

Union Bank of Nigeria Plc. | Company Note
UBN Rights Issue: Tactical or Strategic?
Investment Highlights

- Union Bank of Nigeria (UBN) is looking to raise ₦49.7 billion via rights issue of 12.1 billion ordinary shares. Investors who had shares in the bank as at Monday, 21st August 2017 will be entitled to buy 5 additional shares for every 7 held at ₦4.10 per share. This implies discounts of 19% and 29% to the theoretical ex-rights price of ₦5.08 and current market price of ₦5.79 respectively.
- Eventual proceeds from the rights has been earmarked for the enhancement of the bank's capital adequacy position to ensure compliance with regulatory capital requirements.
- Of the estimated net proceeds of ₦48.99 billion, 80% will be used to improve working capital via focus on balance sheet optimization that would enhance capital adequacy. In addition, 12% of the proceeds will be invested in technology with the remaining 8% billed for service delivery improvement.
- Shareholders have three options: take up the rights, sell the rights, or "tail swallowing".

Rights issue investment data

Current price	5.79
Current issue share price	4.10
Post rights issue share price	5.08
Free float (%)	14.05%
Market cap pre-rights issue (N'm)	98,058
Market cap post-rights issue (N'm)	147,758

Key rights issue date
Date

Trading of Rights commences on the NSE	20-Sept-17
Last day for trading rights	30-Oct-17
Receiving agents make returns	07-Nov-17
Forward allotment proposal and draft newspaper advertisement to SEC	14-Nov-17
Receive SEC clearance of allotment	21-Dec-17
Pay Net Proceeds of the Rights Issue to UBN	22-Dec-17
Credit CSCS Accounts	29-Dec-17
Return rejected/excess application monies	02-Jan-18
Listing of shares/Trading of new shares	22-Jan-18

Stock Data

52-week range	₦3.57– ₦6.10
1-month Avg. Vol	559,653
Curr. PE	7.12x
Bloomberg Ticker	UBN:NL

Union Bank of Nigeria Plc- Share Price Trend


Rights issue to enhance capital base

- In our view, we expect the rights issue to improve both the capital adequacy and liquidity ratios of the bank. Specifically, CAR as at FY 16 was 13.3% - below the 15% minimum requirement for banks with international license. Having factored in the ₱39.14billion, we see scope for an expansion in CAR to 15.1% and 17% for FY 17 and FY 18 respectively (assuming declines in loan subsist).
 - Also, the bank's liquidity ratio (~37% as at H1 17) is well ahead of the regulatory minimum of 30% but 3pps lower than that of peers. For us, the rights issue should see UBA's liquidity ratio bridge this discount to peers in coming periods. On current pricing, UBN trades at a P/E and P/B of 7.1x and 0.4x compared to peer averages of 7.4x and 0.6x.
 - In terms of investment recommendations, there are a few options. First, based on the bank's earnings resilience, taking up the rights is a good play for a growth and long-term investment strategy. On this basis, a cash-less take up option can be explored. This involves selling a portion of the investor's eligible rights to cover the cost of buying the remainder (tail-swallowing).
 - Another way is to go tactical, purchasing the rights and subsequently selling at the market for an implied return of 29% or 19% from current market price and ex-rights price respectively. In addition to this upside, investors would have also mitigated against unforeseen negative movements in UBN's share price by adopting the tactical play.
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Summary of Results and Forecasts - Naira (₦)

ANNUAL				
Income Statement (₦'000)	FY 2013	FY 2014	FY 2015	FY 2016
Gross earnings	79,850	135,898	117,211	126,590
Interest Income	60,553	76,192	90,902	98,002
Interest Expense	(16,191)	(24,317)	(35,219)	(32,963)
Net interest income	44,362	51,875	55,683	65,039
Non-Interest Revenue	16,714	43,477	26,167	28,588
OPEX	(41,333)	(58,724)	(58,164)	(62,090)
Provisions	(2,995)	(4,828)	(9,244)	(15,889)
PBT	16,748	31,800	14,442	15,648
Tax	621	(409)	(552)	(347)
PAT	17,369	31,391	13,890	15,301
Balance Sheet (₦ '000) *				
Assets				
Cash & Short-term funds	100,925	121,960	82,252	136,194
Net Loans	229,542	312,797	366,721	507,190
Fixed Assets	45,527	48,575	49,772	52,800
Total Assets	1,002,756	1,008,451	1,046,892	1,252,682
Liabilities				
Deposits	482,706	527,617	570,639	658,444
Total liabilities	803,413	786,923	802,971	981,012
Shareholders' fund	199,343	221,528	243,921	241,670
Key Ratios*				
EPS	1.03	1.85	0.82	0.90
BVPS	11.77	13.08	14.40	6.89
ROE	8.7%	14.2%	5.8%	8.5%
ROA	1.7%	3.1%	1.3%	1.4%
NPL	5.9%	5.1%	7.0%	7.1%
Asset yields	11.0%	12.9%	13.7%	13.8%
WACF	2.8%	3.9%	5.1%	4.3%
Loan to Asset	22.9%	31.0%	35%	46%
Cost to income	67.7%	61.6%	71%	66%
Cost of risk	1.3%	1.5%	2.5%	3.1%

Source: ARM Research *unless otherwise stated

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