



United Bank for Africa Plc. (UBA.NL)

Stock Report

Earnings advance on higher interest income

- UBA released its Q3 2020 results showing growth in PBT and PAT by 36.2% QoQ and 128.2% QoQ respectively. The faster expansion in PAT reflected a lower effective tax over the period (-94.6% QoQ). Precisely, higher interest income (+15.6% QoQ), lower operating expenses (-17.6% QoQ) as well as a decline in loan loss provisioning (-29% QoQ) anchored the improvements in quarterly numbers, outweighing the sharp fall in NIR (-37.8% QoQ). On interest income, the bank recorded a 25% increase in earnings on investment securities as well as higher interest income on loans to customers (+6.1% QoQ). Akin to other banks, the recognition of AMCON levy in H1 2020 in line with the requirements of IFRIC 21 levies, drove operating expenses southward. Meanwhile, the steep fall in NIR reflects a decline in net fee income (-11% QoQ) and a lower trading income (-60% QoQ) – a fallout of FX revaluation losses (-102% QoQ) and lower gain on FX derivatives (-82% QoQ).
- Cumulatively, the company reported a decline in PBT and PAT by 8% YoY and 5.5% YoY respectively over 9M 2020. Compared with our estimates, PBT and PAT represented 82% and 92% of our FY 2020 estimates. Precisely, interest expense came in below our estimate (67% of our FY 2020 estimate) while Non-interest revenue was higher than expected (83% of our estimate). The key drivers of the lower bottom line were higher operating expenses and loan loss provisioning. To start with, operating expenses grew by 19.2% YoY reflecting higher AMCON levy (+12% YoY), premises maintenance costs (+20% YoY), contract services (+52% YoY) and personnel cost (+21% YoY). Consequently, cost to income ratio expanded by 482bps YoY to 65.6%. Meanwhile, loan loss provisioning expanded by 72.2% YoY, translating to a higher cost of risk of 0.6% (+18 bps YoY) over 9M 2020.
- Over 9M 2020, net interest margin remained pressured, declining 69bps YoY to 3.8%, owing to a faster decline in asset yield (-193bps YoY) compared to cost of funds (-151bps YoY). Net interest income rose by 17.1% YoY on the back of higher interest income (+6.5% YoY) and lower interest expense (-5.7% YoY). To buttress, expansion in interest income reflects higher interest earnings on loans and advances as the bank grew loans

Rating	BUY
Price	₦7.9
FVE	₦10.39
52-week range	₦7.7-8.6
Market Cap. (₦'bn)	263.34
1-month Avg. Vol	42,465,286.78
Curr. PB	0.45x

UBA.NL - Share Price Trend



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by 15.6% YTD to ₦2.38 trillion (+23.07% YoY). On the other hand, lower interest expense on deposits from customers (-11.4% YoY) accounted for the decline in interest expense.

- Elsewhere, Non-interest revenue (NIR) rose marginally by 0.6% YoY as declines in net fee income (-11% YoY) muted increases across FX trading (+2% YoY), gains on derivatives (+115% YoY), as well as FX revaluation gains (+1997% YoY).
- As stated earlier, 9M 2020 interest expense is running below our FY 2020 estimate, therefore we have made a downward adjustment to interest expense to ₦177 billion (previously: ₦194.6 billion) and a slight increase in non-interest revenue to ₦131.6 billion (Previously: ₦130.5 billion). The impact of our adjustment is an increase in PAT by 9% YoY to ₦96.9 billion over FY 2020 (previously -6% YoY moderation in PAT). We now have a FVE of ₦10.39/share (previously: ₦10.0/share) with an upside of 31.6%, which translates to a **BUY** rating on the stock based on current pricing.

Summary of Results

₦'million	9M 20	9M 19	YoY (pps)	Q3 20	Q2 20	QoQ
Gross Earnings	424,904	404,983	4.92%	141,933	145,337	-2.34%
Net Interest Income	186,022	158,914	17.06%	66,698	53,907	23.73%
Non-Interest Revenue	107,762	107,080	0.64%	30,377	48,858	-37.83%
Operating Expenses	(192,659)	(161,621)	19.20%	(60,533)	(73,469)	-17.61%
Impairment	(11,476)	(6,663)	72.23%	(3,669)	(5,165)	-28.96%
PBT	90,372	98,233	-8.00%	33,243	24,403	36.23%
PAT	77,132	81,628	-5.51%	32,701	14,330	128.20%
EPS	2.26	2.39	-5.51%	0.96	0.42	128.20%
₦'million	9M 20	9M 19	YoY (pps)	Q2 20	QoQ	
Loans	2,382,683	1,936,012	23.07%	2,186,366	8.98%	
Investment Securities	1,987,543	1,396,175	42.36%	1,977,359	0.52%	
Total Assets	7,059,797	4,960,895	42.31%	6,775,365	4.20%	
Deposits	5,202,228	3,372,903	54.24%	4,800,310	8.37%	
Total Liabilities	6,404,470	4,405,367	45.38%	6,140,632	4.30%	
Net Assets	655,327	555,528	17.96%	634,733	3.24%	
BVPS	19.16	16.24	17.96%	18.56	3.24%	
	9M 20	9M 19	change (pps)	Q3 20	Q2 20	change (pps)
Assets Yields	6.43%	8.36%	-1.93%	6.79%	6.04%	0.75%
WACF	2.82%	4.33%	-1.51%	2.96%	2.89%	0.07%
Net Interest Margin	3.77%	4.46%	-0.69%	4.06%	3.38%	0.68%
Cost-Income Ratio	65.58%	60.76%	4.82%	62.36%	71.49%	-9.14%
Cost of Risk	0.64%	0.46%	0.18%	0.60%	0.92%	-0.32%
ROE	15.69%	19.59%	-3.90%	20.28%	9.04%	11.24%

Balance Sheet	2019	2020E	2021E	2022E	2023E
Assets					
Inv. Securities	1,673,938	1,925,029	2,021,280	2,122,344	2,228,461
Net loans	2,061,147	2,323,060	2,436,000	2,570,619	2,699,150
Interest-earning assets	5,239,524	5,978,193	6,273,890	6,600,404	6,930,424
Total assets	4,888,684	5,754,733	6,470,449	7,137,478	7,835,019
Liabilities					
Borrowings	788,730	907,040	1,043,095	1,116,112	1,194,240
Deposits	3,832,884	4,420,381	4,914,579	5,406,037	5,902,384
Interest-bearing liabilities	4,888,684	5,754,733	6,470,449	7,137,478	7,835,019
Total liabilities	5,006,074	5,872,123	6,587,839	7,254,868	7,952,409
Shareholders Equity	597,978	668,267	731,941	801,283	801,283
Income Statement	2019	2020E	2021E	2022E	2023E
Gross Earnings	529,248	556,815	599,413	640,455	675,248
Interest Income	404,830	425,191	459,495	492,853	517,496
Interest Expense	(182,955)	(177,016)	(220,965)	(243,904)	(267,419)
Net Interest Income	221,875	248,175	238,530	248,949	250,077
Trading income	37,627	41,390	45,529	50,082	55,090
Net Fee Income	80,004	82,633	86,028	88,657	93,089
Other Income	6,787	7,601	8,362	8,863	9,572
Non-Interest Revenue	124,418	131,624	139,918	147,601	157,751
Staff Costs	(75,099)	(81,993)	(85,306)	(87,882)	(91,432)
Other Costs	(142,068)	(147,414)	(152,007)	(156,390)	(160,901)
Total Costs	(217,167)	(229,407)	(237,313)	(244,272)	(252,333)
Operating Profit	129,126	150,392	141,135	152,279	155,495
Provision Charge	(18,252)	(23,231)	(19,488)	(17,994)	(18,894)
PBT	110,874	127,161	121,647	134,284	136,601
Tax	(22,198)	(30,618)	(29,294)	(33,674)	(32,883)
Minorities	2,869	2,909	2,783	3,031	3,124
Net Profit	89,089	96,956	92,766	101,023	104,131

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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