

Focus on Nigerian Business Yields Early Benefits

Topline Shrinks Despite Significant Revaluation Gains

UBN's topline slightly decreased by 3.75% YoY to NGN166.55bn in 2020FY on the back of downtrend in interest income and fees. Decline in Interest income by 3.34% YoY to NGN113.16bn (vs. NGN117.07bn in 2019FY) was driven by a drop in investment securities as a result of the low interest rate environment and decline in asset yield during the year. Also, despite the rapid growth in the bank's digital footprint, e-business income and account maintenance fees dragged fees and commission income down by 4.61% YoY to NGN14.27bn. Nevertheless, non-interest income increased by 3.86% YoY to NGN44.48bn supported by FX revaluation gains which grew by 368.71% to NGN3.82bn. Gains (+104.57% YoY) on disposal of fixed income securities also contributed to the growth in non-interest income. **We expect the growth in trading gains to be relatively muted this year as yields tick up while FX revaluation gains are expected to moderate as we do not envisage as much devaluation of the Naira as occurred last year. Outlook for interest income is however positive given the current uptrend in interest rates and the bank's anticipated growth in interest earning assets.**

Divestment to Significantly Boost Bottom Line in 2021FY

Net interest margin remained weak at 4.80% as against 5.80% in 2019FY despite the decline in cost of funds by 140bps to 4.20%. Increased traction on the bank's digital channels supported retail deposit mobilization efforts leading to a 27.61% YoY growth in deposits to NGN1.13trn, composed mostly of low-cost funding. The bank's operating expenses however, increased by 10.17% owing to higher regulatory charges (AMCON Surcharge), software maintenance expenses (to support digital channels and support growth in transactions) and (one-off) Covid19 donations. In spite of reversals of impairment charge, cost to income ratio (CIR) climbed 132bps to 75.42% from 74.10% in 2019FY. Loss from discontinued operations dragged profit after tax by 6.05% to NGN18.67bn (vs. NGN19.88bn in 2019FY). We note that the bank's divestment from its UK subsidiary- in line with its strategy to focus on Nigeria- is still ongoing. **We expect a moderation in OPEX growth as one-off items such as covid19 donations are not expected to recur. Furthermore, sustained growth on digital channels should continue to support a decline in cost of funds via low-cost deposits. Our projections assume that the sale of the UK subsidiary will be concluded this year and that should significantly boost bottom line performance.**

Asset Quality Maintains Solid Footing

UBN was able to grow its gross loans by 23.76% to NGN736.71bn in 2020FY despite the fragile macroeconomic environment. This combined with a decline in the non-performing loans by 15.29% YoY helped moderate NPL ratio to 4.00% (vs 5.84% in 2019FY) indicating an improvement in the asset quality. Furthermore, the proportion of Stage 2 Loans to Gross Loans also declined to 19.85% from 23.54%. We are quite pleased with the bank's credit risk management framework and we do not envisage any significant threats to asset quality over the near term. We however think that the bank needs to deploy more risk assets in order meet up with the minimum LDR requirement so that funds are not tied down in restricted deposits which are costly but yield no interests. Effective CRR currently stands at 31.65% (against prudential guideline of 27.50%) while LDR is at 61.51%.

Recommendation

We project an EPS of **NGN0.88** and target P/E to **9.00x** to reflect the bank's positive outlook. This produces a Target Price of **NGN7.92**, with a upside potential of **49.41%**. Thus, we recommend a **BUY**.

Company	UBN
Valuation	
Trailing EPS	0.64
BVPS	9.08
P/E	8.27x
P/BV	0.58x
Target PE	9.00x
Dec-2021 Exp. EPS	0.88
Dec 2021 Target price	7.92
Current Price	5.30
Up/Downside Potential	+49.41%
Ratings	BUY
Key metrics	
ROE	10.30%
ROA	1.30%
Net margin	8.58%
Asset Turnover	0.08
Leverage	8.29x
Share/Share Price Statistics	
Yr Hi	NGN6.10
Yr Lo	NGN5.05
YTD return	-0.93%
Beta	0.73
Adjusted Beta	0.82
52-wk average volume	5,596,513
Shares outstanding	29.12bn
Market cap [NGN]	154.34bn
Financial year end	December
Most Recent Period (MRP)	2020FY

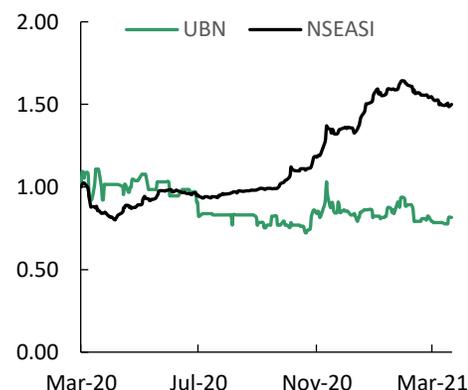


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs							Min	6.94
EPS							Max	8.92
		0.78	0.83	0.88	0.93	0.98		
Target PE	8.90	6.94	7.39	7.83	8.28	8.72		
	8.95	6.98	7.43	7.88	8.32	8.77		
	9.00	7.02	7.47	7.92	8.37	8.82		
	9.05	7.06	7.51	7.96	8.42	8.87		
	9.10	7.10	7.55	8.01	8.46	8.92		

Financial Highlights (NGN billion) UBN 2020FY			
<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Gross Earnings	160.29	166.55	-3.75%
Interest Income	113.16	117.07	-3.34%
Interest Expense	55.76	64.55	-13.63%
Impairment Loss Expense	2.25	-0.18	-1324.46%
Net Interest income after impairment charges	59.66	52.34	13.98%
Non-Interest Income	44.48	42.84	3.83%
OPEX	78	70.78	10.19%
PBT	25.13	24.37	3.13%
PAT	18.67	19.88	-6.05%
<i>Balance Sheet</i>	2020FY	2019FY	
Cash and balances with Central Banks	270.71	320.3	-15.48%
Loans and Advances to customers	692.8	550.61	25.82%
Investment Securities	351.86	257.09	36.87%
Property and Equipment	57.36	57.97	-1.04%
Other Assets	439.95	361.71	21.63%
Total Assets	2,191.03	1,872.23	17.03%
Deposits from customers	1,126.29	886.26	27.08%
Other Borrowed Funds	184.22	109.92	67.59%
Other Liabilities	425.72	433.11	-1.71%
Total Liabilities	1,926.71	1,619.89	18.94%
Shareholders' fund	264.32	252.34	4.75%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
olatunjifaniyi@meristemng.com (+234 803 446 3118)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
emekaikpechukwu@meristemng.com (+234 803 791 5731)
info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
blessingogwuche@meristemng.com (+234 706 896 5173)
car@meristemng.com

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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Company Name: Union Bank Nig. Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
31-Mar-2021	5.30	6.11	7.92	BUY	BUY

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Company	Disclosure
Union Bank Nig. Plc.	

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