

Double Digit Growth in Bottomline Brightens Outlook for the Year

Loan Repricing and Higher Yield Prop Interest Income

In its 9M:2022 unaudited financial statement, United Bank for Africa Plc (**UBA**)'s gross earnings appreciated by 23.27% YoY to NGN608.29bn (compared to +18.26% YoY in Q1:2022 and +17.82% YoY in H1:2022). Topline growth is attributable to rise in interest and non-interest income streams. Interest earned on the lender's term loans to corporates was the most significant contributor (38.80%) to total interest income. There was also a significant growth in interest earned from investment securities which benefitted from the elevated yield environment. **We expect UBA's interest income to end the year on a solid footing due to the upward repricing of loans. Likewise, interest earned on investment securities is expected to maintain an upward trajectory due to higher yields. Furthermore, the bank's strong interest-earning asset base, which has grown 9.59% YtD to NGN8.76trn, is expected to support interest income growth further.** Non-interest income increased by 28.30% YoY, supported by fee-related income and trading income. Fee-related income grew by 24.42% YoY due to higher transaction value on the E-banking channel, while trading income increased by 40.54% YoY (income from securities trading increased by 182.05% YoY, despite the general decline in asset prices). **We are optimistic about the growth of fee-related income in Q4:2022 due to the expected increase in transaction volumes during the forthcoming festive season, as well as the CBN's recent move to reduce cash-in-circulation. However, we note that the current downtrend in asset prices - as yields rise - constitutes a headwind to trading income.**

Mixed performance in Operating Margins

UBA achieved mixed operational efficiency. Firstly, net interest margin (NIM) increased by 30bps YoY to 5.90% while the cost of funds (CoF) was flat at 2.30%. The constant CoF resulted from higher financial liabilities matching higher interest expense. **The increase in interest income and interest expense reflects the prevailing rise in interest rates in Nigeria and other countries of operation.** As a result of management's recognition of probable impairments to loans and receivables due to current macroeconomic uncertainties, the cost of risk increased by 10bps YoY to 0.70%. Meanwhile, operating expenses increased by 27.48% YoY for the lender (higher than the rise in operating income: +24.62% YoY), reflecting the effects of high inflation. Thus, cost to income ratio (CIR) rose by 130bps YoY to 63.20%. Nonetheless, **UBA** recorded a Profit After Tax (PAT) growth of 10.94% to settle at NGN116.04bn in 9M:2022. **We expect the group to end the year with a PAT of NGN141.94bn, which translates to +19.60% YoY Growth.**

Prudential Ratios Remain Above Threshold

The group's total loan expanded 13.30% YtD to NGN3.21trn. Judging from H1:2022, 98.74% of total loans are classified under stage 1 and stage 2. However, stage 3 loans increased by 2.88% to NGN107.11bn in the first six months of the year. **Notwithstanding, non-performing loan ratio has improved since then to 3.20% (vs 3.30% in H1:2022 and 3.60% in 2021FY) as management remains cautious in risk asset creation.** Also, capital adequacy ratio (CAR) increased to 30.30% from 24.90% in 2021FY, which is sufficiently above the prudential threshold.

Recommendation

Following our PAT forecast, we project a 2022FY EPS of NGN4.15. We also estimate a Target PE of 2.21x, with which we arrive at a target price of **NGN9.15**. Compared to the closing price on 1st November 2022, our target price shows that the stock has an upside potential of **+28.91%**. Thus, we rate the ticker a **BUY**.

Company	UBA
Valuation	
Trailing EPS	NGN3.72
BVPS	NGN23.64
P/E	2.17x
P/BV	0.30x
Target PE	2.21x
Dec-2022 Exp. EPS	NGN4.15
Dec 2022 Target price	NGN9.15
Current Price	NGN7.10
Up/Downside Potential	+28.91%
Ratings	BUY
Key metrics	
ROE	19.20%
ROA	1.70%
Net margin	19.08%
Asset Turnover	0.07x
Leverage	11.52x
Yr Hi	NGN8.85
Yr Lo	NGN6.55
YTD return	-11.80%
Beta	0.73
Adjusted Beta	0.82
Market cap [NGN]	242.82bn
Financial year end	December
Most Recent Period	9M:2022

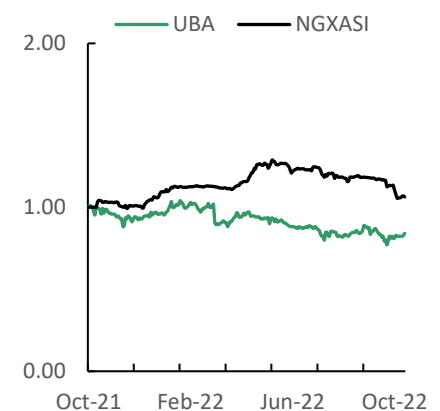


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	8.53			
						Max	9.80			
						EPS				
						4.05	4.10	4.15	4.20	4.25
Target PE	2.11x	8.53	8.63	8.74	8.84	8.95				
	2.16x	8.73	8.84	8.95	9.05	9.16				
	2.21x	8.93	9.04	9.15	9.26	9.37				
	2.26x	9.13	9.25	9.36	9.47	9.59				
	2.31x	9.34	9.45	9.57	9.68	9.80				

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	9M:2022	9M:2021	Y/Y Change
Gross Earnings	608.29	493.44	+23.27%
Interest Income	420.23	343.71	+22.26%
Interest Expense	137.72	114.44	+20.34%
Net Impairment Charges	13.59	3.41	+299.03%
Net Interest income after impairment charges	268.93	225.86	+19.07%
Non-Interest Income	188.06	146.57	+28.30%
Operating Income	414.71	332.77	+24.62%
OPEX	262.63	206.01	+27.48%
PBT	138.49	123.35	+12.27%
PAT	116.04	104.60	+10.94%

<i>Balance Sheet</i>	9M:2022	2021 A	YtD Change
Cash and Balances with Central Banks	2,260.52	1,818.78	+24.29%
Loans and Advances to Banks and customers	3,212.67	2,834.56	+13.34%
Investment Securities	3,281.89	3,335.63	-1.61%
Property and Equipment	182.10	156.88	+16.07%
Other Assets	381.52	299.55	+27.37%
Total Assets	9,318.70	8,445.41	+10.34%
Deposits from Banks and Customers	7,811.27	7,023.40	+11.22%
Financial Liabilities	485.12	455.77	+6.44%
Other Liabilities	213.69	257.34	-16.96%
Total Liabilities	8,510.08	7,736.51	+10.00%
Shareholders' fund	808.62	804.81	+0.47%

<i>Financial Ratios</i>	9M:2022	9M:2021	3-yr Hist. Avg
Cost of Funds	2.30%	2.30%	3.03%
Net Interest Margin	5.90%	5.60%	5.60%
Cost to Income Ratio	63.20%	61.90%	62.40%
Net Margin	19.08%	21.33%	17.43%
Return on Asset	1.70%	1.60%	1.56%
Return on Equity	19.20%	19.20%	18.27%
Earnings Per Share	3.27	2.94	2.79
Asset Turnover	0.07x	0.06x	0.09x
Financial Leverage	11.52x	10.46x	10.10x

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

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
1-Nov-2022	7.15	9.15	9.15	BUY	BUY

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