

## Growth Across Major Income Streams Strengthen Earnings

### Elevated Trading and Revaluation Gains Boost Topline

Amidst the economic uncertainties and volatilities in the operating environment in the first half of 2023, the United Bank for Africa (UBA) posted a solid financial performance. Specifically, UBA's gross earnings more than doubled (+163.88% YoY) to NGN981.76bn during the period, owing to the 66.42% YoY and 382.61% YoY growth in funded and non-funded income, respectively. For the first time on record, non-interest income's contribution to gross earnings (56%) outweighed interest income in H1:2023. This can be primarily attributed to the surge in net trading and foreign exchange gain (NGN418.28bn vs NGN9.15bn in H1:2022), majorly driven by the recent CBN FX harmonization exercise and fixed-income securities trading gains. Furthermore, net fees and commission income increased by 30.68% YoY, driven by higher e-banking income. Likewise, the increased interest income was spurred by a consolidated effect of an increase in the group's earnings assets (+50.90% YtD), a higher yield on loans and advances to customers and investment securities. Meanwhile, the yield on earning assets rose by 120bps to 9.20% in H1:2023 (vs 8.00% in H1:2022). **While we do not expect the effect of revaluation gains in H2:2023 to be as significant as H1:2023, we project a 87.83% YoY growth in gross earnings to NGN1.60bn, premised on increased interest income aided by higher asset yield, higher net fees and commission income, and a further increase in trading income.**

### UBA Hits Record High Profit After Tax

On the back of the elevated interest rate environment and lower CASA mix in H1:2023 (83.85% vs 84.38% in H1:2022), the group's funding cost increased by 30bps to 2.80%. Notwithstanding, the net interest margin rose by 50bps to 6.00% owing to the upward repricing of risky assets. Due to rising inflationary pressures, annual salary reviews, and higher statutory costs, operating expenses spiked by 39.82% YoY to NGN226.37bn. In line with heightened credit default risk in the portfolio, the group's expected credit loss provision on loans increased significantly to NGN143.93bn (pushing its cost of risk up to 3.40% vs 0.38% in H1:2022). Additionally, an impairment charge of NGN10.01bn was recognized due to its exposure to Ghana Eurobond (USD78mn) and other financial assets. Notwithstanding, the improved operating income suppressed the cost-to-income ratio to 28.90% (from 63.20% in H1:2022). Thus, the group's Profit After Tax (PAT) surged by 437.77% YoY to NGN378.24bn in H1:2023. **For 2023FY, we expect the group's strong operating income to suppress the increase in operating expenses and impairment charges. Thus, we estimate a PAT of NGN513.79bn, translating to 201.74% YoY growth. CC**

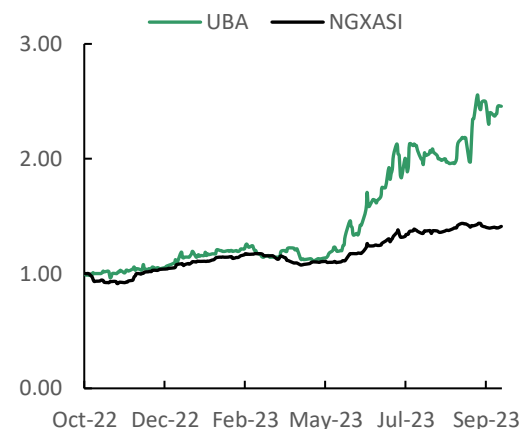
### Resilient Loan Portfolio Supports Asset Quality

UBA maintained its robust asset base, growing its loan book by 40.40% YtD (c.71% due to the FX revaluation). Despite the heightened risk in the operating environment, the group's diversification strategy kept its asset quality resilient, increasing its Non-Performing Loan ratio marginally by 20bps to 3.30% (within regulatory limit). Also, the NPL Coverage ratio improved to 187.00% from 116.00% in 2022FY, and the Capital Adequacy Ratio (CAR) increased to 36.32% (vs 28.30% in 2022FY), while the liquidity ratio moderated by 242bps to 56.61%. Nonetheless, the liquidity ratio remains reasonably above the regulatory benchmark of 30%. **Our overall assessment shows that UBA's prudential metrics are within comfortable levels and should remain adequate in 2023FY.**

### Recommendation

Following our PAT forecast, we revised our expected 2023FY EPS upward to **NGN15.02**. Combining this with a Target PE of 1.42x, we arrive at a target price of **NGN21.26**. This translates to an upside potential of **23.59%** based on the closing price on 09 October 2023. Thus, we rate the ticker a **BUY**.

Company	UBA
<b>Valuation</b>	
Trailing EPS	NGN13.95
BVPS	NGN48.58
P/E	1.24x
P/BV	0.36x
Target PE	1.42x
Dec-2023 Exp. EPS	NGN15.02
Dec 2023 Target price	<b>NGN21.26</b>
Current Price	NGN17.20
Up/Downside Potential	<b>+23.59%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	41.05%
ROA	4.09%
Net margin	39.58%
Asset Turnover	0.06x
Leverage	8.89x
Yr Hi	NGN17.85
Yr Lo	NGN7.75
YTD return	+126.32%
Beta	0.81
Adjusted Beta	0.87
Proposed DPS	NGN0.50
Shares outstanding	34.20bn
Market cap [NGN]	588.22bn
Free Float	92.80%
Financial year end	December
Most Recent Period	H1:2023



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**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	13.29
						Max	29.73
						EPS	
		14.52	14.77	15.02	15.27	15.52	
Target PE	0.92x	13.29	13.52	13.75	13.98	14.20	
	1.17x	16.92	17.21	17.50	17.79	18.08	
	1.42x	20.55	20.90	21.26	21.61	21.97	
	1.67x	24.18	24.60	25.01	25.43	25.85	
	1.92x	27.81	28.29	28.77	29.25	29.73	

**Financial Highlights and Forecasts (NGN billion)**

<b>Profit &amp; Loss Account</b>	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Gross Earnings	372.05	981.76	1,602.48	1,417.62	1,569.74	1,849.19	2,110.29
Interest Income	257.36	428.29	828.16	925.92	1,003.42	1,194.60	1,351.09
Interest Expense	(79.90)	(150.18)	(257.84)	(309.41)	(340.35)	(374.39)	(411.82)
Net Impairment Charges	(8.33)	(153.94)	(200.50)	(196.86)	(203.87)	(210.38)	(229.66)
Net Interest income after impairment charges	169.13	124.17	369.82	419.65	459.20	609.83	709.60
Non-Interest Income	78.21	496.57	675.25	372.87	429.68	497.49	578.56
Operating Income	247.34	630.01	1,045.07	792.52	888.88	1,107.31	1,288.16
OPEX	(161.59)	(226.37)	(439.28)	(513.08)	(606.19)	(726.12)	(882.38)
PBT	85.75	403.65	606.12	279.79	283.07	381.61	406.24
PAT	70.33	378.24	513.79	237.17	239.95	323.48	344.36

<b>Balance Sheet</b>	2022FY	H1:2023	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks	2,553.63	3,434.09	3,779.32	4,657.66	5,500.58	6,566.31	7,723.94
Loans and Advances to Banks and customers	3,440.13	4,682.66	5,075.21	5,575.90	6,124.31	6,723.07	7,377.42
Investment Securities	4,180.69	6,204.88	6,684.86	7,162.06	7,681.71	8,245.36	8,857.11
Property and Equipment	208.04	228.62	234.95	275.68	323.63	379.25	441.70
Other Assets	379.49	832.13	413.19	482.18	547.12	609.64	666.88
<b>Total Assets</b>	<b>10,761.98</b>	<b>15,382.38</b>	<b>16,187.53</b>	<b>18,153.48</b>	<b>20,177.36</b>	<b>22,523.64</b>	<b>25,067.04</b>
Deposits from Banks and Customers	8,995.13	12,603.17	14,041.14	15,999.91	17,896.55	20,057.03	22,371.75
Financial Liabilities	535.74	595.84	642.88	578.59	560.90	549.82	574.57
Other Liabilities	404.60	471.01	484.76	514.74	606.43	738.15	872.84
<b>Total Liabilities</b>	<b>9,935.47</b>	<b>13,670.02</b>	<b>15,168.78</b>	<b>17,093.24</b>	<b>19,063.88</b>	<b>21,344.99</b>	<b>23,819.15</b>
Shareholders' fund	826.51	1,712.36	1,018.75	1,060.24	1,113.48	1,178.64	1,247.89

<b>Financial Ratios</b>	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Asset Yield	8.00%	9.20%	7.63%	6.97%	6.95%	7.61%	7.91%
Cost of Funds	2.50%	2.80%	2.13%	1.98%	1.94%	1.92%	1.89%
Net Interest Margin	5.50%	6.00%	5.25%	4.64%	4.59%	5.22%	5.50%
Cost to Income Ratio	63.20%	28.90%	35.27%	51.86%	55.47%	55.10%	58.13%
Net Margin	18.90%	39.58%	32.06%	16.73%	15.29%	17.49%	16.32%
Return on Asset	0.78%	4.09%	3.81%	1.38%	1.25%	1.52%	1.45%
Return on Equity	8.92%	41.05%	52.95%	22.82%	22.08%	28.23%	28.38%
Earnings Per Share	1.98	10.95	15.02	6.93	7.02	9.46	10.07
Asset Turnover	0.04x	0.06x	0.12x	0.08x	0.08x	0.09x	0.09x
Financial Leverage	11.41x	8.89x	15.89x	17.12x	18.12x	19.11x	20.09x

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## Movements in Price Target

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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-Apr-2023	8.55	-	15.16	-	BUY
09-Oct-2023	17.20	15.16	21.26	BUY	BUY

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Company	Disclosure
United Bank for Africa Plc.	

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