

Large African Footprint Boons Performance

Higher Revenue from “Rest of Africa” Backs Topline Expansion

In 2021FY, United Bank for Africa (UBA)’s gross earnings increased by 6.90% YoY to NGN658.29bn on the back of higher interest income (+10.84% YoY). The higher interest income was supported by the repricing of c. 70% of the total loan book balances during the year in line with the changes in the yield environment. Notably, the bulk of the improvement in gross earnings was supported by its pan-African operations outside Nigeria (tagged “Rest of Africa”) which improved by 21.11% and contributed 41.85% to total revenue in the year. Revenue from the Nigerian operation increased negligibly by only 0.15% YoY due mainly to the low yield environment. On the other hand, non-interest income recorded a marginal (-2.07% YoY) decline to NGN184.03bn, resulting from the substantial decline (-70.13 YoY) in trading income. However, fees-based income continued its uptrend recording 24.98% YoY growth driven by both higher transaction volume and value. **In 2022FY, we project a 9.70% increase in gross earnings to NGN722.14bn driven by a modest increase in funded income. Also, we expect fees-related income to further improve especially as the group deepens its digital offerings and extends its operations to other countries, notably the United Arab Emirate for which regulatory approvals have been obtained. While we acknowledge the volatility in trading income, we expect its impact to be muted in 2022FY.**

Lower Impairment Charges Supports Bottomline

Notwithstanding the 10.17% increase in interest bearing liabilities during the year to NGN7.50trn, the group leveraged its over 120,000 agents to attract more low-yield interest bearing deposits, pulling interest expense lower by 6.44% YoY. Consequently, its cost of funds dropped by 67bps to 2.21%. As we expected, impairment charges declined by more than half of its value in the previous period due to lower operational risks, leading to a 57bps decline in cost of risk to 0.36%. However, higher regulatory charges (AMCON levy and NDIC premiums) contributed to the +11.66% YoY increase in operating expenses during the period. Nevertheless, cost to income ratio was relatively flat, increasing only by 98.71bps to 62.98%. We also observed a higher effective tax rate of 22.47% (vs 14.22% in 2020FY), owing to higher effective tax rate from the businesses outside Nigeria. Regardless, Profit After Tax increased by 8.72% YoY to NGN118.68bn. **In 2022FY, we expect a further uptick in the effective tax rate given the expiration of the period for exempting investment securities from taxation which could pressure bottomline growth. We, however, expect a further moderation in impairment charges given the improved business climate. Thus, we project a PAT growth of 16.06% to NGN137.74bn.**

Prudential Ratios Remain at Comfortable Levels

Maintaining a prudent stance, the group’s gross loans to customers (ex-loans to banks) expanded by only 4.15% YoY to NGN2,777.09bn. The increase in loan book flowed into Stage 1 and Stage 2 loans, while Stage 3 loans moderated by 19.17% YoY resulting from reclassifications and write-offs. Thus, Non-Performing Loans (NL) ratio fell to 3.75% from 4.83% in 2020FY. Furthermore, the NPL coverage ratio improved to c. 134%, indicating a sufficient buffer for credit losses. Additionally, the Capital Adequacy Ratio and liquidity ratios increased to 24.90% and 47.60% (from 22.35% and 44.30% in 2020FY), respectively which is sufficiently above the existing prudential minimum. **We consider the group to be well positioned to meet the regulatory requirements under the CBN’s newly adopted Basel III framework.**

Recommendation

We expect the ticker to trade around a PE ratio of 2.36x, while we project an EPS of **NGN3.87** for 2022FY. We used these to arrive at our target price of **NGN9.15**, yielding **+7.60%** upside potential based on the closing price on 10th March 2022. Thus, we have a **HOLD** rating on the ticker.

Company	UBA
Valuation	
Trailing EPS	NGN3.39
BVPS	NGN23.53
P/E	2.38x
P/BV	0.35x
Target PE	2.36x
Dec-2022 Exp. EPS	NGN3.87
Dec 2022 Target price	NGN9.15
Current Price	NGN8.50
Up/Downside Potential	+7.60%
Ratings	HOLD
Key metrics	
ROE	14.75%
ROA	1.39%
Net margin	18.03%
Asset Turnover	0.08x
Leverage	10.61x
Yr Hi	NGN8.00
Yr Lo	NGN8.85
YTD return	+5.59%
Beta	1.04
Adjusted Beta	1.02
Proposed Final DPS	NGN0.80
Shares outstanding	34.20bn
Market cap [NGN]	290.70bn
Financial year end	December
Most Recent Period	2021FY

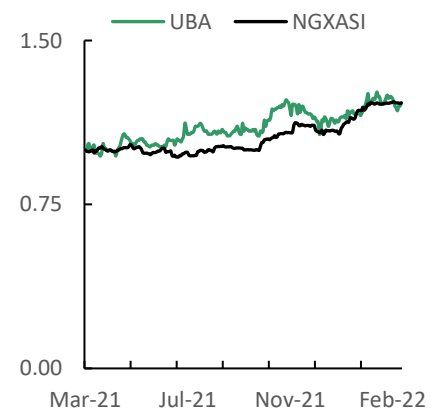


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022FY Target Price to key model inputs						Min	8.53	
						Max	9.78	
		EPS						
		3.77	3.82	3.87	3.92	3.97		
Target PE	2.26x	8.53	8.65	8.76	8.87	8.98		
	2.31x	8.72	8.84	8.95	9.07	9.18		
	2.36x	8.91	9.03	9.15	9.26	9.38		
	2.41x	9.10	9.22	9.34	9.46	9.58		
	2.46x	9.29	9.41	9.53	9.66	9.78		

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Earnings	615.77	658.29	722.14	778.21	848.18	917.80	986.86
Interest Income	427.86	474.26	513.37	546.28	587.72	627.58	668.89
Interest Expense	168.40	157.55	156.44	158.05	162.10	168.33	176.97
Net Impairment Charges	27.01	12.86	13.54	12.76	13.68	14.56	15.51
Net Interest income after impairment charges	232.46	303.85	343.39	375.46	411.94	444.69	476.41
Non-Interest Income	187.91	184.03	208.77	231.93	260.47	290.22	317.97
Operating Income	403.04	442.99	498.20	543.53	598.34	658.96	710.33
OPEX	249.85	278.99	292.58	315.61	336.14	357.39	379.70
PBT	127.26	153.07	194.00	217.08	250.45	288.93	317.04
PAT	109.16	118.68	137.74	154.13	177.82	205.14	225.10

<i>Balance Sheet</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Cash and Balances with Central Banks	1,874.62	1,818.78	1,906.59	2,017.41	2,049.24	2,247.58	2,452.05
Loans and Advances to customers	2,554.98	2,680.67	2,898.95	3,071.79	3,287.57	3,493.05	3,711.87
Investment Securities	2,580.79	3,335.63	3,594.66	3,810.63	4,045.75	4,314.59	4,507.73
Property and Equipment	153.19	178.12	194.34	210.78	225.32	241.19	261.94
Other Assets	534.41	528.12	510.91	607.81	777.05	888.06	1,108.97
Total Assets	7,697.98	8,541.32	9,105.45	9,718.43	10,384.93	11,184.46	12,042.56
Deposits from customer	5,676.01	6,369.19	6,687.65	7,088.91	7,514.24	8,002.67	8,522.84
Financial Liabilities	1,113.02	1,110.08	1,241.42	1,290.42	1,337.86	1,393.47	1,453.36
Other Liabilities	184.80	257.24	270.28	325.44	395.15	506.00	631.57
Total Liabilities	6,973.83	7,736.51	8,199.35	8,704.77	9,247.25	9,902.14	10,607.77
Shareholders' fund	724.15	804.81	906.11	1,013.65	1,137.68	1,282.33	1,434.79

<i>Financial Ratios</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Asset Yield	7.84%	7.00%	6.91%	6.91%	7.02%	7.05%	7.04%
Cost of Funds	2.88%	2.21%	2.04%	1.95%	1.90%	1.87%	1.85%
Net Interest Margin	5.45%	5.27%	5.36%	5.45%	5.63%	5.70%	5.71%
Cost to Income Ratio	61.99%	62.98%	58.73%	58.07%	56.18%	54.24%	53.45%
Net Margin	17.73%	18.03%	19.07%	19.81%	20.96%	22.35%	22.81%
Return on Asset	1.42%	1.46%	1.56%	1.64%	1.77%	1.90%	1.94%
Return on Equity	15.07%	15.52%	16.10%	16.06%	16.53%	16.95%	16.57%
Earnings Per Share	3.10	3.39	3.87	4.33	4.99	5.76	6.32
Asset Turnover	0.08x	0.08x	0.08x	0.08x	0.08x	0.09x	0.08x
Financial Leverage	10.63x	10.61x	10.05x	9.59x	9.13x	8.72x	8.39x

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Company Name: United Bank for Africa Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
11-Mar-2022	8.50	10.80	9.15	BUY	HOLD

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United Bank for Africa Plc	

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