

MERISTEM

UBA Rights Issue Note

Unlocking Growth Through
Strategic Capital Raising

UBA
United Bank for Africa

Transaction Highlights

Issuer	United Bank of Africa Plc (UBA)
Offering Type	Right Issue
Total Number of Shares on Offering	6.84bn ordinary shares of 50 kobo each
Offer Price Per Share	NGN35.00 Per Share
Amount to be Raised	NGN239.40bn
Offer Ratio	1 for every 5 held
Qualification Date	November 5 th , 2024
Opening Date	November 15 th , 2024
Closing Date	December 24 th , 2024
Use of Proceeds	To shore up the Bank's Capital for expanding its lending portfolio, invest in technology and digital transformation, expand and upgrade the business network across markets.

About the Issuer

United Bank for Africa

United Bank for Africa (**UBA**) is a leading financial institution with over 70 years of history and operations across 20 African countries, the UK, France, the USA, and the UAE. Serving over 45 million customers, **UBA** offers a wide range of banking services, supported by a robust network of business offices, ATMs, PoS terminals, and online platforms. Renowned for its expertise in sectors like Oil and Gas, Infrastructure Finance, Agriculture, and Commodities, **UBA** positions itself as a key partner for governments and corporates in Africa. Guided by its mission to create superior value and its vision to dominate Africa's financial services sector, **UBA** remains a role model for African businesses. Additionally, the Bank's innovative solutions, such as the AI-powered chatbot "Leo," and its commitment to facilitating cross-border trade have solidified its reputation as "Africa's Global Bank."



Strengths

- ❑ Pan-African Footprint
- ❑ Strong Brand and Legacy
- ❑ Diverse Service Offerings



Weaknesses

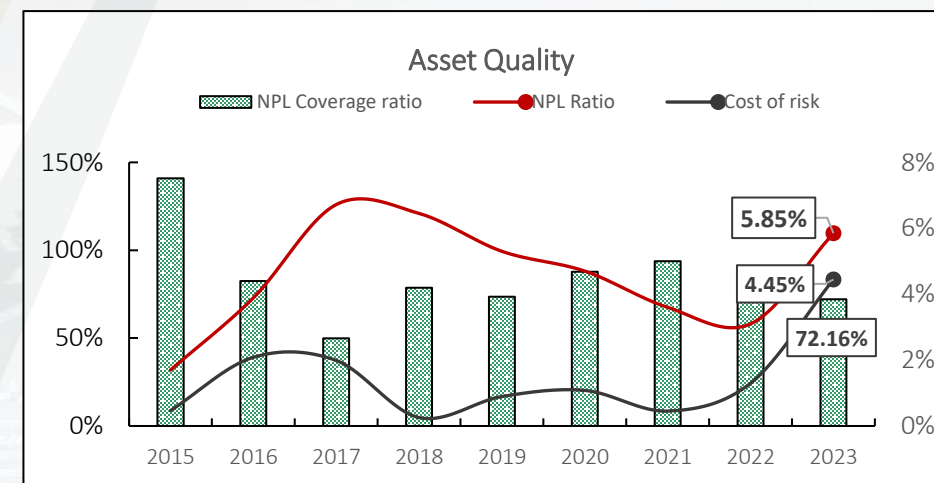
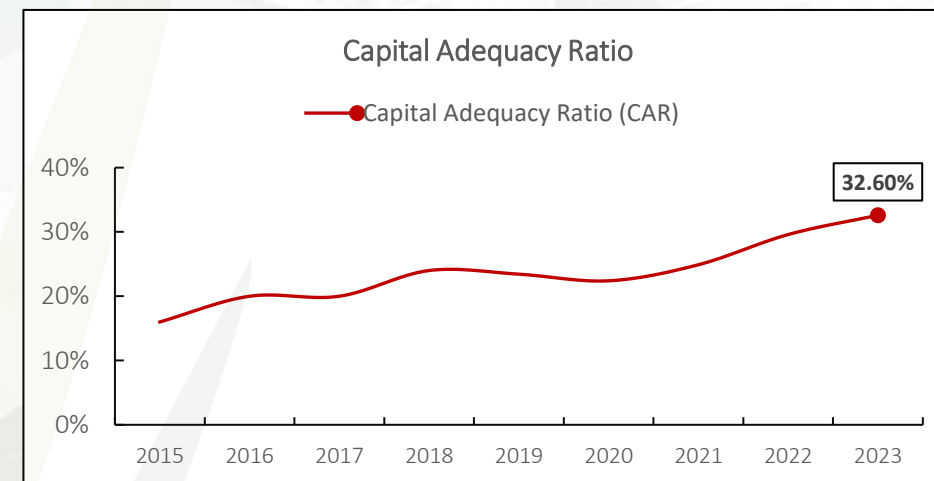
- ❑ Limited Diversification in Non-Banking Revenue
- ❑ Exposure to Foreign Exchange Volatility

Financial Performance

Over the past 5 years, **UBA** has grown its topline at a CAGR of 38.76% to NGN2.08bn in 2023FY. This was chiefly driven by an increase in interest income as it constitutes an average of 66.09% of the company's earnings over the period. This is supported by a 268.82% growth in earnings assets to capitalize on the high-yield environment. Additionally, non-interest income has also contributed to the growth – buoyed by increased fees and commission and trading income. Likewise in its latest financial release, **UBA** reported gross earnings of NGN2.40trn in 9M:2024, an 83.21% YoY increase from NGN1.31trn in 9M:2023.

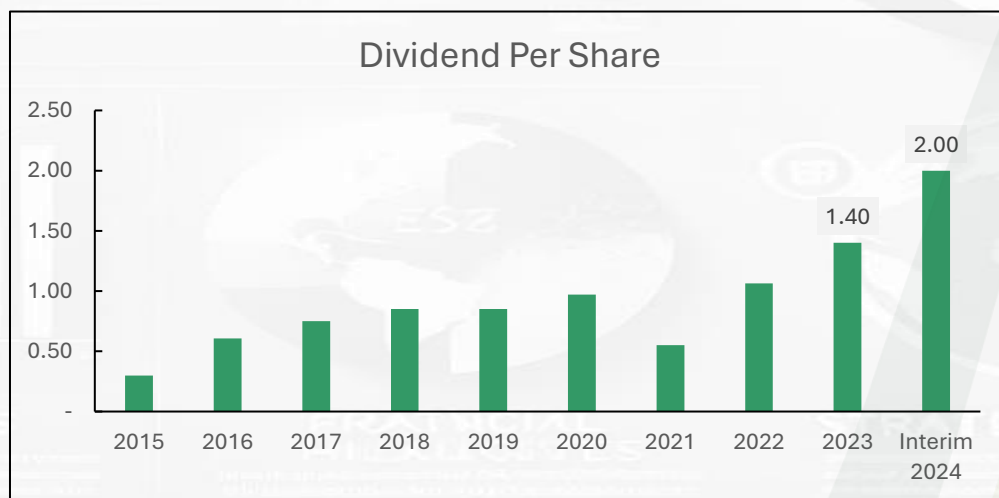
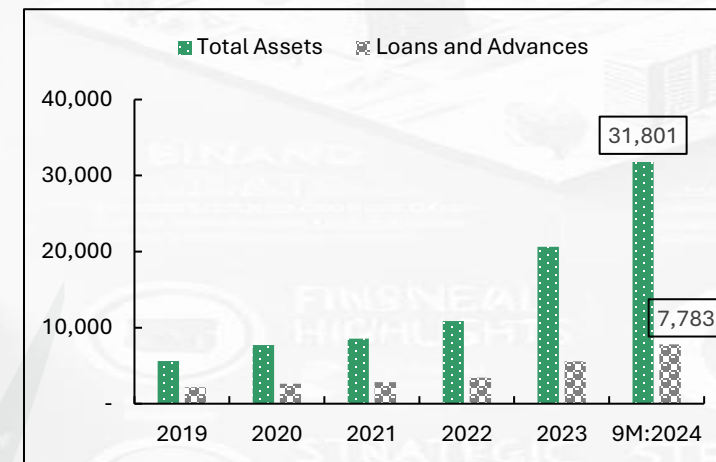
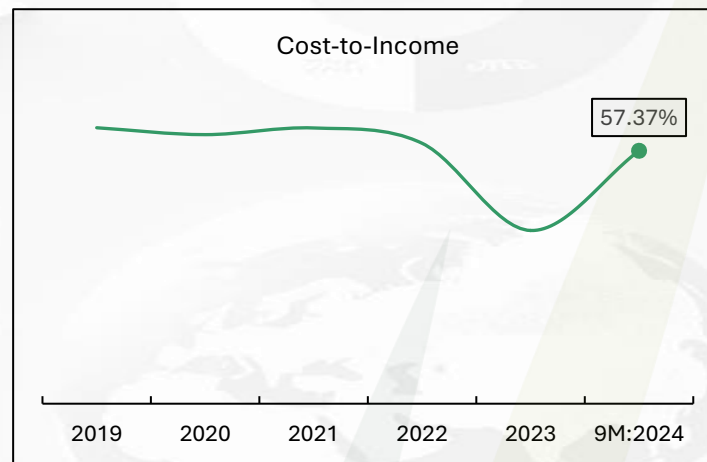
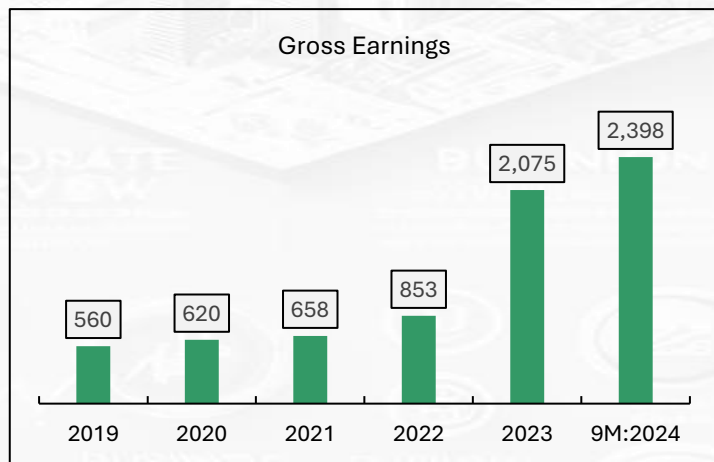
On the cost side, **UBA** saw a 217.78% YoY increase in high-cost term deposits, which reduced its CASA mix to 86.56% from 97.65% in 9M:2023. This pushed the cost of funds (CoF) up to 3.34% from 2.00%. Despite this, the 236bps increase in asset yields to 7.96% helped raise the net interest margin by 116bps YoY to 4.88%. Operating expenses (OPEX) surged by 118.97% YoY to NGN812.20bn, driven by higher employee benefits, fuel-related costs, banking sector resolution costs, contract services, and premises maintenance. As a result, the cost-to-income ratio increased to 57.37% from 42.49%. Nonetheless, **UBA's** profit after tax grew by 16.92% to NGN525.31bn.

Meanwhile, the bank has maintained an average Non-Performing Loan (NPL) ratio of 4.59% and a coverage ratio of 72.16% over the past 9 years. However, in its 2023 financial results, the bank's NPL ratio rose to 5.85%, surpassing the regulatory threshold of 5.00% (up from 3.10% in 2022FY). Additionally, the NPL coverage ratio decreased to 72.16% in 2023FY, compared to 78.24% in 2022FY. **UBA's** cost of risk increased to 4.45% in 2023FY from 1.30% in 2022FY, indicating the bank's growing exposure to risk



Source: Company Financials, Meristem Research

Performance Snapshot



Source: Company Financials, Meristem Research

Peer Comparison

Bank	Gross Earnings (NGN'bn)	Profit (NGN'bn)	Total Asset (NGN'bn)	Net Asset (NGN'bn)	Cost-to-Income Ratio (%)	P/E	P/B
ACCESSCORP	3,415.12	457.75	41,089.47	3,300.91	66.10%	0.69x	0.28x
ETI	2,938.98	491.88	44,456.19	2,707.08	56.09%	0.82x	0.17x
FBNH	2,251.73	526.28	27,493.04	2,595.83	52.58%	1.63x	0.38x
GTCO	1,798.24	1,085.00	15,615.84	2,632.74	29.66%	1.31x	0.63x
UBA	2,398.00	525.31	31,801.36	3,465.19	57.37%	1.40x	0.44x
ZENITHBANK	2,803.12	249.28	30,383.39	2,847.53	39.55%	1.27x	0.39x

Investment Thesis and Recommendation

The proposed fund-raising initiative by **UBA** presents a compelling opportunity for investors seeking exposure to a leading pan-African financial institution with a strong track record of profitability and resilience. The funds are strategically positioned to bolster UBA's capital adequacy, enhance liquidity, and drive growth in high-yield sectors like infrastructure finance, trade facilitation, and digital banking. Given the favourable macroeconomic backdrop of rising interest rates and **UBA's** proven ability to generate substantial interest income, this capital raise is poised to strengthen the bank's capacity to deliver superior returns while mitigating risks associated with regional economic volatilities.

UBA presents a compelling investment opportunity, driven by its robust earnings potential in the high-interest rate environment, diversified income streams, and extensive pan-African presence. The bank's focus on key sectors like infrastructure, oil and gas, and trade finance positions it for sustained growth, while its innovation in digital banking supports transaction volume and operational efficiency. Over the past five years, **UBA's** stock has grown by c.390%, demonstrating resilience despite swings caused by regulatory changes, macroeconomic volatility, and sector-specific challenges.

With consistent dividend payouts (typically twice a year) and opportunities for capital appreciation, **UBA** offers both income and growth potential, although investors should remain mindful of risks such as shareholding dilution and currency fluctuations. The bank's strategic focus on innovation, customer-centric solutions, and strengthening its non-interest revenue streams provide a solid foundation for long-term profitability and resilience.

Valuation Metrics

FCFE	NGN34.70
Relative Valuation	NGN47.07
Dividend Discount Model	NGN28.42
Fair Value	NGN37.08
Current Price	NGN32.35
Offer Price	NGN35.00
Upside Potential	14.62%

We therefore recommend subscribing to the rights issue, as the firm is positioned for growth through strategic asset allocation in a favourable high-yield environment and a strong focus on innovation. Additionally, the rights issue, priced at a 14.62% discount to our fair value, presents a compelling investment opportunity.

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