

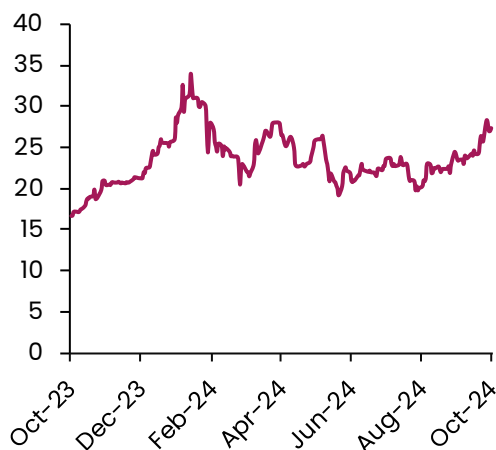
UBA | Banking | H1:2024

research@armsecurities.com.ng

+234 1 270 1652

Price	NGN27.35
52-week range	NGN16.60- NGN34.00
TP	NGN29.57
Rating	HOLD
Market Cap	NGN923.38bn

UBA - Share Price Trend



Analyst

Oyinkansola Aregbesola
oyinkansola.aregbesola@arm.com.ng

UNITED BANK FOR AFRICA PLC (UBA)

Earnings Note: H1:2024

Loss on Derivatives Drags Performance

United Bank for Africa Plc recently released its audited H1:2024 financial result. Gross earnings grew by 39.65% YoY to NGN1.37trn following impressive interest income growth. Interest Income surged by 134.32% YoY to NGN1.00trn while Non-Interest Income declined by 33.60% YoY to NGN367.49bn, an offshoot of a lower net trading and foreign exchange income. On the other side, Operating Expenses increased by 109.75% YoY to NGN474.80bn owing to employee expenses, energy, and maintenance cost. Profit Before Tax (PBT) and Profit After Tax (PAT) declined by 0.51% YoY and 16.36% YoY respectively to NGN401.58bn and NGN316.36bn consecutively. Consequently, Net Profit Margin decreased by 15.45% to 23.07% in the period.

Income from Investment Securities & Customers Loans

Interest income rose by 134.32% YoY to NGN1.00trn in H1:2024, driven majorly by a surge in income from investment securities (+149.10% YoY to NGN474.48bn) and interests on loans to customers (+92.49% YoY to NGN343.76bn). This correlates with the expansion in investment securities (+85.30% YoY to NGN11.50trn) and loans to customers (+50.94% YoY to NGN6.79trn) as well as the elevated interest rate environment during the period.

Higher Interest on Customer Deposits

Interest expense advanced (+142.57% YoY) to NGN328.94bn on the back of a surge in interest on customer deposits (+106.70% YoY to NGN204.49bn) in H1:2024. This aligns with the sharp increase (+80.35% YoY) in total customer deposits to NGN20.09trn. Although CASA (cheap deposit) proportion improved to 87.55% of total deposits in H1:2024 from 83.65% in H1:2023, the eventual surge in interest expenses is attributable to the higher interest rate environment in 2024. Consequently, annualized cost of funds increased by 0.41% to 2.69% in H1:2024. Furthermore, Net Interest Margin (NIM) improved (+1.08% YoY) to 4.87% in H1:2024. Finally, Net Interest Income increased by 142.57% to NGN674.62bn.

Non-Interest Income: Loss on Derivatives Offsets FCY Revaluation Gains

Surprisingly, non-interest revenue decreased by 33.60% YoY to NGN367.49bn due to the sharp decline in net trading and foreign exchange income (-76.53% YoY to NGN98.18bn), following a net loss of NGN311.70bn on derivatives. The loss on derivatives largely stems from fair value loss on maturities in the year (loss of NGN498.82bn). This masked the gain on foreign currency revaluation of NGN326.18bn.

NGN' million	H1:2024	H1:2023	YoY (%)
Net Trading & foreign exchange income/loss	98,179	418,278	(76.53%)
Fixed income securities	31,882	25,436	25.34%
foreign exchange trading income	51,814	15,170	241.56%
foreign currency revaluation gain/loss	326,182	29,238	1015.61%
net fair value/loss on derivatives	(311,699)	348,434	(189.46%)

Furthermore, fees and commission income increased by 99.01% YoY to NGN250.62bn due to the increased electronic banking income (+107.83% YoY to NGN106.15bn), funds transfer fee (+188.66% YoY to NGN26.73bn) and credit related fees and commissions (+107.57% YoY to NGN32.94bn) in the period.

On the expense leg, Fees, and commission expense advanced 121.50% YoY to NGN105.52bn, an offshoot of higher E-banking expenses (+100.56% YoY to NGN83.15bn) in the period. Overall, total net non-interest revenue declined by 48.21% YoY to NGN261.98bn.

Personnel and Energy Cost Spikes OPEX

Operating expenses increased by 109.75% YoY to NGN474.80bn as personnel-related costs (Employee benefit expenses) spiked 92.91% YoY to NGN133.86bn. Similarly, the increase in energy costs reflected in higher fuels, repairs, and maintenance expenses (+218.74% YoY to NGN47.85bn). Furthermore, AMCON levy increased by 71.87% YoY to NGN70.33bn. Finally, due to higher growth in operating expenses vis-à-vis operating income, cost-to-income ratio increased by 21.82% to 50.69% in H1:2024 from 28.87% in H1:2023.

Bottom-Line Slightly Took a Hit

UBA's PBT and PAT both declined in the period by 0.51% and 16.35% respectively to NGN401.58bn and NGN316.36bn consecutively. This is following the sharp decline in non-interest income amid higher operating expenses in the period. Consequently, annualized Return on Equity (ROE) declined to 21.20% in H1:2024 (vs. 44.18% in H1:2023). Similarly, Return on Assets (ROA) declined to 2.23% in H1:2024 (vs. 4.92% in H1:2023).

For 2024FY, we expect improved performance on the back of higher interest income relative to 2023. The lender's digital banking drive should also improve Non-Interest Revenue, barring any further hit from derivative loss. We maintain our 2024FY target price of **NGN29.57** for UBA and compared to its close price of NGN27.35 as of 4th of October 2024, we put a **HOLD** rating on UBA.

Summary of Results			
N' million	H1:2024	H1:2023	YoY
Gross Earnings	1,371,047	981,775	39.65%
Net Interest Income	674,618	278,113	142.57%
Non-Interest Revenue	367,494	553,483	(33.60%)
Operating Expenses	(474,804)	(226,367)	109.75%
Impairment	(60,212)	(153,944)	(60.89%)
PBT	401,577	403,647	(0.51%)
PAT	316,360	378,235	(16.36%)
EPS	9.25	11.06	(16.36%)
N' million	H1:2024	H1:2023	YoY
Loans	6,997,838	4,682,660	49.44%
Total Assets	28,337,538	15,382,382	84.22%
Deposits	23,205,725	12,603,168	84.13%
Total Liabilities	25,352,386	13,670,020	85.46%
Net Assets	2,985,152	1,712,362	74.33%
BVPS	87.29	50.07	74.33%
Annualized Ratios	H1:2024	H1:2023	YoY(ppt)
Cost of Funds	2.69%	2.28%	0.41%
Net Interest Margin	4.87%	3.79%	1.08%
ROE	21.20%	44.18%	(22.98%)
ROA	2.23%	4.92%	(2.68%)

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 %	HOLD	5% – 20 %
HOLD	0% – 10 %	SELL	<5%
UNDERWEIGHT	-5% – 0%	N/A	
SELL	<-5%		

Ratings	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
HOLD	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

Copyright © 2024 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited. This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report. This research report is based on information from sources that ARM, and its analysts believe to be reliable. Neither ARM nor any of its Research Analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party's use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees, or designated agents. Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.