



United Bank for Africa Plc. (UBA.NL)

Rating	BUY
Price	₦6.45
FVE	₦10.0
52-week range	₦4.4-9.25
Market Cap. (₦bn)	224,006
1-month Avg. Vol	11,352,420
Curr. PB	0.39x

UBA:NL - Share Price Trend



Analyst

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UBA Q1 Plc - BUY rating maintained but pressures remain

Stock Report

Nigeria subsidiary drags earnings lower

- Yesterday, UBA released its audited H1 2020 results which came in line with our expectations. As expected, weak earnings in the Nigerian subsidiary weighed on the group's earnings over the period. Precisely, PAT for the Nigeria operation declined by 47.6% YoY over H1 2020. Meanwhile, PAT for the rest of Africa segment expanded by 46% YoY. Consequently, the group's PAT declined by 21.7% YoY to ₦44.4 billion. Despite the lower earnings, UBA declared an interim dividend of ₦0.17/share, albeit lower than ₦0.20/share declared in same period last year. We have left most of our estimates unchanged save for the potential impact of the revised savings deposit rate on interest expense. That said, we still expect UBA to record lower PAT of ₦83.8 billion (-6% YoY) over FY 2020. Our FVE of ₦10.0/share (previously ₦8.5/share) translates to a BUY rating on the stock based on current pricing. Meanwhile, we continue to favour GTB and Zenith given their adequate buffers to withstand the prevailing pressures. Particularly, both banks continue to command better ROEs than their peers.
- The major drag to earnings over the period was a 20.6% YoY increase in operating expense reflecting higher AMCON levy, premises maintenance costs, contract services and personnel cost. The increase in opex came as a surprise to us as we had expected the lockdown in previous months to help drive costs lower. Consequently, cost to income ratio expanded by 717 bps YoY to 67.2%. Elsewhere, loan loss provisioning expanded by 150% YoY on the back of covid-19 related pressures on loan sectors. This translated to a higher cost of risk of 0.7% (+34 bps YoY) over H1 2020.
- Net Interest Margin (-73 bps YoY) remained pressured owing to faster decline in asset yield. Meanwhile, reflecting a decline in interest expense (-9% YoY), Net Interest Income expanded moderately by 8.4% YoY. Also, NIR expanded by 6.7% YoY supported by increases in fee income, FX revaluation gain and gains on derivatives.
- Over Q2 2020 stand alone, PBT and PAT moderated by 25.4% QoQ and 52.4% QoQ. The faster decline in PAT reflected a higher effective tax over the period.

- That said, impact of covid-19 and lower rate environment weighed on interest income (-11.6% QoQ) over the period. This overshadowed moderation in interest expense (-2.6% QoQ). On balance, NII declined by 17.6% QoQ.
- Similar with H1 20, loan loss provision expanded by 96% QoQ while opex increased by 25% QoQ largely due to AMCON levy booked in Q2 20, increase in premises maintenance costs and contract services. NIR expanded by 71.3% QoQ bucking the trend. Drivers for this were FX revaluation gains and derivative gains.
- With the results in line with our estimates, we have left most of our estimates unchanged save for the potential impact of the reduction in savings deposit rate. We expect a potential reduction of ₦5.2 billion in interest expense in FY 2020. That said, we still expect UBA to record lower PAT of ₦83.8 billion (-6% YoY) over FY 2020. Our FVE of ₦10.0/share (previously ₦8.5/share) translates to a BUY rating on the stock based on current pricing. Meanwhile, we continue to favour GTB and Zenith given their adequate buffers to withstand the prevailing pressures. Particularly, both banks continue to command better ROEs than their peers.

Summary of Results

N'million	H1 20	H1 19	YoY (pps)	Q2 20	Q1 19	QoQ
Gross Earnings	282,971	277,401	2.01%	145,337	137,634	5.60%
Net Interest Income	119,324	110,123	8.36%	53,907	65,417	-17.59%
Non-Interest Revenue	77,385	72,516	6.71%	48,858	28,527	71.27%
Operating Expenses	(132,126)	(109,587)	20.57%	(73,469)	(58,657)	25.25%
Impairment	(7,807)	(3,120)	150.22%	(5,165)	(2,642)	95.50%
PBT	57,129	70,274	-18.71%	24,403	32,726	-25.43%
PAT	44,431	56,739	-21.69%	14,330	30,101	-52.39%
EPS	1.30	1.66	-21.69%	0.42	0.88	-52.39%
N'million	H1 20	H1 19	YoY (pps)	Q1 19	QoQ	
Loans	2,186,366	1,687,506	29.56%	2,256,429	-3.11%	
Investment Securities	1,977,359	1,540,826	28.33%	1,821,333	8.57%	
Total Assets	6,775,365	5,102,123	32.80%	6,351,071	6.68%	
Deposits	4,800,310	3,510,237	36.75%	4,272,351	12.36%	
Total Liabilities	6,140,632	4,559,665	34.67%	5,738,433	7.01%	
Net Assets	634,733	542,458	17.01%	612,638	3.61%	
BVPS	18.56	15.86	17.01%	17.91	3.61%	
	H1 20	H1 19	change (pps)	Q2 20	Q1 19	change (pps)
Assets Yields	6.60%	8.50%	-1.89%	6.20%	7.75%	-1.56%
WACF	2.91%	4.31%	-1.39%	2.96%	3.34%	-0.38%
Net Interest Margin	3.83%	4.57%	-0.73%	3.46%	4.65%	-1.19%
Cost-Income Ratio	67.17%	60.00%	7.17%	71.49%	62.44%	9.05%
Cost of Risk	0.71%	0.37%	0.34%	0.92%	0.46%	0.46%
ROE	14.00%	20.92%	-6.92%	9.19%	19.89%	-10.70%

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	659,267	723,781	793,977	793,977
Income Statement	2019	2020E	2021E	2022E	2023E
Gross Earnings	529,248	555,699	599,413	640,455	675,248
Interest Income	404,830	425,191	459,495	492,853	517,496
Interest Expense	(182,955)	(194,698)	(220,965)	(243,904)	(267,419)
Net Interest Income	221,875	230,493	238,530	248,949	250,077
Trading income	37,627	41,390	45,529	50,082	55,090
Net Fee Income	80,004	81,517	86,028	88,657	93,089
Other Income	6,787	7,601	8,362	8,863	9,572
Non-Interest Revenue	124,418	130,508	139,918	147,601	157,751
Staff Costs	(75,099)	(80,446)	(83,696)	(86,224)	(89,707)
Other Costs	(142,068)	(147,414)	(152,007)	(156,390)	(160,901)
Total Costs	(217,167)	(227,860)	(235,703)	(242,614)	(250,608)
Operating Profit	129,126	133,141	142,745	153,937	157,220
Provision Charge	(18,252)	(23,231)	(19,488)	(17,994)	(18,894)
PBT	110,874	109,910	123,257	135,943	138,326
Tax	(22,198)	(26,478)	(29,681)	(34,089)	(33,297)
Minorities	2,869	2,515	2,820	3,068	3,163
Net Profit	89,089	83,846	93,989	102,267	105,442

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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