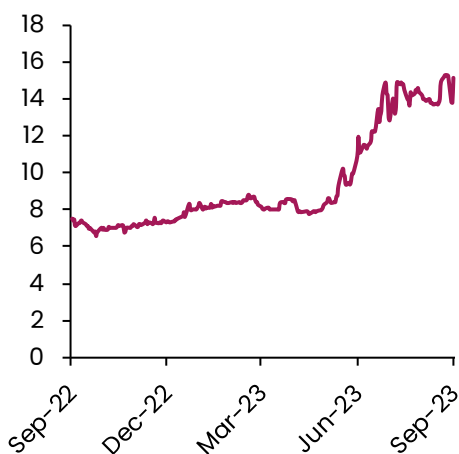




UBA | Banking | H1:2023

Price	NGN15.15
52-week range	NGN6.55-NGN16.00
TP	NGN17.67
Rating	OVERWEIGHT
Market Cap	NGN518.12bn

UBA Plc-Share Price Trend



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UNITED BANK FOR AFIRCA PLC (UBA.NL)

Earnings Note: H1:2023

Marked by Increased Fair Value Gain on Derivatives

UBA's H1:2023 financial results mirrored the earnings growth across its Tier-1 peers on the back of the FX liberalization policy implemented during the period. Gross earnings increased by 163.66% YoY to NGN981.78bn, largely supported by higher non-interest income (+381.30% YoY to NGN553.48bn). Interest Income remained elevated, growing by 66.57% YoY to NGN428.29bn. On the other side, Operating Expenses advanced 39.82% YoY to NGN226.37bn owing to rising personnel costs and AMCON levy. The group posted a triple digit growth in profitability as Profit Before Tax (PBT) advanced 370.73% YoY to NGN403.65bn while Profit After Tax (PAT) grew by 437.76% YoY to NGN378.24bn. Overall, Net Profit Margin improved by 19.64% to 38.53% in the period.

We retain our 2023FY target price for UBA at NGN17.67 on the back of anticipated higher interest and non-interest income. At its current price of NGN15.15 as of 13th September 2023, this translates to an upside prospect of 17%. Thus, we put an 'OVERWEIGHT' rating on the stock.

Investment Securities and Loans to Customers Drives Growth

Interest income rose by 66.42% to NGN428.29bn, driven majorly by a surge in income from investment securities (+80.54% YoY to NGN190.48bn) and interests on loans to customers (+35.58% YoY to NGN178.59bn). This correlates with the expansion in customers loans (+63.54% YoY) and investment securities (+76.02% YoY) in the period. We opine that the higher fixed income yield and interest rate environment also supported the growth in these two sub-components.

Higher Interest on Customer Deposits

Interest expense soared by 87.96% YoY to NGN150.18bn on the back of an 80.00% surge in interest on customer deposits to NGN98.93bn in H1:2023. This aligns with the sharp increase (+65.53% YoY) in total customer deposits and reduction in CASA proportion to 83.65% of total deposits in H1:2023 from 84.38% in H1:2022. Thus, annualized cost of funds rose by 27bps to 2.28% in H1:2023. Similarly, Net Interest Margin (NIM) deteriorated (-32bps) to 3.79% in H1:2023. Furthermore, Net Interest Income increased by 56.72% to NGN278.11bn. Finally, credit impairment charges spiked 1,748.07% YoY to NGN153.94bn. Hence, net interest income after impairment declined by 26.58% YoY to NGN124.17bn.

Non-Interest Income: Spurred by Derivatives Gains

Non-Interest income advanced 381.30% YoY to NGN553.48bn as Net trading and foreign exchange income spiked 4,473.84% YoY to NGN418.28bn. Specifically, we note a jump in net fair value gain on derivatives (from a loss of NGN22.61bn in H1:2022 to a gain of NGN348.43bn in H1:2023). Similarly, foreign currency revaluation gain grew by 1,303.65% YoY to NGN29.24bn in the period. Furthermore, we observed a double-digit growth in fee and commission income (+30.64% YoY to NGN125.93bn) following improved electronic banking

income (+40.61% YoY to NGN51.08bn) and commissions on transactional services (+198.88% YoY to NGN17.83bn)

On the expense leg, fee and commission expense increased by 30.59% YoY to NGN47.64bn, an offshoot of higher E-banking expenses (+51.98% YoY to NGN41.46bn) in the period. Overall, total net non-interest revenue grew by 544.24% YoY to NGN505.85bn.

Personnel and AMCON Levy Headlines OPEX

Operating expenses increased 39.82% to NGN226.37bn as personnel-related costs (Employee benefit expenses) grew by 22.23% YoY to NGN31.26bn. Similarly, AMCON levy advanced 31.21% YoY to NGN40.92bn in the period. Furthermore, the increase in energy costs reflected in higher Occupancy and premises maintenance cost (+121.39% YoY to NGN12.64bn). However, due to higher growth in operating income vis-à-vis operating expenses, cost-to-income ratio fell sharply by 34.45% to 28.87% in H1:2023.

Impressive Bottom-Line Performance

UBA recorded tremendous increase in its profitability largely propelled by fair value gains. In this light, annualized Return on Equity (ROE) rose to 44.18% from 17.84% in H1:2022 while Return on Assets (ROA) increased by 335bps to 4.92% in H1:2023 (vs. 1.56% in H1:2022). For the rest of 2023, we expect improved performance relative to the previous year.

Summary of Results

NGN' million	H1:2023	H1:2022	YoY
Gross Earnings	981,775	372,358	163.66%
Interest Income	428,292	257,361	66.42%
Non-Interest Revenue	553,483	114,997	381.30%
Operating Expenses	(226,367)	(161,900)	39.82%
Credit Impairment	(153,944)	(8,330)	1748.07%
PBT	403,647	85,750	370.73%
PAT	378,235	70,335	437.76%
EPS	10.95	1.98	453.03%
NGN' million	H1:2023	H1:2022	YoY
Loans	4,682,660	2,950,557	58.70%
Total Assets	15,382,382	8,998,954	70.94%
Deposits	12,603,168	7,576,089	66.35%
Total Liabilities	13,670,020	8,210,474	66.49%
Net Assets	1,712,362	788,480	117.17%
BVPS	50.07	23.06	117.17%
Annualized Ratios	H1:2023	H1:2022	YoY pts
Cost of Funds	2.28%	2.00%	0.27%
Cost-Income Ratio	28.87%	63.32%	(34.45%)
Cost of Risk	3.07%	0.40%	2.67%
ROE	44.18%	17.84%	26.34%
ROA	4.92%	1.56%	3.35%
Net Interest Margin	3.79%	4.11%	(0.32%)

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	
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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