

More Growth in the Horizon

All Shades of Green Surprises

UBA finished 2020 with an impressive result, as both topline and bottom-line advanced northwards by double digits. Gross earnings improved by 10.82% YoY to NGN620.38bn (higher than our expectation of a 7.50% YoY growth), supported by strong uptrend in non-interest income (+24.22% YoY) and a modest growth (+5.69% YoY) in interest income. We attribute the muted uptick in interest income, despite the significant rise in interest earning assets (+40.63% YoY), to the depressed yield environment (asset yield dropped to 7.84% from 9.26% in 2019FY). We like the strong growth (138.49% YoY) in interest income on retail loans, as the bank continues to expand its retail loan portfolio. On the other hand, the growth in non-interest income to NGN192.51bn (from NGN154.98bn in 2019FY) came on the back of increase in credit related fees (+35.36% YoY), trade transactions income (+35.36% YoY), and electronic banking income (+14.14% YoY), all of which accounted for 61.53% of total non-interest income. We also highlight that the impressive non-interest income turnout stemmed from the low base of trading income and fees related income from Q4:2019, which translated to a gain of 619.93% YoY and 74.49% YoY, respectively in Q4:2020. **Although we envisage growth in loan book to be moderate in 2021FY (+10.11% YoY) following management's indication of caution in creating risky assets, we expect the growth in gross earnings to continue into 2021FY (+13.54% YoY to NGN704.38bn) supported by the improving yield environment and rise (+9.43% YoY) in non-interest income.**

Topline Performance Trickles Down to Bottom-line

A combination of factors, including the 200bps reduction in the monetary policy rate (MPR) in 2020, reduction in interest on savings deposits by the apex bank, repricing of foreign borrowings by the group, as well as the retirement of high-cost subordinated debt in Q3:2020, all contributed to a decline (-7.96% YoY) in interest expense. This was notwithstanding the growth in interest bearing liabilities by 38.86% YoY. In addition, Cost-to-income ratio (CIR) slowed to 61.29% (vs. 62.71% in 2019FY) despite inflationary pressures, as operating income leaped faster (+17.72% YoY) than operating expenses (+15.05% YoY). We observed that the uptick in costs were largely driven by one-off non-recurring items, including CACOVID donations. In sum, Profit after tax posted a 27.70% YoY improvement to NGN113.77bn. **In 2021FY, we expect profit after tax to sustain its uptrend (+14.01% YoY), buoyed by a normalization of operating expenses (CIR to slow to 60.12%), as one-off expenses are eliminated)**

Asset Quality Remains Resilient Despite Weak Macro-environment

Despite the 24.17% YoY uptrend in gross loans to customers, amidst the weaknesses in the macroeconomic environment, UBA's risky assets were notably of good quality as non-performing loans (NPL) ratio subsided to 4.83% from 5.31% in 2019FY. Improvements were also recorded in NPL coverage ratio ex-regulatory risk reserves which came in at 86.45% (compared to 75.56% the previous year), indicating an adequate buffer for credit loss. Furthermore, stage 2 loans constituted only 10.12% of gross loans (vs 20.38% in 2019FY), a feat we consider rather impressive considering the observed increase in stage 2 loans among peers. Management attributes the improvement in asset quality to the new Global Standing Instruction (GSI) policy, which supported quality of loans. Capital adequacy ratio settled at 22.40%, while liquidity ratio came in strong at 44.30%. **We expect the GSI policy, as well as management's prudence in growing loan book to continue to support asset quality.**

Recommendation

With a target P/E of **3.00x** and our 2021FY expected EPS of **NGN3.60**, we arrive at a target price of **NGN10.80** which indicates an upside potential of +50.00%; we thus recommend a **BUY** on the ticker.

Company	UBA
Valuation	
Trailing EPS	3.20
BVPS	21.17
P/E	2.25x
P/BV	0.34x
Target PE	3.00x
Dec-2021 Exp. EPS	3.60
Dec 2021 Target price	10.80
Current Price	7.20
Up/Downside Potential	+50.00%
Ratings	BUY
Key metrics	
ROE	17.21%
ROA	1.17%
Net margin	18.34%
Asset Turnover	0.09
Leverage	10.63X
Share/Share Price Statistics	
Yr Hi	NGN9.25
Yr Lo	NGN7.20
YTD return	-16.76%
Beta	1.10
Adjusted Beta	1.07
52-wk average volume	25,922,962
Shares outstanding	34.20bn
Market cap [NGN]	246.24bn
Financial year end	December
Most Recent Period (MRP)	2020FY

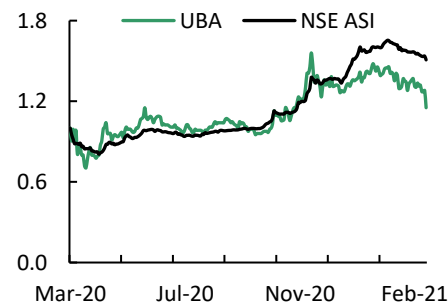


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	10.15
EPS						Max	11.47
		3.50	3.55	3.60	3.65	3.70	
Target PE	2.90x	10.15	10.30	10.44	10.59	10.73	
	2.95x	10.33	10.47	10.62	10.77	10.92	
	3.00x	10.50	10.65	10.80	10.95	11.10	
	3.05x	10.68	10.83	10.98	11.13	11.29	
	3.10x	10.85	11.01	11.16	11.32	11.47	

Financial Highlights (NGN billion) UNITED BANK FOR AFRICA PLC 2020FY

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Gross Earnings	620.38	559.81	10.82%
Interest Income	427.86	404.83	5.69%
Interest Expense	168.40	182.96	-7.96%
Loan Loss Expense	27.01	18.25	47.98%
Net Interest income after impairment charges	232.46	203.62	14.16%
Non-Interest Income	192.51	154.98	24.22%
Operating Income	407.65	346.29	17.72%
OPEX	249.85	217.17	15.05%
PBT	131.86	111.29	18.49%
PAT	113.77	89.09	27.70%
<i>Balance Sheet</i>	2020FY	2019FY	y/y Growth
Cash and short-term funds	1,874.62	1,396.23	34.26%
Loans and Advances to customers	2,554.98	2,061.15	23.96%
Investment Securities (incl. pledged assets)	2,580.79	1,571.55	64.22%
Property and Equipment	153.19	128.50	19.22%
Other Assets	534.40	446.62	19.65%
Total Assets	7,697.98	5,604.05	37.36%
Deposits from customers	5,676.01	3,832.88	48.09%
Financial Liabilities	694.36	788.73	-11.96%
Other Liabilities	603.46	384.46	56.96%
Total Liabilities	6,973.83	5,006.07	39.31%
Shareholders' fund	724.15	597.98	21.10%

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Movements in Price Target

Company Name: United Bank for Africa Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-Mar-2021	7.20	9.50	10.80	BUY	BUY

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Company	Disclosure
United Bank for Africa Plc	

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