



UBA Plc | BANKING | Q1 2022

Rating	STRONG BUY
Price	₦8.05
FVE	₦10.80
52-week range	₦7.00-₦8.85
Market Cap.	277.02bn
1-month Avg. Vol	13.49m
Curr.PB	0.34x

UBA:Plc - Share Price Trend



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UNITED BANK FOR AFRICA Plc. (UBA.Plc)

Stock Report

Positive Outing Buoyed by Interest and Non-Interest Income Growth

- Gross earnings grew 18.3% YoY to ₦184.3bn on the back of interest and non-interest income growth, slightly exceeding our Q122 estimates. Interest income grew 15.2% to ₦125.1bn in Q1, driven majorly by a 73% surge in income from bonds to ₦33.1bn from ₦19.1bn. This correlates with the improved (101.9%) investment in bonds to N1.5tn from N718.5tn. Similarly, the firm grew Income on customer loans by 5.4% to ₦70bn, an offshoot of the expansion (5.0% YoY) in loans made to customers.
- Interest expense advanced (17.5% YoY) to ₦40.2bn on the back of a 61.5% increase in interest on customer deposits to ₦30bn from ₦19bn. This aligns with the increase (4.5%) in total deposits despite an increase in the proportion of CASA deposits from 82.6% to 85.5%. Thus, annualized cost of funds inched higher by 8bps to 2.1% in Q122. Net Interest Income, therefore, increased by 14.1% to ₦84.9bn.
- On the Non-Interest Revenue leg, income rose 25.3% to ₦59.2bn on the back of growth in Fee & Commission income, and trading & FX income. Fee and commission echoed growth in E-banking income (+21%), trade transaction income (109.2%), and credit-related fees and commissions (+40.9%), rising 20.4% to ₦42.1bn. Income from fixed income and foreign exchange trading also aided non-interest revenue with a 42.9% increase to ₦15.0bn. This development reiterates the experience across the tier 1 banks with income from E-banking and other transactions as well as trading enhancing topline performance.
- OPEX increased 20.5% to ₦77.6bn as personnel-related costs spiked 20% to ₦25.6bn. Similarly, the increase in diesel prices reflected in higher fuels, repairs, and maintenance expenses (+28% to ₦8.6bn). These pushed cost-to-income ratio to 61.7% in Q122 from 60.4% in Q121.

- UBA recorded improved profitability with Profit before Tax up 9.6% to ~~N~~44.5bn and Profit after Tax up 8.8% to ~~N~~41.5bn. In this light, annualized Return on Equity inched marginally higher to 20.1% from 20.0% in Q121 while Return on Assets remained at 1.9% in Q122 (same as in Q121).
- For FY 2022, we expect this performance to be sustained upon higher loan growth relative to 2021 and expectations of higher yields in the Fixed Income market. Non-Interest Revenue should also reverberate the lender's digital banking drive which is important in its bid to capture a big demography of young people. We see a target price of ~~N~~10.80 for UBA, representing a 34.1% upside compared to its close price of ~~N~~8.05 and hence, we rate UBA a **STRONG BUY**.

Summary of Results

N'million	Q1 2022	Q1 2021	YoY
Gross Earnings	184,323	155,861	18.3%
Net Interest Income	84,869	74,381	14.1%
Non-Interest Revenue	59,247	47,271	25.3%
Operating Expenses	(77,642)	(64,454)	20.5%
Impairment	(3,813)	(1,182)	222.6%
PBT	44,484	40,581	9.6%
PAT	41,496	38,155	8.8%
EPS	1.2	1.1	8.8%
N'million	Q1 2022	Q1 2021	YoY
Loans	2,970,980	2,754,181	7.9%
Total Assets	8,888,384	7,988,247	11.3%
Deposits	7,338,110	6,169,350	18.9%
Total Liabilities	8,062,631	7,129,965	13.1%
Net Assets	825,753	762,373	8.3%
BVPS	24.1	22.3	8.3%
	Q1 2022	Q1 2021	YoY
Cost of Funds	2.1%	2.0%	0.1%
Net Interest Margin	4.0%	3.9%	0.1%
Cost-Income Ratio	61.7%	60.4%	1.2%
ROE	20.1%	20.0%	0.1%
ROA	1.9%	1.9%	-0.0%

Balance Sheet	2020	2021A	2022E	2023E	2024E
Assets					
Interbank	77,419	153,897	109,063	140,996	144,122
Inv. Securities	2,580,791	3,335,630	3,502,412	3,677,532	3,861,409
Net loans	2,554,975	2,680,667	2,947,835	3,191,022	3,421,137
Interest-earning assets	7,302,203	8,002,074	8,466,378	9,011,973	9,529,212
Total Assets	7,697,980	8,541,318	9,018,430	9,571,127	10,100,273
Liabilities					
Borrowings	694,355	455,772	455,772	455,772	455,772
Deposits	6,094,168	7,023,400	7,088,821	7,160,784	7,239,944
Interest-bearing liabilities	6,788,523	7,479,172	7,544,593	7,616,556	7,695,716
Total liabilities	6,973,832	7,736,511	7,803,796	7,877,917	7,959,450
Shareholders' Equity	724,148	804,807	1,214,635	1,693,210	2,140,823

Income Statement	2020	2021A	2022E	2023E	2024E
Gross Earnings	620,375	660,219	680,427	753,230	825,659
Interest Income	427,862	474,262	523,148	577,125	632,886
Interest Expense	(168,395)	(157,551)	(176,444)	(183,730)	(195,935)
Net Interest Income	259,467	316,711	346,704	393,396	436,951
Non-Interest Revenue	148,178	126,283	157,279	176,105	192,773
Operating Expenses	(248,776)	(277,058)	(307,430)	(347,395)	(384,132)
Provision Charge	(27,009)	(12,863)	(23,070)	(20,285)	(24,306)
PBT	131,860	153,073	173,483	201,821	221,286
Tax	(18,095)	(34,395)	(32,464)	(36,937)	(43,877)
Net Profit	113,765	118,678	141,019	164,884	177,409
Dividend Paid	94,188	97,328	118,050	124,400	130,875

Key Growth Rates	2020	2021A	2022E	2023E	2024E
Loans	21.3%	7.7%	7.8%	9.0%	7.0%
Interest Earning Assets	39.4%	9.6%	5.8%	6.4%	5.7%
Deposits	48.6%	15.2%	0.9%	1.0%	1.1%
Interest Bearing Liabilities	38.9%	10.2%	0.9%	1.0%	1.0%
Assets	37.0%	11.0%	5.6%	6.1%	5.5%
Gross Earnings	10.8%	6.4%	3.1%	10.7%	9.6%
Costs	14.8%	11.4%	11.0%	13.0%	10.6%
PBT	18.5%	16.1%	13.3%	16.3%	9.6%
PAT	27.7%	4.3%	18.8%	16.9%	7.6%
EPS	26.8%	6.0%	17.3%	16.8%	7.6%

Per-share data					
No of common shares (mn)	34,199.00	34,199.00	34,199.00	34,199.00	34,199.00
EPS	3.20	3.39	3.97	4.64	5.00
DPS	0.52	1.00	1.29	1.45	1.49
BVPS	21.17	23.53	35.52	49.51	62.60

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%	N/A	
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 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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