

A Decade's Strongest Profit Growth

Funded and Non-funded Income Advance by Double-Digits

Amidst various macroeconomic event backdrop in the 20 African countries of operations, United Bank of Africa (UBA) ended 2022FY with gross earnings of NGN853.17bn, 29.23% higher than in 2021FY. This impressive topline performance reflects the double-digit growth in both interest income and non-interest income. Interest income took a +17.48% YoY leap to NGN557.15bn, buoyed by upward review of risk-asset pricing, higher yield on investment securities, as well as expansion of loan book and increased stock of investment securities. With a contribution of over a-third to gross earnings, non-interest advanced by 59.19% YoY. This was propped by higher transaction volume and value across various digital channels which led to a significant jump in fees and commission. Similarly, trading income increased sharply by over 340% due to a combination of trading gains, fair-value gains on fixed income instruments, and remeasurement gains on foreign currencies. **In our view, a modest loan book growth, slower pace of risk-asset repricing, and higher e-banking fees will all spur gross earnings increase of 15.87% YoY to NGN989.03bn in 2023FY.**

Exposure in Ghana Had Minimal Impact on Bottomline

Despite growth in deposit balance amid higher interest rate regime in operating countries, cost of funds moderated slightly by c. 11bps to 2.09%. This resulted from a strong tilt of the increased deposits to low-cost retail deposits. The lower cost of funds coupled with higher asset yield delivered a narrowly higher Net Interest Margin (by 4bps to 5.61%). A faster growth in operating income than in operating expenses led to c. 364bps drop in cost-to-income (CIR) to 59.06%. The group was not exempted from the Domestic Debt Exchange Programme (DDEP) in Ghana, especially given its direct operations in the country. UBA Ghana, which accounts for c. 3% of the group's total assets, booked NGN14.24bn impairment loss from the DDEP. Also, provisions were made for expected haircuts on Ghana's Eurobonds which summed up all impairment losses on Ghanaian investments to NGN17.28bn (c. 10% of the group's reported net profit), contributing to the group-wide total impairment charge of NGN41.97bn (+226.27% YoY). Nevertheless, this had a negligible impact on profitability as profit after tax (PAT) still advanced by 43.48% YoY to NGN170.28bn.

Following the DDEP, the Ghanaian local instruments will earn zero coupon in 2023FY. However, we believe the shortfall from this would be compensated for from the higher expected rates in other operating countries as benchmark rates are still being hiked. Moreover, the total value of all investments in Ghana is a paltry c. 1.30% of the group's total investment securities. In our view, inflationary pressure remains the major constraining factor to profitability as we expect a lower impairment charge in 2023FY. That said, we project a PAT of NGN212.73bn (+24.93% YoY) in 2023FY.

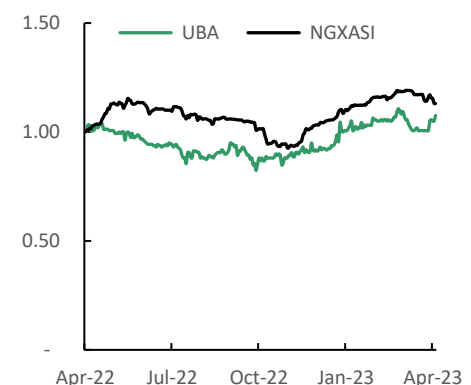
Prudential Standing Remains Strong

Across different prudential metrics, UBA had impressive performance. First, the Non-performing loans (NPL) ratio dropped by c. 50bps to 3.10%, and with adequate NPL coverage ratio at 115.60%. Also, capital adequacy ratio (CAR) came in at 28.30%.

Recommendation

Using a forward comparable average PE ratio of 2.44x and an estimated EPS of NGN6.22, arrive at a target price of **NGN15.16**. This presents an **upside potential of 77.31%** on the ticker at the current price. Also, we note that UBA is currently trading at a low PE (1.77x) compared to its peers average of 2.83x, presenting an attractive entry point. Thus, we rate the ticker a **"BUY"**.

Company	UBA
Valuation	
Trailing EPS	NGN4.84
BVPS	NGN25.95
P/E	1.77x
P/BV	0.33x
Target PE	2.44x
Dec-2023 Exp. EPS	NGN6.03
Dec 2023 Target price	NGN15.16
Current Price	NGN8.55
Up/Downside Potential	+77.31%
Ratings	BUY
Key metrics	
ROE	19.72%
ROA	1.77%
Net margin	19.96%
Asset Turnover	0.09x
Leverage	11.77x
Yr Hi	NGN8.80
Yr Lo	NGN7.95
YTD return	+12.50%
Beta	0.34
Adjusted Beta	0.56
Proposed DPS	NGN0.90
Shares outstanding	34.20bn
Market cap [NGN]	292.41bn
Free Float	82.70%
Financial year end	December
Most Recent Period	2022FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	11.08
						Max	19.74
						EPS	
						5.72	5.97
						6.22	6.47
						6.72	
Target PE	1.94x	11.08	11.57	12.05	12.53	13.02	
	2.19x	12.51	13.06	13.60	14.15	14.70	
	2.44x	13.94	14.55	15.16	15.77	16.38	
	2.69x	15.37	16.04	16.71	17.39	18.06	
	2.94x	16.80	17.54	18.27	19.00	19.74	

Financial Highlights and Forecasts (NGN billion)								
Profit & Loss Account		2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Gross Earnings		660.22	853.17	989.03	1,139.67	1,298.50	1,488.31	1,716.98
Interest Income		474.26	557.15	626.58	701.63	788.54	892.89	1,019.90
Interest Expense		157.55	177.66	195.43	214.97	232.17	250.74	270.80
Net Impairment Charges		12.86	41.97	40.30	43.13	46.19	49.47	53.02
Net Interest income after impairment charges		303.85	337.52	390.85	443.52	510.18	592.67	696.08
Non-Interest Income		126.28	213.43	263.39	319.20	373.33	438.32	516.44
Operating Income		430.13	550.95	654.23	762.72	883.51	1,030.99	1,212.51
OPEX		278.99	350.39	395.15	447.41	508.13	581.22	668.90
PBT		153.07	200.88	259.42	315.67	375.76	450.19	544.06
PAT		118.68	170.28	212.72	258.85	308.12	369.16	446.13
Balance Sheet		2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks		1,874.62	1,818.78	2,553.63	3,453.06	4,268.39	5,036.02	5,992.25
Loans and Advances to Banks and customers		2,632.39	2,834.56	3,440.13	3,781.86	4,155.68	4,565.16	5,011.76
Investment Securities		2,580.79	3,335.63	4,180.69	4,457.82	4,779.58	5,130.95	5,512.30
Property and Equipment		141.29	156.88	208.04	208.43	238.33	275.73	317.48
Other Assets		464.29	299.55	379.49	413.19	482.18	547.12	609.64
Total Assets		7,693.38	8,445.41	10,761.98	12,314.36	13,924.17	15,554.99	17,443.43
Deposits from Banks and Customers		6,094.17	7,023.40	8,995.13	10,285.19	11,793.25	13,269.23	14,966.97
Financial Liabilities		694.36	455.77	535.74	642.88	578.59	560.90	549.82
Other Liabilities		185.31	257.34	404.60	415.71	536.78	645.18	774.48
Total Liabilities		6,973.83	7,736.51	9,935.47	11,343.78	12,908.63	14,475.30	16,291.27
Shareholders' fund		719.55	708.90	826.51	970.58	1,015.54	1,079.68	1,152.16
Financial Ratios		2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Asset Yield		7.21%	6.95%	6.89%	7.29%	7.52%	7.82%	8.19%
Cost of Funds		2.21%	2.09%	1.91%	1.85%	1.77%	1.71%	1.65%
Net Interest Margin		4.82%	4.74%	4.74%	5.06%	5.31%	5.62%	6.02%
Cost to Income Ratio		64.86%	63.60%	60.40%	58.66%	57.51%	56.37%	55.17%
Net Margin		17.98%	11.00%	11.29%	12.48%	13.52%	15.04%	16.06%
Return on Asset		1.47%	1.77%	1.84%	1.97%	2.09%	2.24%	2.41%
Return on Equity		15.57%	19.72%	22.48%	26.07%	29.41%	33.08%	37.34%
Earnings Per Share		3.47	4.98	6.22	7.57	9.01	10.79	13.05
Asset Turnover		0.08x	0.09x	0.09x	0.09x	0.09x	0.09x	0.09x
Financial Leverage		11.91x	13.02x	12.69x	13.71x	14.41x	15.14x	15.77x

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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
11-Apr-2023	8.55	-	15.16	-	BUY

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Company	Disclosure
United Bank for Africa	

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