,316,632
Interest-earning assets	3,817,565	4,165,388	4,477,234	4,667,066	4,787,371
<b>Total assets</b>	<b>3,435,587</b>	<b>3,732,675</b>	<b>4,208,277</b>	<b>4,579,524</b>	<b>4,986,261</b>
<b>Liabilities</b>					
Borrowings	567,950	584,989	602,538	620,614	639,233
Deposits	2,733,348	3,006,683	3,457,685	3,803,454	4,183,799
Interest-bearing liabilities	3,435,587	3,732,675	4,208,277	4,579,524	4,986,261
Total liabilities	3,540,040	3,837,128	4,312,730	4,683,977	5,090,714
<b>Shareholders' Equity</b>	<b>529,434</b>	<b>731,887</b>	<b>796,770</b>	<b>867,887</b>	<b>937,168</b>
<b>Income Statement</b>					
Interest Income	325,657	358,220	379,204	396,919	395,188
Interest Expense	(118,025)	(134,553)	(126,631)	(129,761)	(137,270)
Net Interest Income	207,632	223,666	252,573	267,158	257,918
Net Fee Income	65,970	77,546	85,301	93,831	103,214
Trading Income	49,063	39,250	37,288	38,034	39,935
Other Income	3,900	3,510	3,159	3,317	3,483
Gross Earnings	444,590	478,526	504,952	532,100	541,820
Staff Costs	68,972	73,165	77,592	83,101	89,001
Other Costs	119,638	127,956	140,440	147,666	151,149
Total Costs	188,610	201,122	218,032	230,767	240,150
PBT	105,264	112,761	136,796	149,940	146,071
Provision Charge	(32,895)	(30,295)	(23,697)	(21,836)	(18,533)
Tax	(26,674)	(28,190)	(34,199)	(37,485)	(36,518)
Net Profit	78,590	84,570	102,597	112,455	109,553
<b>Key YoY growth rates (%)</b>					
Loans	9.7%	7.9%	10.8%	10.6%	6.1%
Interest Earning Assets	15.3%	9.1%	7.5%	4.2%	2.6%
Deposits	10.0%	10.0%	15.0%	10.0%	10.0%
Interest Bearing Liabilities	16.8%	8.6%	12.7%	8.8%	8.9%
Assets	16.1%	12.3%	11.8%	8.7%	8.6%
Gross Earnings	20.3%	7.6%	5.5%	5.4%	1.8%
Costs	23.7%	6.6%	8.4%	5.8%	4.1%
PBT	16.1%	7.1%	21.3%	9.6%	-2.6%
PAT	8.8%	7.6%	21.3%	9.6%	-2.6%
<b>Per-share data (N)</b>					
No of common shares (mn)	34,199,421	34,199,421	34,199,421	34,199,421	34,199,421
EPS	2.30	2.47	3.00	3.29	3.20
DPS	0.85	0.99	1.20	1.32	1.28
BVPS	15.48	21.40	23.30	25.38	27.40

Balance-sheet ratios (%)	2017	2018E	2019E	2020E	2021E
Loan/Assets	40.6%	39.0%	38.6%	39.3%	38.4%
Deposit/Liabilities	77.2%	78.4%	80.2%	81.2%	82.2%
Loans/Deposits	60.4%	59.3%	57.1%	57.4%	55.4%
Assets/Equity	7.69	6.24	6.41	6.40	6.43

Asset Quality	2017	2018E	2019E	2020E	2021E
NPLs/Gross Loans (%)	6.7%	5.2%	4.5%	4.0%	3.0%

Margins (%)	2017	2018E	2019E	2020E	2021E
Asset Yield	9.1%	9.0%	8.8%	8.7%	8.4%
WACF	3.7%	3.8%	3.2%	3.0%	2.9%
NIM	5.82%	5.60%	5.84%	5.84%	5.46%

Costs (%)	2017	2018E	2019E	2020E	2021E
Cost/Income	57.8%	58.5%	57.6%	57.4%	59.4%
Effective tax rate	25.3%	25.0%	25.0%	25.0%	25.0%

Profitability ratios (%)	2017	2018E	2019E	2020E	2021E
RoAE	16.1%	13.4%	13.4%	13.5%	12.1%
RoAA	2.1%	2.0%	2.1%	2.1%	1.9%

### 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>	Minimise exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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