



# United Bank for Africa FY 2020 21 May 2021



MPR: 11.50%  
APR '21 Inflation Rate: 18.12%  
Q1 '21 GDP: 0.51%

TICKER: UBA  
Sector: Banking  
Price as at 21 May 2021: NGN7.25  
Target Price: NGN9.50

Upside Potential: 31.03%  
Performance Rating: BB (Historical Long-term average rating is BB)  
Recommendation: BUY  
Suggested Entry Price: NGN6.50 – NGN7.50

Financial Summary (N'Bn)	FY 2020	FY 2019	Y-o-Y%Δ
Gross Earnings	620.38	559.81	10.82%
Interest Income	427.86	404.83	5.69%
Operating Cost	249.85	217.17	15.05%
PAT	113.77	89.09	27.70%
Total Loans	2,632.39	2,169.36	21.34%
Deposits	6,094.17	4,099.95	48.64%
Total Assets	7,697.98	5,620.91	36.95%
Shareholders' Fund	695.07	578.57	20.13%

Source: Company Financials, Cowry Research

Ratios derived from unadjusted figures presented in financial statements

Financial Ratios	FY 2020	FY 2019	Industry Average
Cost of interest-bearing liabilities	2.17%	2.76%	2.47%
Cost to Income ratio	64.08%	67.42%	70.86%
Cost of Risk ratio	1.25%	1.03%	1.69%
Loan to Deposit	38.27%	43.20%	53.48%
Net Interest Margin	10.37%	9.86%	9.26%
Yield on Interest Earning Assets	15.74%	16.25%	13.80%
Debt to Capital	46.33%	49.97%	152.60%
Return on Equity	19.92%	16.37%	12.54%
Return on Total Assets	1.58%	1.48%	1.35%

Source: Company Financials, Cowry Research

Investment Ratios	FY 2020	Industry Average
EPS	3.33	2.69
F' EPS	3.33	2.69
NAV	20.32	17.66
PER	2.21	3.85
Weighted PER	0.16	4.00
P/B	0.36	0.55
Total Dividend yield at suggested entry price	7.43%	

Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value per share; PER – Price to Earnings; P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months

In FY 2020, UBA's performance score was 73.08% in its industry (for which we assigned a "BB" performance rating); and given its consistent positive performance with a long-term average rating of "BB" as well as an upside potential of 29.25% on its share price, we recommend a "BUY".

## UBA Sustains Positive Performance for the 7th Consecutive Year

UBA's financial performance in FY 2020 was quite impressive given the recorded increase in all its income lines. The bank which continues to position itself as a leading Pan-African bank, successfully grew its profit after tax (PAT) for the seventh consecutive year. Specifically, United Bank for Africa ("UBA" or "the Bank") grew its gross earnings year-on-year (y-o-y) by 10.82% to N620.38 billion in FY 2020. Also, its interest income increased y-o-y by 10.82% to N427.86 billion in 2020, from N404.83 billion in 2019 amid increasing loans to customers. Notably, net interest income which rose by 16.94% y-o-y to N259.47 billion in FY 2020 from N221.88 billion in FY 2019, was supported by a 7.96% y-o-y decline in interest expense – despite the significant rise in customer deposit base – to N168.40 billion amid low yield environment. Perusing the non-interest income figures, we saw net fee and commission income rise y-o-y by 3.25% to N82.6 billion even as net trading and foreign exchange income increased y-o-y by 57.96% to N59.45 billion in FY 2020. On the cost side, operating expenses surged by 15.05% to N249.85 billion due to higher staff costs and maintenance costs. Nonetheless, with the all-round increase in the income lines (which drove cost to income ratio lower to 64.08% from 67.42%) and under-tax provision (which eased to N18.09 billion, from N22.20 billion despite the recorded rise in Profit Before Tax), profit after tax ballooned y-o-y by 27.70% to N113.77 billion in FY 2020.

## UBA Takes Conservative Stance on Dividend Payout in 2021...

In an unexpected move UBA lowered its cash reward to investors as it reduced the total dividend payout by almost 50% to N0.52k in FY 2020 from N1.00k which it paid in FY 2019. The conservative dividend payout was despite the positive performance it printed in the year under review. According to the bank, Management took a conservative approach to retain cash in order to further strengthen its capacity to deliver better returns amid COVID-19 pandemic uncertainties.

## Increased Deposits Driven by CASA, Results in Low Cost of Funds

Notably, UBA's total liabilities continued to soar at relatively cheaper rate as more deposits flowed into its Current and Savings Accounts (CASA). CASA, as opposed to Term deposits is usually associated with relatively low interest expense. Specifically, Customers deposits rose by 48.09% y-o-y to N5.68 trillion as CASA, which constitutes 67.41% of the customers deposits, increased to N3.83 trillion in the review period. Hence, the bank's cost of funds came significantly lower at 2.9% in FY 2020 from 4.0% in FY 2019 despite the significant rise in deposits. The bank's total funding mix rose by 36.95% y-o-y to N7.69 trillion from N5.62 trillion it printed in FY 2019. Of the total assets, N2.55 trillion (or 33.19% of total assets) was allocated to risk assets (Loan and Advances) – higher than N2.06 trillion (36.67%) as at FY 2019 – which translates to a loan to deposit ratio of 38.27% for the bank, down from 43.20%, as it was less aggressive on giving out loans to customers despite growing its deposit base. Cost of risk rose to 1.25% in 2020 from 1.03% in 2019. Given the lower risk assets, NPL ratio fell to 4.70% in 2020, below regulatory requirement of 5%, from 5.30% in 2019. Also, given the lower loan to deposit ratio, we saw more assets sterilized in CBN's vault as "mandatory reserve deposits with the central bank". This amount increased by 32.53% y-o-y to N1.10 trillion in 2020 from N832.11 billion in 2019.

## Strong Balance Sheet Supporting Good Returns to Shareholders...

UBA's return on average equity stood at 19.92% in FY 2020, rising from 16.37% in FY 2019 as incomes from investment securities as well as term loans advanced to individuals and corporates grew in the review year. UBA significantly increased its assets in investment securities by 64.21% to N2.58 trillion in FY 2020, from N1.57 trillion in FY 2019. As the bank continued to maximize wealth for its shareholders, the net asset value (NAV) jumped to N20.32 from N16.92 in 2019 even as its capital adequacy ratio (CAR) stood at 22.4%, well above regulatory requirement of 15%.

## Efficient Operations Outside Nigeria Boost Profitability...

UBA was able to increase its profitability given its growing operations across African countries, it now operates in 20 African countries including United Kingdom and United States. Specifically, revenue from the Rest of Africa subsidiaries rose by 39.57% to N232.06 billion (constituting 37.41% of the group's gross income) from N166.27 billion in 2019. Given its relatively efficient operations in Rest of Africa, profit from this space rose y-o-y by 43.58% to N59.28 billion (constituting 52.10% of the group's profit after tax).

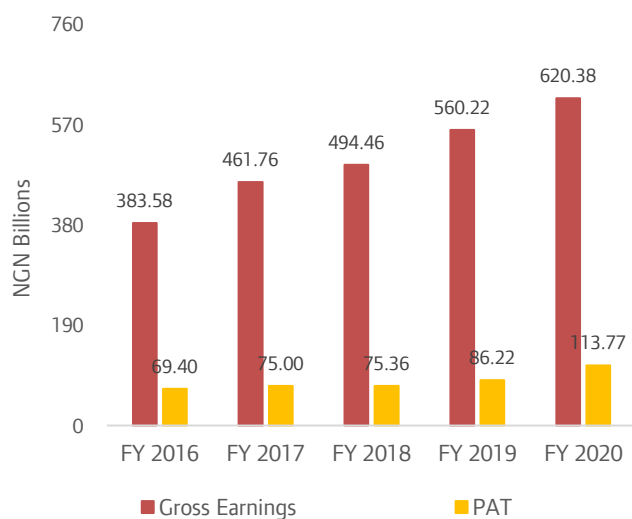
## UBA's Net Long Position Reduces its Risk on Foreign Currency...

As UBA further widens its reach in the Africa continent, more of its funds get exposed to foreign currency volatility, especially the third currency US dollars. Hence, the need to hedge against this risk. A breakdown from the bank's books showed that its exposure to depreciation of the Naira against the USD is minimized given its net long position which stood at USD 671.90 million (including SWAP & Forward Contracts worth USD 500.41 million).

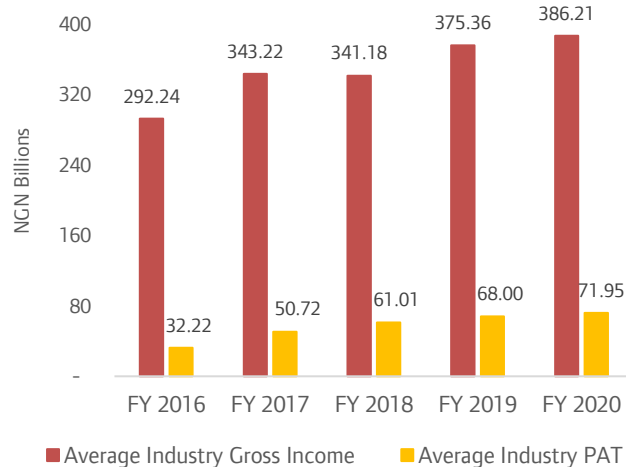
## Our Expectation...

We expect UBA's positive performance to be sustained in FY 2021 amid relatively high yield environment and rising contribution from the Rest of Africa amid operational efficiency. Also, e-banking income is expected to increase as the new normal work practice propels electronic transactions. Ultimately, we expect an increase in dividend payout in FY 2021.

### UBA Gross Earnings & PAT



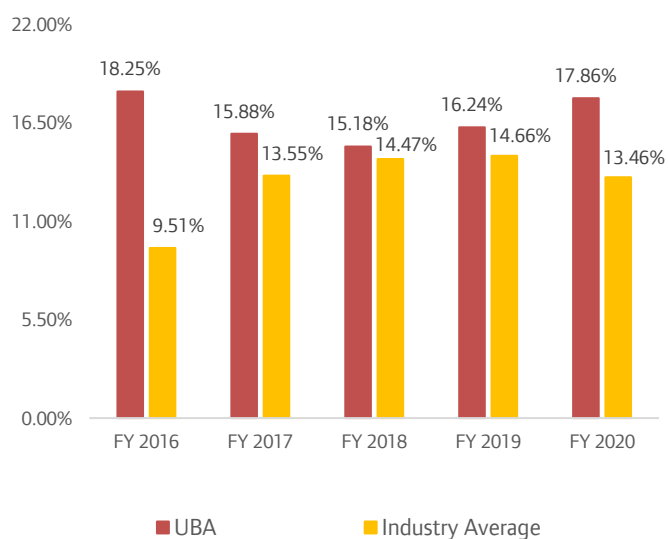
### FY Banking Industry Averages



### UBA vs NSE ASI



### Industry Average Historical Returns on Equity



Source: Company Financial Reports, Cowry Research



## IMPORTANT DISCLOSURES:

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Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' <b>Excellent</b> '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' <b>Investment Grade</b> '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' <b>Acceptable</b> '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' <b>Not Acceptable</b> '; scores below industry average

Analyst Recommendation (AR)	Meaning
BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X > 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: $364\text{-day T-Bill Rate} < X$
HOLD	PR is a 'Bb' and Security's Upside Potential is X: $X$ is positive and $\leq 364\text{-day T-Bill Rate}$
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued