

UBA's Performance Sustained by High-Yield Environment

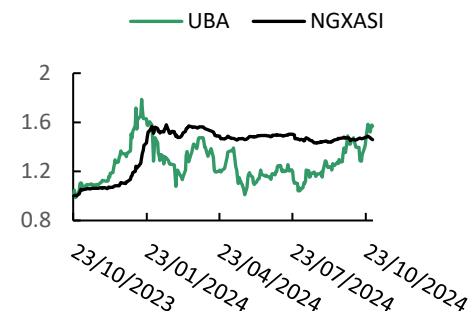
Robust Earnings Buoyed by Expansion in Earning Assets

The gross earnings of the United Bank of Africa (UBA) reached NGN2.40trn in 9M:2024, an 83.21% YoY increase from NGN1.31trn in 9M:2023. This was buoyed by a 170.15% growth in interest income, which accounts for c.75% of the gross earnings, reaching NGN1.80trn (vs NGN666.29bn in 9M:2023). The significant growth in interest income was fueled by a substantial increase in interest from loans and advances, as well as investment securities, as UBA capitalized on a high-yield environment. The bank's earning assets expanded by 100.02% to NGN30.12trn in 9M:2024, pushing asset yields up by 236bps to 7.96% (vs 5.60% in 9M:2023). However, non-interest income fell by 6.76% YoY to reach NGN599.11bn (vs NGN642.57bn in 9M:2023). This was driven by a significant decline in net fair value gain on derivatives to NGN243.38 (vs NGN339.96bn IN H1:2023) - offsetting the 671.20% growth in FX gains (NGN251.37bn vs NGN32.59bn in 9M:2023). Nevertheless, other non-interest line items including fees and commission income (+115.47% YoY to NGN392.84bn), fixed income securities (+68.51% YoY to NGN83.10bn), and other income (+146.76% YoY to NGN23.79bn) gained significantly. **We remain optimistic about the company's ability to continuously create value for its shareholders. Thus, we expect continued growth in investment and cash equivalent income, driving gross earnings to NGN3.09trn in 2024FY (vs NGN2.08trn in 2023FY).**

Sustained Profitability Despite Rising Costs

On the cost side, high-cost bearing term deposits soared by 217.78% YoY, leading to a lower CASA mix of 86.56% (vs. 97.65% in 9M:2023). This pressured the cost of funds (CoF) to 3.34% from 2.00% in 9M:2023. However, the 236bps increase in yield on assets to 7.96%, was sufficient to increase the net interest margin by 116bps YoY to 4.88%. As expected, given inflationary pressures and its attendant impact on cost, the group's operating expense (OPEX) increased by 118.97% YoY to NGN812.20bn (vs NGN370.91bn in 9M:2023). This increase was chiefly driven by employee benefits expenses (+102.88% YoY), fuel-related cost (+127.90% YoY), banking sector resolution cost (+71.87% YoY), contract services (+101.41% YoY) and occupancy and premises maintenance costs (+135.18% YoY). As a result, despite the level of income generation during the period, the cost-to-income ratio increased to 57.37% (vs 42.49% in 9M:2023). Consequent to good income generation, the group's profit after tax advanced by 16.92% to reach NGN525.31bn. More so, profitability ratios, measured by returns on average equity and assets came in lower at 25.49% and 2.85% (vs 38.98% and 3.94% in the previous period). **Despite the increased cost incurred by the company during the period, we expect its profit after tax (PAT) for 2024FY to reach NGN726.20bn.**

Company	UBA
Valuation	
Trailing EPS	19.99
BVPS	59.36
P/E	1.69x
P/BV	0.36x
Target PE	1.69x
Dec-2024 Exp. EPS	NGN21.23
Dec 2024 Target price	NGN35.90
Current Price	NGN29.80
Up/Downside Potential	+20.47%
Ratings	BUY
Key metrics	
ROE	31.27%
ROA	3.22%
Net margin	26.66%
Asset Turnover	0.12x
Leverage	9.71x
Yr Hi	NGN33.95
Yr Lo	NGN19.20
YTD return	+16.96%
Beta	0.91
Adjusted Beta	0.94
Shares outstanding	34.20bn
Market cap [NGN]	1,026.00bn
Free Float	87.02%
Financial year-end	December
Most Recent Period	9M:2024



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Focused Asset Expansion and Robust Liquidity Buffer

UBA has expanded its balance sheet by 95.87% to NGN31.80trn (vs NGN16.24trn in 9M:2023). This was buoyed by the growth in earning assets as it constitutes c.94% of the total assets. In 9M:2024, deposits from customers rose by 97.51% YoY to NGN22.97trn (vs NGN11.63trn in 9M:2023), while loans and advances to customers grew by 55.41% to NGN7.68trn (vs NGN4.94trn in 9M:2023). It is worth noting that the loan-to-deposit ratio declined to 29.40% (vs 37.82% in 9M:2023), which is significantly lower than the prudential guideline of 50.00%. This indicates a more conservative lending approach, with the bank possibly prioritizing liquidity and risk management over aggressive loan growth (as evinced by a 122.17% growth in Investment securities compared to 53.66% in loans and advances), potentially due to higher risk.

Recommendation

We valued **UBA** using a blend of Equity DCF, DDM, RIM, and Price multiples valuations, which led to an intrinsic value of NGN35.90 for the stock. This represents an upside potential of 20.47% relative to its closing price of NGN29.80 as of 31st October 2024. Thus, we recommend a **BUY** on the ticker.

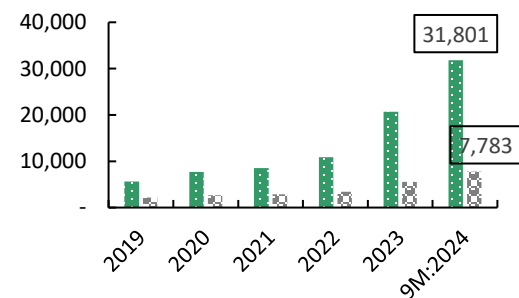
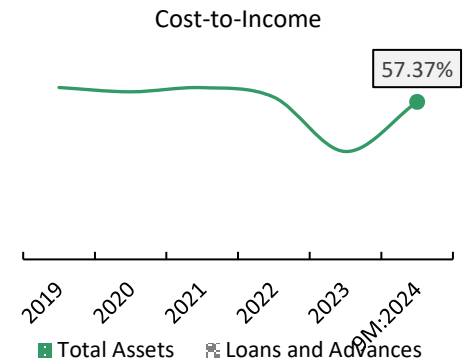
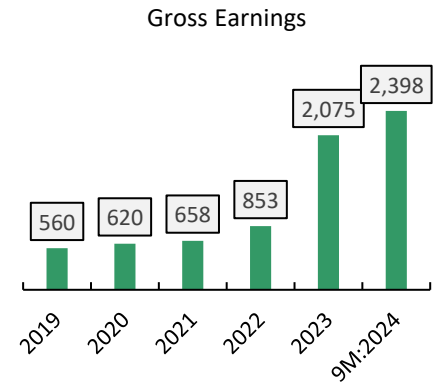


Chart 1: Valuation Summary

Methodology	Fair Value
FCFE	NGN34.70
Dividend Discount Model	NGN28.42
Relative Valuation	NGN47.07
Weighted Price Per Share	NGN35.90
Upside Potential	20.47%

Chart 2: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	24.69
EPS							Max	47.61
	35.90	20.73	20.98	21.23	21.48	21.73		
Target PE	1.19x	24.69	24.99	25.28	25.58	25.88		
	1.44x	29.87	30.23	30.59	30.95	31.31		
	1.69x	35.05	35.48	35.90	36.32	36.75		
	1.94x	40.24	40.72	41.21	41.69	42.18		
	2.19x	45.42	45.97	46.51	47.06	47.61		

Financial Forecasts (NGN billion)							
Profit & Loss Account	9M:2023	9M:2024	2024F	2025F	2026F	2027F	2028F
Gross Earnings	1,308.86	2,398.00	3,139.70	3,681.78	4,094.57	4,384.85	4,759.73
Interest Income	666.29	1,798.89	2,392.46	2,782.91	3,054.77	3,230.21	3,492.88
Interest Expense	223.21	695.57	891.67	947.24	1,032.15	1,065.62	1,110.50
Net Impairment Charges	144.62	123.48	300.44	366.54	421.52	458.17	496.63
Net Interest Income after impairment charges	298.46	979.84	1,200.34	1,469.13	1,601.10	1,706.42	1,885.74
Non-Interest Income	574.54	435.84	579.33	683.93	779.73	855.55	922.90
Operating Income	1,017.62	1,539.16	2,080.11	2,519.60	2,802.34	3,020.14	3,305.28
OPEX	370.91	812.20	894.06	1,066.50	1,217.15	1,347.65	1,474.79
PBT	502.09	603.48	885.61	1,086.56	1,163.68	1,214.32	1,333.86
PAT	449.30	525.31	726.20	890.98	954.21	995.75	1,093.76

Balance Sheet	9M:2023	9M:2024	2024F	2025F	2026F	2027F	2028F
Cash and Balances with Central Banks	4,039.00	9,108.23	9,589.98	10,451.18	11,602.23	12,358.17	12,357.85
Loans and Advances to Banks and Customers	5,065.13	7,782.84	8,462.92	10,341.20	12,439.74	14,670.18	17,293.12
Investment Securities	5,952.80	13,225.25	13,852.95	16,762.07	18,270.65	19,732.31	21,113.57
Property, Plant and Equipment	219.14	309.37	319.79	373.76	418.61	460.60	504.38
Other Assets	1,185.56	1,375.71	1,421.62	1,525.21	1,627.55	1,702.89	1,779.83
Total Assets	16,236.00	31,801.40	8,361.93	9,921.58	11,686.87	13,456.77	15,173.73
Deposit from Banks and Customers	13,391.64	26,449.49	28,072.77	32,350.02	36,048.49	39,412.37	42,252.16
Financial Liabilities	637.17	1,120.13	1,142.12	1,427.65	1,598.97	1,742.88	1,899.74
Other Liabilities	429.05	646.29	416.52	424.63	435.32	443.02	450.88
Total Liabilities	14,457.86	28,215.91	29,631.41	34,202.31	38,082.79	41,598.26	44,602.77
Shareholders' Fund	1,778.13	3,585.45	4,015.84	5,251.10	6,275.99	7,325.89	8,445.97

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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 of Africa

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
5-Jul-2024	22.60	-	25.62	-	BUY
31-Oct-2024	29.80	29.25	35.90	BUY	BUY

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Company	Disclosure
United Bank of Africa.	

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