



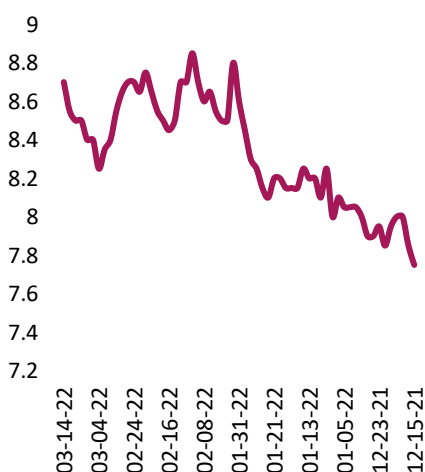
United Bank for Africa Plc. (UBA.NL)

Stock Report

Loan Repricing Boosts Earnings as Trading Performance Wanes

Rating	STRONG BUY
Price	₦8.70
FVE	₦10.80
52-week range	₦6.75 - 8.85
Market Cap. (₦'bn)	294.12
1-month Avg. Vol	12,880,210
Curr. PB	0.38x

UBA:NL - Share Price Trend



Analyst

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- Gross earnings and Profit Before Tax for UBA Plc posted respective YoY growth of 6.1% and 16.1% to ₦658.3bn and ₦153.1bn. This growth comes on the wheel of higher interest and fee & commission income as well as lower funding costs. In specific terms, interest income rose 10.8% YoY to ₦474.3bn driven by higher yield on the loan book. Management explained that repricing of loans complemented the 7.7% YoY growth in loans to drive the gains in income from loans. Yield on investment securities, however, declined 117bps to 5.7% on the impact of the CBN Special Bills of which the firm has ₦650bn earning 0.5%.
- The repayment of bank's short-term borrowings from global banks reduced the interest expense burden by 6.4% to ₦157.6bn. This was despite an increase in interest expense on deposits in line with mobilization of CASA deposits. Hence, cost of funds moderated to 2.2% from 2.9% in 2020.
- Non-interest revenue declined 4.4% YoY due to a drag in the trading book performance on fair value loss from derivative contracts. Fee and commission income received a significant boost from electronic banking income (up by 46.0% YoY) and grew 25.0% YoY to ₦158.6bn. However, the ₦19.4bn loss on derivatives contract subsumed the growth in fee and commission income.
- Asset quality improved 110bps to 3.6% following the slowest loan book expansion in three years. This also reflected in the lower loan loss provisions (-52.4%), bringing cost of risk down to 0.35% from 0.9%. On the efficiency front, cost-to-income ratio worsened to 62.5% from 61.5% given faster growth in OPEX (+11.4%) compared to operating income (+8.7%), anchored on fast-rising regulatory costs - AMCON and Deposit insurance premium - comprising of 21.8% of total OPEX. Overall, profitability received a boost with PBT up by a respective 16.1% to ₦153.1bn while PAT grew at a slower 4.3% due to higher tax rates in some of the lender's operating regions during the year. This slower growth in PBT trickled down to RoAE and RoAE, down to a respective 15.5% and 1.5% from 17.2% and 1.7% in 2020.
- In 2022, we expect interest income growth to rest on the loan book growth as indicated by management as fixed income yields remain depressed. Persistent CRR debits from the CBN would also tighten liquidity and drive interest expense and,

hence, cost of funds higher. Non-interest revenue should rise given the bank's digital banking drive and increased proportion of millennials customer base and improvement in trading performance. This would fuel better margins for the bank in 2022 and influenced our forecast of a 12-month target price of ₦10.80 for UBA, representing a 24.1% upside at its current price of ₦8.70. The declared final dividend of ₦0.80 gives a dividend yield of 7.4% (365-day T-bill Yield: 4.07%).

Summary of Results

N'million	FY 2021	FY 2020	YoY
Gross Earnings	660,219	620,375	9.9%
Net Interest Income	316,711	259,467	7.0%
Non-Interest Revenue	184,029	192,513	22.6%
Operating Expenses	(277,058)	(248,776)	13.1%
Impairment	(12,863)	(27,009)	51.6%
PBT	153,073	131,860	9.6%
PAT	118,678	113,765	6.1%
EPS	3.4	3.2	6.1%
DPS	1.0	0.5	3.3%
N'million	FY 2021	FY 2020	YoY
Loans	2,834,564	2,632,394	20.8%
Total Assets	8,541,318	7,697,980	11.4%
Deposits	7,023,400	6,094,168	21.2%
Total Liabilities	7,736,511	6,973,832	10.9%
Net Assets	804,807	724,148	14.5%
BVPS	23.5	21.2	14.5%
	FY 2021	FY 2020	YoY
Cost of Funds	2.2%	2.9%	-0.7%
Net Interest Margin	5.4%	5.4%	0.0%
Cost-Income Ratio	63.0%	62.0%	1.0%
Cost of Risk	0.4%	0.9%	-0.6%
ROAE	15.5%	17.2%	-1.7%
ROAA	1.5%	1.7%	-0.2%
CAR	24.9%	22.4%	2.5%

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					
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%		
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 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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