

UNITED BANK FOR AFRICA PLC

... Strong Earnings Performance Amid Rising Funding Costs



May 05, 2025



Earnings Note

Event

United Bank of Africa Plc (“the Group”) delivered a strong start to the year, with gross earnings up 34% and profit after tax rising 33% year-on-year. The Group benefited from higher asset yields and improved margins, despite a jump in funding and credit costs. Strong growth in non-interest income and disciplined cost management further supported earnings momentum.

Strong Growth in Interest Income, but Asset Mix Shifted.

Interest income rose by 36% to N599.83bn from N440.77bn in Q1 2024. This was driven by a 17% growth in income from loans and advances (N229.35bn vs N195.31bn) and a 44% spike in income from investment securities (N289.08bn vs N201.03bn). Notably, the contribution of interest income from loans to customer to total interest income declined to 38% from 44%, while investment securities’ share expanded to 48% from 46%. This reflects UBA’s growing preference for safer, higher-yielding government instruments amid elevated interest rates. Overall, asset yield improved to 11% from 9% in Q1 2024, supported by both the higher rate environment and a marginal 2% year-to-date growth in interest-earning assets to N21.32trn.

Rising Funding Costs, but Net Interest Margin Expanded.

Interest expenses surged by 77% year-on-year to N247.96bn (Q1 2024: N140.09bn), largely driven by higher costs on customer deposits (up 98% to N167.82bn) and payment on bank deposits (up 86% to N53.44bn). In our view, the steep jump in interest cost reflects the impact of tighter liquidity conditions in the financial system. Specifically, the CBN’s hawkish stance - including active OMO mop-ups and a high CRR regime - significantly drained system liquidity. In addition, strong government borrowing via high-yield FGN bonds and T-bills pulled funds away from banks, forcing them to offer higher rates to retain deposits. Additionally, a warm 4% year-to-date rise in interest-bearing liabilities to N22.91trn also contributed to the jump. Consequently, cost of funds rose to 4.33% from 2.78%. Despite funding pressure, UBA delivered a 17% growth in net interest income to N351.88bn, while net interest margin (NIM) expanded slowly to 6.93% from 6.65%, reflecting strong asset re-pricing benefits.

Higher Credit Provisions

Impairment charges spiked to N14.18bn from N3.28bn, mainly on the back of a higher allowance for credit losses of N18.61bn compared to N7.14bn in Q1 2024. This suggests a more cautious approach to loan loss provisioning.

Broad-Based Growth in Non-Interest Income.

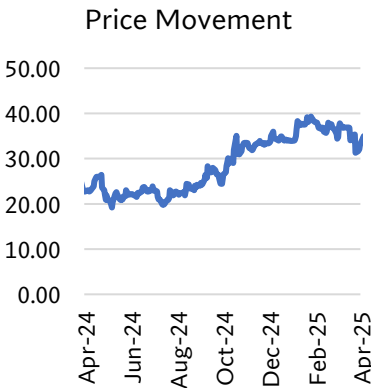
Non-interest income rose by 27% year-on-year to N164.48bn (Q1 2024: N129.39bn), led by a 9% rise in fee and commission income to N124.07bn. This growth was supported by jumps in credit-related fees, account maintenance charges, and electronic banking income. Trading income also surged by 211% to N37.04bn, driven largely by a N20.46bn contribution from fixed-income securities trading.

BUY

Fair Value Estimate:
N47.54

Total Return: +52%

Stock Data	
Current price (N)	34.80
Shares Outstanding (mn)	34,199
Market Cap (N'mn)	1,190,140
52-week high (N)	39.95
52-week low (N)	18.90
Trailing EPS (N)	22.41
Forward EPS (N)	27.28
Forward PE (X)	1.28
Justified PE Multiple (X)	1.74



Stock Data	FY 2023	FY 2024	FY 2025F
P/E	1.91x	1.52x	1.25x
P/BV	0.57x	0.34x	0.32x
PBT Margin	37%	25%	27%
PAT Margin	29%	24%	23%
RoE	41%	28%	26%
Dividend Yield	8%	9%	16%

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Disciplined Cost Management

Operating income rose by 20% year-on-year to N450.06bn, driven by strong growth in core banking activities. Meanwhile, total operating expenses grew at a slower pace of 12% year-on-year to N245.79bn, reflecting improved cost efficiency. The expense growth was mainly due to a 27% increase in employee benefit expenses, which rose to N84.32bn, likely due to salary adjustments and workforce expansion. Additionally, other operating expenses, including the AMCON levy and NDIC insurance premiums, rose modestly by 4%. As a result of this positive income-expense gap, cost-to-income ratio improved to 55%, compared to 58% in Q1 2024.

Bottom Line Stronger

UBA's profit before tax grew by 31% year-on-year to N204.27bn, while profit after tax expanded by 33% to N189.84bn. This growth was achieved despite a 4% increase in tax expenses to N14.42bn.

Outlook

Following the impressive Q1 2025 performance, we revise our gross earnings forecast upward to N3.98trn from N3.74trn. This adjustment reflects stronger expected income from investment securities and modest loan book expansion, supported by the elevated interest rate environment.

We maintain our earlier projections on non-interest income. Fee and commission income is expected to be the primary driver in 2025, as we anticipate limited upside from foreign exchange-related gains compared to last year.

On the cost side, operating expenses are expected to remain elevated, largely driven by regulatory charges (such as AMCON levy and deposit insurance premium) and higher employee costs. Nonetheless, we expect the Group to sustain a stable cost-to-income ratio around current levels, supported by strong revenue growth.

Following the Q1 2025 results, we adjusted our fair value estimate upward to N47.54 from N46.82. At current market prices, this implies a decent 52% total return (inclusive of 16% dividend yield), and we maintain our **BUY** position on the stock.

Q1 2025 Financial Performance

Income Statement (N'mn)	3M 2025	3M 2024	(%)
Gross earnings	764,312	570,158	34%
Interest income	599,834	440,764	36%
Interest expense	(247,957)	(140,088)	77%
Net interest income	351,877	300,676	17%
Impairment charge for credit losses on financial assets	(14,179)	(3,280)	332%
Net interest income after impairment on financial assets	337,698	297,396	14%
Non-interest income	164,478	129,394	27%
Fee and commission income	124,074	113,653	9%
Fee and commission expense	(52,119)	(51,481)	1%
Net fee and commission income	71,955	62,172	16%
Net trading and FX gain	37,035	11,901	211%
Other operating income	3,369	3,840	-12%
Operating income	450,057	375,309	20%
Personnel expense	(84,316)	(66,308)	27%
Depreciation and amortization	(12,927)	(10,061)	28%
Other operating expenses	(148,548)	(142,596)	4%
Operating expense	(245,791)	(218,965)	12%
Profit before tax	204,266	156,344	31%
Income tax	(14,422)	(13,760)	5%
Profit after tax	189,844	142,584	33%
Balance Sheet (N'mn)	3M 2025	3M 2024	(%)
Assets			
Cash & balances with CBN	9,542,270	7,739,441	23%
Loans and advances to banks	186,197	163,614	14%
Loans and advances to customers	6,827,044	7,293,616	-6%
Investment securities	13,129,940	8,495,674	55%
Others	2,027,282	1,677,077	21%
Total Assets	31,712,733	25,369,422	25%
Liabilities			
Deposits from customers	22,863,614	18,381,427	24%
Deposits from banks	3,782,952	2,768,024	37%
Borrowings	965,843	1,009,154	-4%
Others	425,233	599,158	-29%
Total Liabilities	28,037,642	22,757,763	23%
Net Assets	3,675,091	2,611,659	41%

Source: Company's Account, WSTC Research

Financial Projections

Income Statement (N' mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Gross earnings	2,075,386	3,186,880	3,980,396	4,203,505	4,870,767	5,536,599	6,044,707	6,745,942
Interest income	1,075,347	2,370,037	3,087,157	3,210,691	3,683,251	4,221,255	4,588,740	5,137,511
Interest expense	(367,807)	(839,250)	(1,225,887)	(1,315,665)	(1,442,963)	(1,728,106)	(1,890,198)	(2,072,197)
Net interest income after impairment	500,339	1,277,222	1,739,233	1,778,515	2,101,232	2,330,161	2,524,797	2,872,395
Non-interest income	881,785	582,845	633,397	716,100	862,825	942,270	1,046,529	1,160,602
Net Operating Income	1,382,124	1,860,067	2,372,630	2,494,615	2,964,057	3,272,431	3,571,326	4,032,997
Net Operating Expenses	(625,013)	(1,056,341)	(1,287,549)	(1,314,756)	(1,588,210)	(1,778,998)	(2,011,228)	(2,194,261)
Profit before income tax	757,111	803,726	1,085,081	1,180,137	1,375,930	1,493,547	1,560,256	1,838,954
Profit for the period	607,127	766,568	932,938	970,540	1,135,856	1,248,456	1,291,796	1,525,937
EPS	17.75	22.41	27.28	28.38	33.21	36.51	37.77	44.62
DPS	2.80	5.00	5.46	5.82	7.31	8.03	8.50	10.04
Balance Sheet (N'mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Cash and cash balances	6,069,496	8,163,668	9,133,146	10,163,546	12,135,710	13,077,565	14,520,233	15,833,922
Loans and advances to banks	320,732	556,072	299,831	683,494	607,167	781,783	805,881	923,507
Loans and advances to customers	5,228,848	6,954,545	8,150,854	8,992,892	10,784,213	12,076,718	13,477,552	15,020,320
Investment securities	7,407,991	12,534,505	14,680,187	16,202,476	19,426,445	21,297,869	23,717,891	26,130,832
Property, plant, and equipment	267,146	416,623	465,036	525,783	622,861	686,989	762,750	841,614
Other assets	1,358,980	1,697,942	2,138,824	2,268,756	2,775,512	3,012,633	3,371,817	3,705,563
Total assets	20,653,193	30,323,355	34,867,880	38,836,947	46,351,909	50,933,558	56,656,124	62,455,758
Deposits from banks	2,464,444	2,756,472	3,900,530	3,937,457	4,942,279	5,297,331	5,966,736	6,536,609
Deposits from customers	14,891,277	21,894,688	25,158,154	28,031,897	33,450,141	36,759,778	40,888,055	45,074,582
Borrowings	858,739	1,394,796	1,526,802	1,743,500	2,055,267	2,272,485	2,519,984	2,782,255
Other liabilities	408,542	858,760	603,156	1,225,976	1,072,851	1,219,489	1,391,394	1,593,782
Total liabilities	18,623,002	26,904,716	31,188,642	34,938,829	41,520,539	45,549,083	50,766,170	55,987,229
Shareholder's Funds	2,030,195	3,418,639	3,679,238	3,898,118	4,831,370	5,384,475	5,889,954	6,468,529
BV/Share	59.36	99.96	107.58	113.98	141.27	157.44	172.22	189.14
Ratios	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Net margin	29.25%	24.05%	23.44%	23.09%	23.32%	22.55%	21.37%	22.62%
RoE	41.13%	28.14%	26.29%	25.62%	26.02%	24.44%	22.92%	24.69%
RoA	3.85%	3.01%	2.86%	2.63%	2.67%	2.57%	2.40%	2.56%
Financial leverage	10.17x	8.87x	9.48x	9.96x	9.59x	9.46x	9.62x	9.66x
Cost / Income	-45.22%	-56.79%	-54.27%	-52.70%	-53.58%	-54.36%	-56.32%	-54.41%
Loans / Deposit	35.11%	31.76%	32.40%	32.08%	32.24%	32.85%	32.96%	33.32%

Source: Company Accounts, WSTC Research



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