

United Bank for Africa Plc.

First Glance: Positive Q1-2018 performance in line with Tier 1 peers, buoyed by strong NIR and lower impairment charges.

United Bank for Africa plc released results for Q1 2018, showing growth in Gross earnings (+17.89%), PBT (+4.26% y/y), and PAT (+6.20%), from the previous year, to NGN119.37 billion, NGN26.56 billion, and NGN23.74 billion respectively. Quarter-on-quarter, however, Gross earnings and PAT were lower by 6.49% and 1.43%, while PAT was 34.33% higher, following a significantly favourable ETR of 10.62% in the quarter, against high base of 34.41% in Q4-2017.

Interest income (+17.68% y/y, +3.16% q/q) posted solid growth in the quarter to NGN90.33 billion, following a 78.62% growth in interest income via cash and bank balances -- comprising money market placements and unrestricted balances with CBN which grew 55% and 49.72% respectively -- as well as a 4.9x surge in interest earned on loans to banks (NGN948 billion). Interests earned on customer loans (which makes up 56.03% of total interest income) also increased by 4.12% y/y. Notably, interest earned on T-bills and bonds improved by 38.69% y/y and 33.50% y/y respectively. Meanwhile, our computed annualized yield on asset dipped 64 bps to 11.18%, from 11.82% as at FY-2017.

Interest expense increased at a faster pace than interest income by 46.10% y/y (+14.12% q/q) to NGN36.78 billion. This was largely attributable to the 55.14% upturn in interest paid on customer deposits (which constitutes 65.57% of total interest expense: NGN24.12 billion), and the 87.12% increase in interest paid on borrowings (NGN7.66 billion). Funding cost, on an annualized basis, inched 2 bp higher to 3.72% in the quarter, from 3.70% in FY2017. The dip in asset yield, coupled with the increase in the cost of fund, translated to a 70 bps drop in the NIM to 6.91%, from 7.61% in FY-2017.

NIR, against similar period in the previous year, posted 14.41% positive growth, while it declined by 30.09% q/q to NGN24.00 billion. Growth in net fee and commission income (making up the largest chunk of NIR: 62.48%) grew by 15.40% y/y (-22.28% q/q) to NGN15 billion and coupled with the 859.07% y/y (+408.50% q/q) surge in other income, muted the 13.09% y/y (-53.85% q/q) decline in other income to NGN2.27 billion.

Impairment charges, as has been the case in tier 1 banks' Q1-18 result released so far (GUARANTY: -51.96% y/y to NGN1.64 billion; Zenith: -42.01% y/y to NGN4.57 billion), plunged by 53.14% y/y to NGN1.45 billion in the quarter, against expectation of increased provisions, following implementation of IFRS 9. Total loans and advances also came lower by 1.55% to NGN1.65 trillion, from NGN1.67 trillion in FY-2017. This is also similar to the recent tier 1 bank releases (GUARANTY: -6.55% to NGN1.35 trillion; Zenith: -16.35% to NGN1.78 trillion). Accordingly, the cost of risk was 7 bps lower than in FY2017 to 1.94%.

Total operating expenses increased by 12.85% y/y (+15.77%) to NGN49.68 billion, following the uptick in other operating expenses (17.37% y/y, +30.11% q/q) and depreciation and amortization (+18.85% y/y, +4.26% q/q) to NGN29.36 billion and NGN2.79 billion respectively. As a result, cost-to-income ratio increased by 630 bps to 64.06%.

HOLD

Target Price (N)*	10.14
Current Price (N)	11.25
Implied Return (%)	-9.87

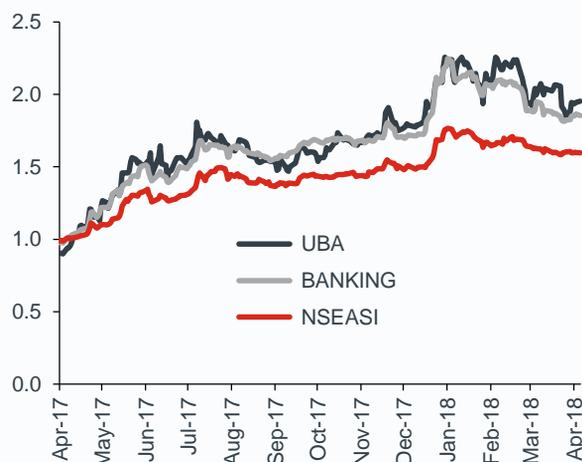
Company Data

NSE Code	UBA
Bloomberg Code	UBA:NL
Reuters Code	UBA.LG
Sector	FINANCIAL SERVICES
Market Cap. (N'bn)	384.74
Free Float (%)	93.8

Ratios	Q1-2018**	2017FY
EPS	2.17	2.20
P/E	5.31	5.10
P/BVPS	0.85	0.77
Earnings yield	0.19	0.20
RoAA	2.08%	1.91%
RoAE	16.08%	14.99%
Cost to income	57.76%	64.06%
Asset Yield	11.94%	11.18%
Costs of Funds	3.70%	3.72%
NIM	7.61%	6.91%
Costs of Risk	2.01%	1.94%
LTD Ratio	58.29%	57.38%

*Under Review **Annualised

Price movement (UBA vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

In its implementation of IFRS 9, UBA deducted NGN34 billion (vs. NGN138.13 billion by Zenith and NGN82.15 billion by GUARANTY) from its retained earnings as at beginning of the year. However, the effect was muted following a transfer of same sum from regulatory credit risk reserve to the retained earnings.

Overall, UBA's performance over Q1-18 is impressive in our view, and is in line with those of the recently published Tier-1 peers. We expect positive reaction to the result. UBA's share price (NGN11.25) currently trades at a 9.99% premium to our TP of NGN10.14, as at the last review. Our estimates are under review.

Highlight (N'Mn)	Q1'2018	Q1'2017	Y/Y	Q4'2017	Q/Q
Gross earnings	119,366	101,249	17.89%	127,652	-6.49%
Interest income	90,333	76,764	17.68%	87,565	3.16%
Interest expense	-36,780	-25,175	46.10%	-32,230	14.12%
Net interest income	53,553	51,589	3.81%	55,335	-3.22%
Net fee and commission income	14,996	12,995	15.40%	19,295	-22.28%
Net trading income	6,732	7,746	-13.09%	14,588	-53.85%
Other income	2,273	237	859.07%	447	408.50%
Non-interest income	24,001	20,978	14.41%	34,330	-30.09%
Total Operating Income	77,554	72,567	6.87%	89,665	-13.51%
Loan impairment charges	-1,454	-3,103	-53.14%	-19,986	-92.72%
Total Operating Expenses	-49,679	-44,023	12.85%	-42,911	15.77%
Profit before Income tax	26,555	25,470	4.26%	26,939	-1.43%
Income tax expense	-2,819	-3,120	-9.65%	-9,269	-69.59%
Profit after Tax	23,736	22,350	6.20%	17,670	34.33%

Disclosures.

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