

UBA FY 2019 results

Solid with suggestion of improvement

- UBA published audited FY 2019 results yesterday. Numbers were in line with our and consensus estimates.
- Net Profits were up 13.3% y/y to N89.1bn (US\$247.5m). Net fee and commissions were up 22.2% y/y.
- UBA proposes a total dividend of N1.0/s which (inclusive of an earlier interim dividend of N0.20/s) translates to a total gross dividend yield of 15.50% (the current 1-year T-bill yield is 5.63%).
- We maintain our Buy recommendation on the stock.

Highlights:

Net Interest Income rose by 7.9% y/y. The Net Interest Margin contracted by 49bps y/y, due to elevated interest expenses, which were up 16.3% y/y.

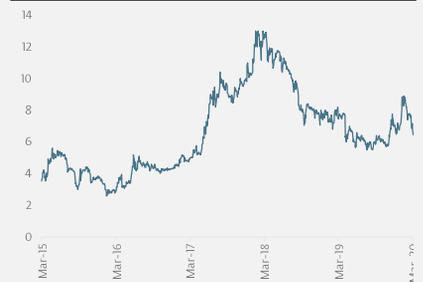
Non-interest income grew by 23.1% y/y driven by 22.2% y/y growth in income from fees and commissions and 24.5% y/y growth in other income. Increased penetration of digital banking offerings, credit expansion and remittances were responsible for this growth.

The cost-to-income ratio declined from 64.0% in FY 2018 to 62.7% in FY 2019, due to cost control measures which kept operating expenses growth low (up 10.0% y/y vs inflation which averaged 11.39% in 2019).

Rating	Buy
Price (N)	6.45
Price target (N)	11.50
Up/downside potential	78.3%
Market cap (Nbn/US\$m)	246/ 683
Bloomberg	UBA:NL
Free float	69.6%

Priced at 02 March 2020

Share price performance (N)



Source: Bloomberg, Coronation Research

Key Contact

Head of Research
Guy Czartoryski
gczartoryski@coronationmb.com

UBA FY 2019 results

Naira millions	FY 2018	FY 2019	y/y %	Q4 18	Q4 19	q/q %
Interest and similar inc	362,922	404,830	11.5%	93,985	106,927	13.77%
Interest and similar exp	(157,276)	(182,955)	16.3%	(39,037)	(43,966)	12.63%
Net Int Income	205,646	221,875	7.9%	54,948	62,961	14.58%
Net Fee & Commission Income	65,446	80,004	22.2%	14,916	16,710	12.03%
Net trading and foreign exchange income	31,675	37,627	18.8%	(726)	1,907	-362.67%
Other Income	5,451	6,787	24.5%	716	(1,279)	-278.63%
Total Op Inc.	308,218	346,293	12.4%	69,854	80,299	14.95%
Opex	(197,342)	(217,167)	10.0%	(48,257)	(55,546)	15.10%
Cost to inc ratio ex prov.	64.0%	62.7%	-131bps	69%	69%	9bps
Operating income	110,876	129,126	16.5%	21,597	24,753	14.61%
Loan losses	(4,529)	(18,252)	303.0%	6,145	(11,589)	288.59%
Share of profit in investee	419	413	-1.4%	(87)	(110)	26.44%
Cost of risk (COR)	0.30%	0.90%	60bps	na	na	na
Profit before tax	106,766	111,287	4.2%	27,655.00	13,054	-52.80%
Tax	(28,159)	(22,198)	-21.17%	(10,746)	(5,593)	-47.95%
Net Profits	78,607	89,089	13.3%	16,909	7,461	-55.9%

Source: Company, Coronation Research

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Asset quality deteriorated during the period, especially in Q4. We saw regulatory-induced loan growth of 20.2% y/y, which was accompanied by a significant increase (303.0% y/y) in impairment provisions from N4.5bn in FY 2018 to N18.3bn in FY 2019.

UBA produced a 16.2% return on equity (RoAE) and a 1.7% return on assets (RoA) for FY 2019. The RoAA was flat y/y, while the RoE improved by 10bps.

Q4 2019 showed some interesting developments. Net interest income rose sharply, by 14.58% y/y, with interest and similar income up 13.77% y/y. This suggests that UBA is adapting well to falling interest rates (T-bill rates were 14.63% in mid-October and are 5.63% now. This contrast with Zeniths Bank Q4 2019 Net Interest Income which was down 21.90% y/y. UBA's performance augurs well for 2020, if this can be sustained.

We have a target price of N11.5/s for UBA and given the potential upside relative to current price of N6.45/s, we maintain our Buy rating.

UBA: forecasts

[Back to Top](#) ↑

Income statement Nm	2014	2015	2016	2017	2018	2019e	2020f	2021f
Net Interest Income	106,133	133,599	165,200	207,632	205,646	221,875	243,687	259,830
Net Fee and Commission Income	47,966	53,335	59,211	65,970	65,446	80,004	102,027	127,033
Other Income	86,322	76,658	105,689	118,933	102,572	124,418	170,434	207,983
Loan loss & other provision	(6,578)	(5,053)	(27,683)	(32,895)	(4,529)	(18,252)	(15,713)	(23,787)
Operating expenses	(129,686)	(136,640)	(152,501)	(188,610)	(197,342)	(217,167)	(228,215)	(241,127)
Pretax profits	56,200	68,454	90,642	105,264	106,766	111,287	170,193	202,899
Effective tax rate	15%	13%	20%	25%	26%	20%	20%	20%
Net Profits	47,907	59,654	72,264	78,590	78,607	89,089	136,155	162,319
EPS (reported)	1.56	1.79	1.99	2.17	2.30	2.61	3.98	4.75
DPS	0.10	0.60	0.60	0.65	0.80	1.00	1.25	1.50
Payout ratio	6%	34%	30%	30%	35%	38%	31%	32%
Weighted Ave. Share Count	32,981	35,455	36,280	36,280	34,199	34,199	34,199	34,199

Statement of financial position

Cash and balances with CBN	812,359	655,371	760,930	898,083	1,220,596	1,396,228	2,161,553	2,677,088
Loans and advances to Bank	48,093	14,600	22,765	20,640	15,797	108,211	16,241	16,463
Loans and advances to Customers	1,071,859	1,036,637	1,505,319	1,650,891	1,715,285	2,061,147	2,019,234	2,200,965
Investment securities	657,523	856,870	970,392	1,216,053	1,637,132	1,571,550	1,405,132	1,293,132
Fixed assets (PP&E)	89,517	88,825	93,932	107,636	115,973	128,499	111,908	106,577
Other assets	83,222	100,319	151,132	176,171	164,955	338,417	178,315	184,997
Total assets	2,762,573	2,752,622	3,504,470	4,069,474	4,869,738	5,604,052	5,892,383	6,479,221
Customer deposits	2,169,663	2,081,704	2,485,610	2,733,348	3,349,120	3,832,884	3,362,530	3,369,255
Other liabilities	123,737	116,278	219,690	231,034	295,699	375,177	318,268	330,230
Taxation	4,615	6,488	5,134	7,668	8,892	9,164	8,914	8,925
Deferred taxation	40	15	62	40	28	119	48	58
Long term liabilities/borrowings	199,112	215,516	345,905	567,950	713,391	788,730	1,531,932	1,988,392
Total liabilities	2,497,167	2,420,001	3,056,401	3,540,040	4,367,130	5,006,074	5,221,692	5,696,859
Shareholders' Funds	259,930	325,827	434,851	511,203	483,469	578,573	650,252	761,273
Minority Interest	5,476	6,794	13,218	18,231	19,139	19,405	20,439	21,089
BVPS	8.0	9.2	12.4	14.6	14.7	17.5	19.6	22.9

Ratios

Cost/income ratio	67.4%	65.0%	56.3%	57.8%	64.0%	62.7%	55.1%	51.5%
Cost/income ratio ex prov.	69.8%	66.6%	62.7%	64.2%	65.0%	66.2%	57.3%	54.3%
Pre-tax margin	16.5%	18.9%	18.8%	17.0%	15.9%	15.9%	21.2%	22.7%
RoAA	1.8%	2.2%	2.3%	2.1%	1.8%	1.7%	2.4%	2.6%
RoAE	19.1%	20.0%	18.5%	16.1%	15.2%	16.2%	21.8%	22.3%
NPL ratio	1.6%	1.7%	2.5%	2.0%	6.5%	5.3%	4.5%	4.5%
Cost of risk	0.6%	0.5%	2.1%	2.2%	0.3%	0.9%	0.7%	1.0%
Leverage	0.9x							
Loan to deposit	49%	50%	61%	60%	54%	56%	69%	72%
Capital adequacy ratio (CAR)	16%	20%	22%	22%	24%	24%	22%	22%
Price to book ratio (x)	1.46	1.28	0.95	0.81	0.52	0.51	0.45	0.39
Price to earnings ratio	7.63	6.42	5.14	5.01	3.4	3.4	2.2	1.9
Dividend yield	0.9%	5.1%	5.1%	5.5%	10.4%	15.5%	14.1%	16.9%

Source: Company, Coronation Research

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Ratings and Price target history

	Date Recommendation	Recommendation	Date Recommendation	Recommendation	Date Recommendation	Recommendation	Current price, Naira/s	Target price, Naira/s
FBNH	5-Apr-18	Buy	21-Dec-18	Buy	1-Jan-19	Buy	7.40	12.50
Zenith	5-Apr-18	Hold	21-Dec-18	Buy	1-Jan-19	Buy	21.85	27.50
UBA	5-Apr-18	Buy	21-Dec-18	Buy	1-Jan-19	Buy	7.35	11.50
GT Bank	5-Apr-18	Buy	21-Dec-18	Hold	1-Jan-19	Hold	33.50	35.00
Access	5-Apr-18	Buy	21-Dec-18	Buy	1-Jan-19	Buy	5.65	8.70
Diamond	5-Apr-18	Buy	21-Dec-18	Buy	1-Jan-19	Buy	2.02	3.13
Fidelity	5-Apr-18	Buy	21-Dec-18	Buy	1-Jan-19	Buy	2.00	2.40
Stanbic IBTC	5-Apr-18	Hold	21-Dec-18	Buy	1-Jan-19	Buy	46.15	66.00
Sterling	5-Apr-18	Hold	21-Dec-18	Hold	1-Jan-19	Hold	1.98	1.90

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Buy	78%
Sell	0%
Hold	22%
Under Review	0%

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Coronation Merchant Bank,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
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