

November 3, 2022



Earnings Note

United Bank of Africa's recently released Q3 2022 numbers were of mixed directions. Gross earnings rose by 33% YoY in Q3 2022, driven by the rising interest rate environment. However, net profit grew by only 4% YoY to N45.71bn due to the high operating costs amid a rising inflationary environment.

## BUY

**Fair Value Estimate:**  
**N9.74**

**Total Return: +43%**

### Asset Repricing Spurs Interest Income

On average, interest-bearing assets (majorly consisting of the loan book and investment portfolio) grew by 13% YoY to an average of N7.29trn as of 9M 2022. The bulk of the increase was in 'Investment Securities', a move we think was strategic by the management given the significantly high-yield environment in the Group's Pan-African markets including Ghana. Investment securities portfolio grew by 18% YoY to an average of N3.31trn while the loan book grew modestly by 6% YoY to an average of N2.79trn as of 9M 2022. The growth in asset volumes and repricing of those assets spurred interest income growth of 35% YoY to N162.87bn in Q3 2022.

### Cost of Funds also Rises with Higher Interest Rates

In the same pattern, interest expense grew by 45% YoY to N57.82bn in Q3 2022 - representing the highest quarterly increase in the 2022 financial year thus far. Although interest-bearing liabilities grew, the increase was 13%, driven by customer deposits (+14% YoY) and deposits from banks (+48% YoY). The significant jump in interest expense in Q3 2022 highlighted the impact of higher interest rates on the economy.

### E-business Momentum Slows

Income from electronic banking declined by 6% to N11.63bn in Q3 2022 - the first decline in the 2022 financial year following a 24% YoY growth in Q2 2022 and a 21% YoY growth in Q1 2022. We are unsure of the reason for the decline, but we posit that competitive pressures might have played a role. We note that e-business income accounts for an average of 35% of the Group's total fee and commission income. Driven by other lines such as trade transaction fees and account maintenance fees, total fee and commission income grew by 13% YoY to N41.68bn in Q3 2022.

Trading gains grew by 41% YoY to N38.41bn while other income grew by 9% YoY. In summation, Operating income recorded a marked 22% YoY growth to N153.47bn in Q3 2022.

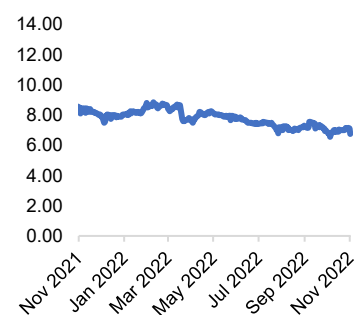
### High Business Running Costs Dampen Net Profit Growth

While the Group managed to keep personnel costs growth below operating income growth, other operating expenses spiked by 50% YoY, majorly driven by higher fuel and maintenance costs. Therefore, total operating expense increased by 38% YoY to N100.73bn, effectively translating to a 66% cost-to-income ratio in Q3 2022 (61% in Q3 2021). Profit before tax grew by 12% YoY, while profit after tax grew by 4% YoY due to a higher effective tax rate in Q3 2022.

#### Stock Data

Current price (N)	6.75
Shares Outstanding (mn)	34,199
Market Cap (N'mn)	230,846
52-week high (N)	8.85
52-week low (N)	6.55
Trailing EPS (N)	3.47
Forward EPS (N)	4.30
Forward PE (X)	1.57
Justified PE Multiple (X)	2.41

Price Movement



Stock Data	FY 2020	FY 2021	FY 2022F
P/E	2.03x	1.95x	1.57x
P/BV	0.32x	0.29x	0.24x
PBT Margin	21%	23%	24%
PAT Margin	18%	18%	18%
RoE	17%	16%	17%
Dividend Yield	8%	15%	15%

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## Quarterly Trend

UBA (N'mn)	Q3 2022	Q3 2021	Growth (%)	Q2 2022	Q2 2021	Growth (%)	Q1 2022	Q1 2021	Growth (%)
Gross earnings	235,931	177,028	33%	188,145	159,880	18%	183,902	155,446	18%
Net interest income	99,794	78,767	27%	88,447	71,578	24%	80,685	72,353	12%
Non-interest income	73,058	55,950	31%	55,860	45,839	22%	58,826	46,856	26%
Operating income	153,471	119,970	28%	125,634	103,689	21%	121,705	104,620	16%
Operating expense	(100,727)	(73,180)	38%	(84,259)	(68,379)	23%	(77,642)	(64,454)	20%
Profit after tax	45,708	44,016	4%	28,838	22,426	29%	41,496	38,155	9%
Earnings per share	N1.34	N1.29	4%	N0.84	N0.66	29%	N1.21	N1.12	9%

Source: Company Accounts, WSTC Research

## Financial Performance Trend

Income Statement (N'mn)	9M 2022	9M 2021	Growth (%)
<b>Gross earnings</b>	<b>607,978</b>	<b>492,354</b>	<b>23%</b>
<b>Interest income</b>	<b>420,234</b>	<b>343,709</b>	<b>22%</b>
Interest expense	(137,721)	(114,444)	20%
<b>Net interest income</b>	<b>282,513</b>	<b>229,265</b>	<b>23%</b>
Impairment charge for credit losses on financial assets	(13,587)	(6,567)	107%
<b>Net interest income after impairment on financial assets</b>	<b>268,926</b>	<b>222,698</b>	<b>21%</b>
<b>Non-interest income</b>	<b>187,744</b>	<b>148,645</b>	<b>26%</b>
Net fee and commission income	82,219	67,918	21%
Net trading and FX gain	38,409	27,329	41%
Other operating income	11,256	10,334	9%
<b>Operating income</b>	<b>400,810</b>	<b>328,279</b>	<b>22%</b>
Personnel expense	(80,769)	(66,492)	21%
Depreciation and amortization	(18,438)	(16,304)	13%
Other operating expenses	(163,421)	(123,217)	33%
<b>Operating expense</b>	<b>(262,628)</b>	<b>(206,013)</b>	<b>27%</b>
Share of gain of equity-accounted investee	311	1,088	-71%
<b>Profit before tax</b>	<b>138,493</b>	<b>123,354</b>	<b>12%</b>
Income tax	(22,451)	(18,757)	20%
<b>Profit after tax</b>	<b>116,042</b>	<b>104,597</b>	<b>11%</b>
Balance Sheet (N'mn)	9M 2022	9M 2021	Growth (%)
Cash & balances with CBN	1,982,022	1,750,176	13%
Loans and advances to banks	163,299	134,507	21%
Loans and advances to customers	3,049,368	2,872,143	6%
Investment securities	3,525,160	3,034,490	16%
Others	598,851	558,005	7%
<b>Total Assets</b>	<b>9,318,700</b>	<b>8,349,321</b>	<b>12%</b>
Deposits from customers	7,028,740	6,084,143	16%
Deposits from banks	782,533	552,027	42%
Borrowings	485,119	479,254	1%
Others	213,686	435,618	-51%
<b>Total Liabilities</b>	<b>8,510,078</b>	<b>7,551,042</b>	<b>13%</b>
<b>Net Assets</b>	<b>808,622</b>	<b>798,279</b>	<b>1%</b>

Source: Company Accounts, WSTC Research

**Outlook**

We revised our FY 2022 EPS estimate upwards to N4.30 (previous: 4.01) after incorporating the Q3 2022 numbers and adjusting for our expectations of improved net interest margins. However, we maintained a N1.00 dividend for FY 2022. Having previously declared a 20kobo interim dividend during the financial year, we expect the Group to declare an 80kobo final dividend.

Our valuation for the stock is N10.38, and the total upside based on the stock's price is 54%. We note that the stock's earnings yield is 64% - one of the highest in the banking industry. This underscores the stock's current cheap valuation. In our view, the lack of investor interest in the stock is not unconnected to a general waning interest in the Nigerian equities market due to weak macroeconomic policies and heightened regulatory risks in the banking industry. However, we believe that the fundamentals of the stock are strong, and the Group's geographical diversification positions it to capture significant value across the African ecosystem in the long run. We recommend a BUY.

## Financial Projections

Income Statement (N' mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Gross earnings	615,772	658,291	799,402	914,687	1,017,893	1,192,275	1,434,022
Interest income	427,862	474,262	560,728	649,920	737,518	874,041	1,080,484
Interest expense	(168,395)	(157,551)	(167,832)	(188,861)	(233,402)	(270,223)	(309,354)
Net interest income after impairment	232,458	303,848	365,873	433,504	477,079	570,310	734,868
Non-interest income	143,575	126,283	171,202	198,715	204,570	231,754	258,010
Net Operating Income	376,033	430,131	537,074	632,220	681,649	802,063	992,878
Net Operating Expenses	(249,847)	(278,986)	(344,754)	(368,472)	(401,975)	(450,220)	(505,589)
Profit before income tax	127,257	153,073	193,606	265,262	281,564	354,014	489,482
Profit for the period	109,162	118,678	147,141	201,599	213,989	269,050	372,006
EPS	3.19	3.47	4.30	5.89	6.26	7.87	10.88
DPS	0.52	1.00	1.00	1.20	1.56	1.97	2.72
Balance Sheet (N'mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash and cash balances	1,874,618	1,818,784	2,115,434	2,339,148	2,578,275	2,883,729	3,201,834
Loans and advances to banks	77,419	153,897	137,739	170,506	178,004	204,674	224,161
Loans and advances to customers	2,554,975	2,680,667	3,347,739	3,484,211	3,959,123	4,361,448	4,879,512
Investment securities	2,580,791	3,335,630	3,561,002	4,007,670	4,379,123	4,919,419	5,450,180
Property, plant, and equipment	153,191	178,117	199,958	219,319	242,714	270,922	301,110
Other assets	452,383	374,223	448,254	416,326	502,179	537,344	610,093
Total assets	7,693,377	8,541,318	9,810,126	10,637,181	11,839,418	13,177,536	14,666,890
Deposits from banks	418,157	654,211	642,301	755,596	808,080	917,729	1,011,259
Deposits from customers	5,676,011	6,369,189	7,276,516	7,911,014	8,793,424	9,793,793	10,897,083
Borrowings	694,355	455,772	490,506	549,734	601,919	675,485	748,749
Other liabilities	185,309	257,339	424,827	372,483	492,327	509,456	572,969
Total liabilities	6,973,832	7,736,511	8,834,150	9,588,827	10,695,750	11,896,463	13,230,059
Shareholder's Funds	724,148	804,807	975,976	1,048,354	1,143,669	1,281,073	1,436,831
BV/Share	21.17	23.53	28.54	30.65	33.44	37.46	42.01
Ratios	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Net margin	17.73%	18.03%	18.41%	22.04%	21.02%	22.57%	25.94%
RoE	16.51%	15.52%	16.53%	19.92%	19.52%	22.19%	27.37%
RoA	1.64%	1.46%	1.60%	1.97%	1.90%	2.15%	2.67%
Financial leverage	10.62x	10.61x	10.05x	10.15x	10.35x	10.29x	10.21x
Cost / Income	-66.44%	-64.86%	-64.19%	-58.28%	-58.97%	-56.13%	-50.92%
Loans / Deposit	45.01%	42.09%	46.01%	44.04%	45.02%	44.53%	44.78%

Source: Company Accounts, WSTC Research

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WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is  $\geq 15\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $15\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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