

United Bank for Africa Plc. (UBA.NL)

Stock Report

BUY rating maintained but pressures remain

Rating	BUY
Price	₦5.9
FVE	₦8.5
52-week range	₦4.4-9.2
Market Cap. (₦bn)	201,777
1-month Avg. Vol	35,446,400
Curr. PB	0.36x

UBA:NL - Share Price Trend



Analyst

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- Last week, UBA released unaudited Q1 20 results showing a modest expansion of 5.0% YoY in PAT to ₦30.1 billion. Higher interest income (+10.7% YoY) and Non – Interest Revenue (+11.3% YoY) over the period helped neuter higher operating cost (+12.9% YoY) and loan-loss provisioning (+54.1% YoY). Growth in interest income was largely buoyed by higher loan growth in Q1 (₦195 billion QoQ). Elsewhere, growth in non-interest income reflected expansions in credit related fees, E-banking income and net trading gains.
- On a quarterly basis, PBT and PAT were higher by 151% QoQ and 303% QoQ mirroring expansion in net trading gain (+49% YoY) and lower loan provision (-20.6% YoY). Meanwhile, NIM remained pressured contracting by 50 bps to 5.0% due to a faster decline in asset yield.
- Amidst CBN's tight regulations, Covid-19 pandemic and lower oil price, we believe what would have been the most value add to UBA over the year would be from its retail drive, which is expected to reduce its funding cost. However, we do not anticipate much gains to materialize in 2020. Although, UBA rest of Africa business has buoyed the group's earnings in recent time, we think the pressure in its Nigeria operation would weigh on the overall group performance. Consequently, we expect 2020 earnings to moderate by 20% YoY.
- We expect NIM to contract further by 50 bps reflecting faster decline in asset yield and sticky decline in funding cost. On balance, we forecast Net Interest Income to expand slightly by 2% YoY. Elsewhere, we anticipate slight increase in NIR (+4.9% YoY) given reduced fees and charges implemented by the CBN. We expect UBA to record some revaluation gain given its net long dollar position of about \$200 million. Lastly, reflecting UBA's large exposures to the oil & gas (23.5%), general commerce (12.8%) and manufacturing sectors (14.6%), we envisage a higher Cost of Risk (+11 bps YoY) over 2020 due to the impact of Covid-19 on the economy, lower oil price as well as FX devaluation. Thus, we forecast impairment charge to expand by 27.3% YoY.
- We have cut our target price for UBA from ₦13.04/share to ₦8.5/share reflecting the pressures highlighted. However, we maintain our BUY rating on UBA with an upside of 44%. UBA trades at a forward p/b of 0.31x compared to peer average of 0.45x. On regulatory metrics, UBA bank maintains CAR of 23.4% compared to benchmark of 15%.

Summary of Results

	Q1 20	Q1 19	YoY growth	Q4 19	QoQ
Gross Earnings	137,634	124,198	10.82%	124,265	10.76%
Net interest income	65,417	58,075	12.64%	62,961	3.90%
Non-interest revenue	28,527	25,637	11.27%	17,338	64.53%
Operating expenses	-58,657	-51,944	12.92%	-55,546	5.60%
Impairment charges	-2642	-1,714	54.14%	-11,589	-77.20%
PBT	32,726	30,156	8.52%	13,054	150.70%
PAT	30,101	28,664	5.01%	7,461	303.44%
EPS	0.88	0.84	5.01%	0.22	303.44%
	Q1 20	Q1 19	YoY growth	Q4 19	QoQ
Loans	2,256,429	1,689,668	33.54%	2,061,147	9.47%
Interest earning assets	6,016,049	4,829,977	24.56%	5,239,524	14.82%
Total Assets	6,351,071	5,114,757	24.17%	5,604,052	13.33%
Deposits	4,272,351	3,530,890	21.00%	3,832,884	11.47%
Interest bearing liabilities	5,568,972	4,404,025	26.45%	4,888,684	13.92%
Total liabilities	5,738,433	4,571,540	25.53%	5,006,074	14.63%
Net Assets	612,638	543,217	12.78%	597,978	2.45%
BVPS	17.91	15.88	12.78%	17.49	2.45%
	Q1 20	Q1 19	Change (pps)	Q4 19	change (pps)
Asset Yields	7.75%	8.35%	-0.60%	8.62%	-0.87%
WACF	3.34%	3.75%	-0.41%	3.84%	-0.49%
Net interest margins	4.65%	4.92%	-0.27%	5.08%	-0.43%
Cost-income ratio	62.44%	62.05%	0.39%	69.17%	-6.74%
Cost of risk	0.46%	0.40%	0.06%	2.14%	-1.68%
ROE	19.89%	21.93%	-2.04%	5.17%	14.72%

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	656,546	713,551	775,594	775,594
Income Statement					
2019					
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)	(199,914)	(235,361)	(259,740)	(284,838)
Net Interest Income	221,875	225,277	224,134	233,114	232,658
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	127,925	128,349	138,101	139,801
Provision Charge	(18,252)	(23,231)	(19,488)	(17,994)	(18,894)
PBT	110,874	104,694	108,861	120,107	120,907
Tax	(22,198)	(25,226)	(26,226)	(30,130)	(29,117)
Minorities	2,869	2,396	2,491	2,712	2,766
Net Profit	89,089	79,881	83,048	90,390	92,203
Dividend Paid	(29,070)	(29,070)	-	(29,556)	(30,728)
Key YoY growth rates (%)					
2019					
Loans	20.2%	12.7%	4.9%	5.5%	0.0%
Interest Earning Assets	13.7%	14.1%	4.9%	5.2%	0.0%
Deposits	14.4%	15.3%	11.2%	10.0%	0.0%
Interest Bearing Liabilities	15.4%	17.7%	12.4%	10.3%	0.0%
Assets	15.1%	16.5%	11.8%	10.0%	0.0%
Gross Earnings	13.7%	5.0%	7.9%	6.8%	5.4%
Costs	10.0%	4.9%	3.4%	2.9%	3.3%
PBT	4.2%	-5.6%	4.0%	10.3%	0.7%
PAT	13.3%	-10.3%	4.0%	8.8%	2.0%
EPS	13.3%	-10.3%	4.0%	8.8%	2.0%
Per-share data (N)					
2019					
No of common shares (mn)	34,199,421	34,199,421	34,199,421	34,199,421	34,199,421
EPS	2.60	2.34	2.43	2.64	2.70
DPS	0.00	0.86	0.90	0.98	1.00
BVPS	17.49	19.20	20.86	22.68	22.68
Balance-sheet ratios (%)					
2019					
Loan/Assets	36.8%	35.6%	33.4%	32.0%	30.9%

Deposit/Liabilities	76.6%	75.3%	74.6%	74.5%	74.2%
Loans/Deposits	53.8%	52.6%	49.6%	47.6%	45.7%
Assets/Equity	9.37	9.94	10.23	10.35	11.25
Asset Quality	2019	2020E	2021E	2022E	2023E
NPLs	113,806	146,874	141,366	134,941	141,688
NPL reserves	86,136	124,843	134,298	128,194	134,603
NPLs/Gross Loans (%)	5.3%	6.0%	5.5%	5.0%	5.0%
Reserves/NPLs (x)	0.76	0.85	0.95	0.95	0.95
Credit charge (%)	0.9%	1.0%	0.8%	0.7%	0.7%
Margins (%)	2019	2020E	2021E	2022E	2023E
Asset Yield	8.2%	7.6%	7.5%	7.7%	7.6%
WACF	4.0%	3.8%	3.9%	3.8%	3.8%
NIM	4.51%	4.02%	3.66%	3.62%	3.44%
Costs (%)	2019	2020E	2021E	2022E	2023E
Cost/Income	62.7%	64.0%	64.7%	63.7%	64.2%
Effective tax rate	19.9%	24.0%	24.0%	25.0%	24.0%
Profitability ratios (%)	2019	2020E	2021E	2022E	2023E
RoAE	16.2%	12.7%	12.1%	12.1%	11.9%
RoAA	1.7%	1.3%	1.2%	1.2%	1.1%

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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