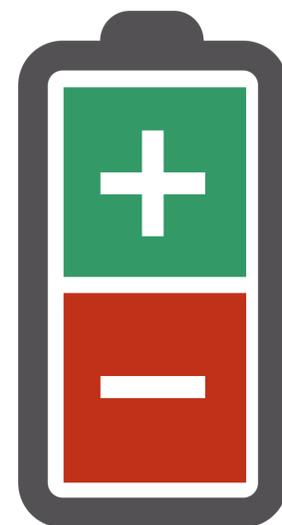


Riding the Crest of a Wave

Summary: Following its impressive financial performance in 2022FY, United Bank for Africa Plc. (UBA) put up a strong outing in the first quarter of 2023. Remarkably, the group recorded a 47.46% YoY increase in gross earnings (NGN271.18bn), on the back of double-digit growth rate in interest income (+53.41% YoY) and non-interest (+34.80% YoY) income streams. The expansion in interest income was largely due to the consolidated effect of the additional 150bps rate hike in Q1:2023 and a mild increase in the gross loan book (+5.10% YtD) despite the negligible decline in investment securities (-0.78% YoY). In addition, the group's nonfunded income grew significantly owing to improved revenue generated from electronic banking income (contributing c.58% of the growth). This can be linked to the increased use of digital apps – a resultant effect of the cash crunch during the period. Due to the rising inflationary pressures and deteriorating macroeconomic conditions in the operating environment, operating expenses and impairment charges spiked by 38.21% YoY and 68.07% YoY, respectively. Also, income taxes more than doubled to NGN7.78bn (vs NGN2.99bn in Q1:2022) as the expiration of tax exemption on treasury instruments continue to mount pressure. Nonetheless, the solid topline growth ensured that Profit After Tax (PAT) increased by 29.14% YoY to NGN53.59bn (c.25% of our projected PAT for 2023FY).



POSITIVES

- Double-digit growth rate in gross earnings and PAT
- Higher ROA and ROE

NEGATIVES

- Significant jump in impairment charge and income taxes.
- Higher cost-to-income ratio

Outlook: We expect a modest loan book growth, slower pace of risk-asset repricing, and higher e-banking fees to spur gross earnings. Thus, our gross earnings and PAT forecast for 2023FY are NGN989.03bn and NGN212.73bn, respectively. Please, click [here](#) for our 2022FY earnings report.

Recommendation: BUY TP: 15.16 CP: 8.50 UPP: +78.35%

Financial Highlight (NGN'bn)

Profit and Loss Account	Q1:2023	Q1:2022	Y/Y Growth
Gross Earnings	271.18	183.90	+47.46%
Net Interest Income	119.63	84.87	+40.96%
Non-Interest Income	79.30	58.83	+34.80%
Operating Income	195.79	122.13	+60.31%
Operating Expenses	107.31	77.64	+38.21%
PBT	61.37	44.48	+37.97%
PAT	53.59	41.50	+29.13%

Balance Sheet	Q1:2023	2022A	YtD % Change
Net loans to customers	3,301.19	3,136.88	+5.24%
Other Assets	8,059.59	7,720.69	+4.39%
Total Assets	11,360.78	10,857.57	+4.63%
Deposits from customers	8,647.89	7,824.89	+10.52%
Other Liabilities	1,739.75	2,110.58	-17.57%
Total Liabilities	10,387.64	9,935.47	+4.55%
Shareholders' Fund	973.14	922.10	+5.54%

Key Metrics

Profitability Ratio	2023T	2022A	3-yr Hist. Avg
Net Margin	17.76%	19.95%	18.54%
ROA	1.80%	1.77%	1.63%
ROE	20.45%	19.72%	17.29%
Earnings Per Share (NGN)	5.31	4.98	3.88

Efficiency Ratio	Q1:2023	2022A	3-yr Hist. Avg
Asset Turnover	0.09x	0.09x	0.09x
Cost-to-Income Ratio	63.62%	63.60%	64.97%

Solvency Ratio	Q1:2023	2022A	3-yr Hist. Avg
Financial Leverage	11.67x	13.02x	11.88x

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, ROA= Return on Assets, ROE=Return on Equity, T= Trailing, A= Actuals

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Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

BUY: Target Price of the stock is above the current market price by at least 10 percent

HOLD: Target Price of the stock ranges between -10 percent and 10 percent from the current market price.

SELL: Target Price of the stock is more than 10 percent below the current market price.

Movements in Price Target

Company Name: United Bank for Africa Plc

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 Plc	

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