

## Earnings Bolstered by Higher Interest Rate

**Recommendation: BUY TP: 9.15 CP: 7.40 UPP: +23.65%**

**Summary:** In H1:2022, United Bank for Africa (UBA) reported a 17.82% YoY growth in gross earnings to NGN372.36bn. Double-digit growth in both Interest and non-interest income contributed to topline performance. The 15.60% YoY rise in interest income to NGN257.36bn resulted from upward repricing of loan book in line with the prevailing interest rate environment. Likewise, broadened digital banking reach across Africa led to 23.12% YoY growth in non-interest income to NGN115.00bn. The lender recorded a 7.16% YoY growth in interest expense as interest bearing liabilities increased together with higher interest rate. However, Net Interest Margin improved to 5.70% (vs 5.20% in H1:2021). Also, operating expenses edged up by 21.88% YoY to NGN161.90bn on account of rising inflation and regulatory charges. Thus, Cost-to-Income ratio expanded by 90bps YoY to 62.30%. Overall, UBA recorded improved profitability as PBT and PAT both grew by a 12.55% YoY and 16.10% YoY to NGN85.75bn and NGN70.33bn, respectively.

**Positives:** Double digit growth in profitability and Higher transaction value across digital channels

**Negatives:** Higher cost-to-income ratio and Increased impairment charge (NGN8.33bn vs NGN4.14bn in H1:2021).

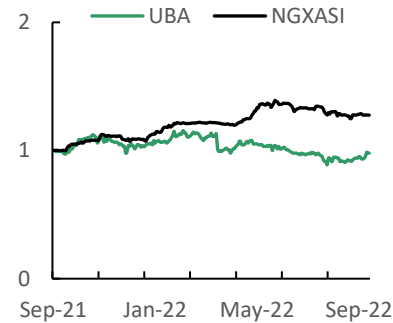
**Outlook:** We project 2022FY gross earnings of NGN752.78bn hinged on upward loan repricing and higher transaction value across digital channels, while our PAT forecast is NGN141.94bn.

### Valuation

Trailing EPS	3.68
BVPS	23.06
P/E	3.74
P/BV	0.32
Target PE	2.36x
Dec-2022 Exp. EPS	3.87
Dec 2022 Target price	<b>NGN9.15</b>
Current Price	NGN7.40

### Stock Highlights

Yr Hi	8.85
Yr Lo	6.80
YTD return	-8.07%
Beta	0.92
Adjusted Beta	0.94
Shares outstanding	34.20bn
Market cap [NGN]	<b>253.08bn</b>
Financial year end	December



### Sensitivity Analysis of Dec-2022 Target Price to key model inputs

		EPS					Min	8.54
							Max	9.79
		3.77	3.82	3.87	3.92	3.97		
Target P/E	2.27x	8.54	8.65	8.77	8.88	8.99		
	2.32x	8.73	8.84	8.96	9.07	9.19		
	2.37x	8.92	9.03	<b>9.15</b>	9.27	9.39		
	2.42x	9.10	9.23	9.35	9.47	9.59		
	2.47x	9.29	9.42	9.54	9.66	9.79		

### Financial Highlight (NGN'bn)

Profit and Loss Account	H1:2022	H1:2021	Y/Y Growth
Gross Earnings	372.36	316.04	+17.82%
Interest Income	257.36	222.63	+15.60%
Non-Interest Income	115.00	93.41	+23.12%
Operating Expenses	161.90	132.83	+21.88%
Operating Income	292.46	241.47	+21.11%
PBT	85.75	76.19	+12.55%
PAT	70.33	60.58	+16.10%

### Balance Sheet

	H1:2022	2021A	YtD % Change
Loans and Advances	2,950.56	2,834.56	+4.09%
Other Assets	6,048.40	5,610.85	+7.80%
Total Assets	8,998.95	8,445.41	+6.55%
Deposits from Customers	6729.92	6,369.19	+5.66%
Other Liabilities	1480.55	1,367.32	+8.28%
Total Liabilities	8210.47	7,736.51	+6.13%
Shareholders' Fund	788.48	804.81	-2.03%

### Key Metrics

	H1:2022	2021A	3-yr Hist. Avg
Net Interest Margin	5.70%	5.40%	5.60%
Cost of Funds	2.10%	2.20%	3.03%
Capital Adequacy Ratio	25.10%	24.90%	23.50%
Non-Performing Loan Ratio	3.30%	3.60%	4.53%
Liquidity Ratio	63.70%	65.30%	59.47%
Cost-to-Income Ratio	63.20%	62.70%	62.40%
Financial Leverage	11.41x	10.65x	10.10x
Return on Equity	17.70%	15.60%	16.13%
Asset Turnover	0.08x	0.08x	0.09x

### Revised Financial Forecasts

<b>Financial Forecasts (NGN'bn)</b>					
<b>Profit and Loss Account</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Gross Earnings</b>	752.78	857.05	985.76	1,188.33	1,511.14
Interest Income	546.85	631.51	744.45	929.27	1233.02
Interest Expense	189.06	207.97	218.37	229.28	240.75
Non-Interest Income	208.01	227.79	243.70	261.63	280.91
Operating Income	563.72	649.09	767.40	959.04	1270.39
Operating Expenses	293.40	318.34	344.61	377.63	414.02
PBT	177.43	229.50	312.34	456.30	715.08
<b>PAT</b>	<b>141.94</b>	<b>183.60</b>	<b>249.87</b>	<b>365.04</b>	<b>572.07</b>
<b>Balance Sheet</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Loans and Advances	3,499.50	3,665.88	3,897.70	4,257.45	4,349.30
Other Assets	6,099.24	6,854.32	7,505.51	8,192.99	9,326.95
<b>Total Assets</b>	<b>9,598.74</b>	<b>10,520.20</b>	<b>11,403.21</b>	<b>12,450.44</b>	<b>13,676.25</b>
Deposits from customers	7,324.57	7,910.53	8,543.38	9,226.85	9,964.99
Other Liabilities	1,497.52	1,789.90	1,995.71	2,287.82	2,672.25
<b>Total Liabilities</b>	<b>8,822.08</b>	<b>9,700.43</b>	<b>10,539.09</b>	<b>11,514.67</b>	<b>12,637.24</b>
Shareholders' Fund	776.66	819.77	864.12	935.77	1,039.01

**Key forecast drivers:**

- Rising interest rate environment given the adoption of tight monetary policy across the regions in which the bank operates is expected to improve UBA's interest income.
- UBA's unique international positioning is expected to broaden the bank's client base and drive growth
- Operating expenses are revised upward to reflect the high and rising inflation pressure.

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### Movements in Price Target

**Company Name:** United Bank for Africa

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
14-Sept-2022	7.40	9.15	9.15	HOLD	BUY
11-Mar-2022	8.50	-	9.15	-	HOLD

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## CONTACT INFORMATION

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### Brokerage and Retail Services

[topeoludimu@meristemng.com](mailto:topeoludimu@meristemng.com) (+234 905 569 0627)  
[isaaconaolapo@meristemng.com](mailto:isaaconaolapo@meristemng.com) (+234 803 234 8275)  
[contact@meristemng.com](mailto:contact@meristemng.com)

### Investment Banking/Corporate Finance

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

### Wealth Management

[funmilolaadekola-daramola@meristemng.com](mailto:funmilolaadekola-daramola@meristemng.com) (+234 803 355 0008)  
[crmwealth@meristemng.com](mailto:crmwealth@meristemng.com) (+234 01 738 9948)

### Registrars

[oluseyiowoturo@meristemregistrars.com](mailto:oluseyiowoturo@meristemregistrars.com) (+234 802 321 0561)  
[martinaosague@meristemregistrars.com](mailto:martinaosague@meristemregistrars.com) (+234 802 303 1783)  
[www.meristemregistrars.com](http://www.meristemregistrars.com) (+23401-280 9250)

### Trust Services

[damilolahassan@meristemng.com](mailto:damilolahassan@meristemng.com) (+234 803 613 9123)  
[trustees@meristemng.com](mailto:trustees@meristemng.com)

### Group Business Development

[saheedbashir@mersitemng.com](mailto:saheedbashir@mersitemng.com) (+234 802 454 6575)  
[ifeomaogalue@meristemng.com](mailto:ifeomaogalue@meristemng.com) (+234 802 394 2967)  
[info@meristemng.com](mailto:info@meristemng.com)

### Investment Research

[damilareojo@meristemng.com](mailto:damilareojo@meristemng.com) (+234 816 890 2771)  
[praiseihansekhien@meristemng.com](mailto:praiseihansekhien@meristemng.com) (+234 817 007 1512)  
[research@meristemng.com](mailto:research@meristemng.com)

### Analyst(s)

[sodiqsafiriyu@meristemng.com](mailto:sodiqsafiriyu@meristemng.com) (+234 816 711 9230)

### Client Services

[adefemitaiwo@meristemng.com](mailto:adefemitaiwo@meristemng.com) (+234 803 694 3034)  
[car@meristemng.com](mailto:car@meristemng.com) (+23401-280 9250)

Corporate websites: [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

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