



Rating	BUY
Price	₦6.95
FVE	₦12.18
52-week range	₦4.4-9.8
Market Cap. (₦'bn)	232.68
1-month Avg. Vol	24,964,721
Curr. PB	0.34x

UBA:NL - Share Price Trend



Analyst

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United Bank for Africa Plc. (UBA.NL)

Stock Report

FY 2020 performance ends on a good note

- UBA released its audited FY 2020 results, with PBT and PAT expanding 18.5% YoY and 27.7% YoY respectively. The growth in earnings was supported by improved performance in interest income, Non-interest revenue and lower interest expense. Notably, the rest of Africa operations continued to impress, contributing circa 57% to PBT (2019: 47%). UBA's FY 2020 PAT of ₦113.8 billion prints higher than our forecast of ₦96.9 billion, representing a 17% deviation from our estimate. Precisely, while net interest income was in line with our estimate, the deviation stemmed from a higher than anticipated Non-interest revenue. Overall, UBA declared a final dividend of ₦0.35/share (final dividend in 2019: ₦0.80) which translates to a dividend yield of 5% based on last closing price. Despite better earnings result, Management alluded the lower dividend payout to being cautious as well as the need to build capacity for the current year.
- Over FY 2020, net interest margin remained pressured due to the low-rate environment, declining by 60bps YoY to 5.4%. For context, asset yield declined at a faster pace (-206bps YoY), relative to cost of funds (-126bps YoY). Net interest income rose by 16.9% YoY reflecting higher interest income (+5.7% YoY) and lower interest expense (-8% YoY). To shed more light, the expansion in interest income reflected higher interest earnings on loans and advances, as the bank grew loans to ₦2.55 trillion (24% YoY). Meanwhile, lower interest expense on deposit from customers (-17.1% YoY) accounted for the moderation in interest expenses. We noted an improvement in CASA to 81.8% (+830bps YoY).
- Elsewhere, UBA recorded a growth of 19.1% YoY in Non-Interest revenue against the backdrop of better electronic banking fees, credit related fees, trading gains on fixed income securities. In addition, UBA recorded FX revaluation gain of ₦6.2 billion compared to a loss of ₦10.2 billion in 2019.
- Streamlining to quarterly numbers, UBA reported an increase in PBT and PAT by 24.8% QoQ and 12% QoQ, respectively. Precisely, higher net interest income (+10.1% QoQ) - a fallout of lower interest expense (-5.5% QoQ), higher Non-interest revenue

(+33% QoQ) and lower operating expenses (-5.5% QoQ) anchored the improvements in quarterly numbers, outweighing the increase in impairment (+323.4% QoQ). On interest income, the bank recorded a 0.7% decline owing to moderations in earnings on investment securities (-3.1% QoQ) as well as loans to customers (-2.7% QoQ). On the other hand, a decline in interest expense on customer deposit (-32% QoQ) resulted in lower interest expense. Meanwhile, Non-interest revenue rose due to higher trading income (+30.6% QoQ) and fee income (+40.3% QoQ).

- In terms of asset quality, NPL ratio declined by 60 bps YoY to 4.7% reflecting growth in loan book as mentioned earlier. However, UBA still booked higher loan loss provision of ₪27 billion (+48% YoY) while cost of risk flatlined at 0.9%.
 - Over 2021, we expect growth in earnings to stem from higher net interest income (+19% YoY) hinged on our expectation of a gradual recovery in interest rates. That said, we expect a slight expansion in NIM which should reflect higher asset yields. Meanwhile, while management guided to a 20% expansion in loans to meet the minimum LDR requirement, we take a conservative stance with an expectation of a 10% increase in loan book as we expect management to be cautious. Elsewhere, we expect continuous expansion in NIR (+14% YoY), which is a reflection of our expectation of higher trading income as well as fee income. The impact of these adjustments translates to a revised PBT of ₪180 billion (+28% YoY). The adjustment is a 17% increase in our FVE to ₪12.18 (Previous: ₪10.39) and maintain our **BUY** recommendation. On our numbers, UBA is trading on a FY20 P/E and P/E multiples of 2.2x and 0.34x.
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Summary of Results

N'million	FY 20	FY 19	YoY (pps)	Q4 20	Q3 20	QoQ
Gross Earnings	576,040	529,248	8.84%	151,136	141,933	6.48%
Net Interest Income	259,467	221,875	16.94%	73,445	66,698	10.12%
Non-Interest Revenue	148,178	124,418	19.10%	40,416	30,377	33.05%
Operating Expenses	(249,847)	(217,167)	15.05%	(57,188)	(60,533)	-5.53%
Impairment	(27,009)	(18,252)	47.98%	(15,533)	(3,669)	323.36%
PBT	131,860	111,287	18.49%	41,488	33,243	24.80%
PAT	113,765	89,089	27.70%	36,633	32,701	12.02%
EPS	3.33	2.60	27.70%	1.07	0.96	12.02%
N'million	FY 20	FY 19	YoY (pps)	Q3 20	QoQ	
Loans	2,554,975	2,061,147	23.96%	2,382,683	7.23%	
Investment Securities	2,580,791	1,571,550	64.22%	1,987,543	29.85%	
Total Assets	7,697,980	5,620,907	36.95%	7,059,797	9.04%	
Deposits	5,676,011	3,832,884	48.09%	5,202,228	9.11%	
Total Liabilities	6,973,832	5,022,929	38.84%	6,404,470	8.89%	
Net Assets	724,148	597,978	21.10%	655,327	10.50%	
BVPS	21.17	17.49	21.10%	19.16	10.50%	
	FY 20	FY 19	change (pps)	Q4 20	Q3 20	change (pps)
Assets Yields	6.11%	8.16%	-2.06%	8.43%	6.55%	1.88%
WACF	2.48%	3.74%	-1.26%	3.06%	2.85%	0.21%
Net Interest Margin	5.40%	6.00%	-0.60%	5.59%	3.91%	1.68%
Cost-Income Ratio	61.29%	62.71%	-1.42%	50.23%	62.36%	-12.13%
Cost of Risk	0.90%	0.90%	0.00%	2.36%	0.60%	1.76%
ROE	17.20%	16.20%	1.00%	28.31%	19.48%	8.83%

Balance Sheet	2020	2021E	2022E	2023E	2024E
Assets					
Inv. Securities	2,795,191	3,074,710	3,228,446	3,389,868	3,559,361
Net loans	2,554,975	2,794,271	2,932,445	3,086,829	3,250,849
Interest-earning assets	7,302,203	8,016,222	8,415,493	8,844,030	9,295,910
Total assets	6,788,523	7,623,384	8,417,169	9,262,039	10,200,098
Liabilities					
Borrowings	694,355	763,791	817,256	874,464	935,676
Deposits	5,676,011	6,315,989	6,947,588	7,604,786	8,325,074
Interest-bearing liabilities	6,788,523	7,623,384	8,417,169	9,262,039	10,200,098
Total liabilities	6,983,633	7,818,494	8,612,279	9,457,149	10,395,208
Shareholders Equity	714,347	847,237	980,916	980,916	980,916
Income Statement	2020	2021E	2022E	2023E	2024E
Gross Earnings	576,040	649,294	689,526	728,376	769,705
Interest Income	427,862	480,743	512,457	538,779	566,589
Interest Expense	(168,395)	(171,728)	(191,282)	(211,246)	(233,647)
Net Interest Income	259,467	309,016	321,175	327,533	332,942
Trading income	59,450	64,206	69,342	76,277	83,904
Net Fee Income	82,608	97,797	100,785	105,824	111,116
Other Income	6,120	6,548	6,941	7,497	8,096
Non-Interest Revenue	148,178	168,551	177,069	189,598	203,116
Staff Costs	(87,545)	(93,761)	(96,592)	(100,495)	(104,555)
Other Costs	(162,302)	(176,840)	(185,682)	(194,966)	(228,229)
Total Costs	(249,847)	(270,601)	(282,274)	(295,461)	(332,784)
Operating Profit	157,798	206,966	215,970	221,670	203,275
Provision Charge	(27,009)	(27,943)	(23,460)	(21,608)	(19,505)
PBT	130,789	179,024	192,510	200,062	183,769
Tax	(18,095)	(36,019)	(38,716)	(40,227)	(36,968)
Minorities	4,438	4,322	4,646	4,827	4,436
Net Profit	113,765	144,076	154,865	160,906	147,872

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 don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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