# UNITED BANK FOR AFRICA PLC

**Price Target: NGN 43.45**

Equity Research

## NIGERIA

Equity Research 20th September, 2007.

**Price: NGN53.90** **CSL Rating: A258**

**UBA PLC** **Sector:** Banking

Investment Grade: B

**Bloomberg Ticker**: UBANL

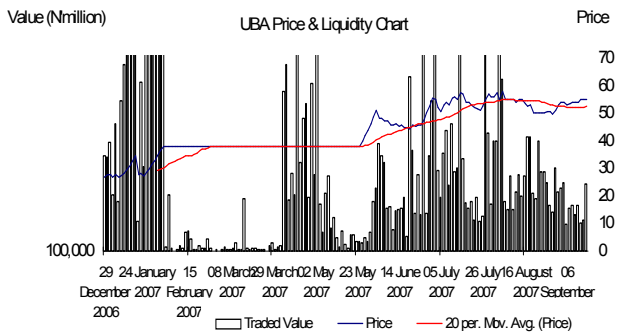
### Key Stock Data:

| | |
|---|---|
| 52wk High/ Low: | NGN57.75/NGN23.10 |
| Market Cap: | NGN541.3bn |
| Market Cap: | USD4.34bn |
| 3-Mth Avg. Dly Vol: | 19.77mill |
| 3-Mth Avg. Dly Val: | NGN51.4bn |
| Life Time High: | NGN57.75 |

### Key Financial Data:

| | |
|---|---|
| Total Assets Q4 '06: | NGN884bn |
| Gross Earnings. Q2 '07: | NGN75.25bn |
| PAT Q2 '07: | NGN17.13bn |
| Shares Outstanding: | 10.024bn |
| FYE: | September |

| Ratios | 2008E | 2007E | 2006 | 2005 |
|---|---|---|---|---|
| RoE (%) | 20.00 | 17.00 | 33.90 | 25.30 |
| RoA (%) | 2.69 | 2.34 | 2.04 | 2.13 |
| EPS (NGN) | 2.26 | 1.99 | 1.87 | 1.61 |
| DPS(NGN) | 1.15 | 1.00 | 1.00 | 0.67 |
| PE (x) | 23.9 | 27.4 | 28.9 | 33.5 |
| PB (x) | 4.77 | 5.28 | 7.85 | 8.50 |
| NIM (%) | 9.75 | 8.83 | 7.68 | 4.20 |
| DY (%) | 2.13 | 1.85 | 1.85 | 1.24 |




## *Pursuing Market leadership through diversification*

UBA Plc prides itself as a provider of full range financial solutions to over 6million customers through an expansive retail network of over 500 branches at Q1 2007. The bank with Q4 2006 balance sheet size of NGN1.052trn (USD10bn) and NGN700bn deposits base sits at the top of the Nigerian banking space.

### Investment Summary & Highlight

- **Q3 2007 result:** The bank's 9-month result showed gross earning growth of 35.4% to NGN75.25bn while PAT grew by 108% to NGN17.13bn. **We project a FY07 figure of NGN19.93bn based on our forecast EPS of NGN1.99.**
- **Strategic Intent**: The bank seeks to become the leading and dominant financial service institution in Africa. To achieve this, the bank has as strategic imperative the diversification of its portfolio of businesses and geographies in which it competes, and recruitment, developing, and retaining the best of professionals.
- **Strategic Business focus**: though seeking diversification of its businesses, we gleaned retail, investment and corporate banking as the banks priority segments short/ medium term. Taking advantage of the CBN's purchase and assumption, the bank has continue its branch expansion initiative to attain the 700-branch mark it set for itself by Q4 2007. **Our concern is whether the bank has the capacity to deliver on quality of services given the pace of expansion.**
- **Strategic Alliances:** UBA is in strategic alliance with Metropolitan life of South Africa to form UBA Metropolitan life insurance to take advantage of the opportunities in the sector. Other partners include: UBS for asset management, MTN, Virgin Nigeria, North American Airline, and China Southern line.
- **Investment Banking:** UBA through its UBA global market subsidiaries is establishing its footprint in this business segment. It closed in the last FY a couple of corporate bond with embedded option that traded in excess of NGN100bn in the secondary bond market. Other impact includes lead arranger/ underwriter for Tinapa zero coupon puttable bond 1&2 and Kebbi state Government NGN3.5bn bond, and financial adviser- NNPC Nigeria Content Support Fund.
- **Regional Expansion:** With presence in US and Cayman Island, the bank regional expansion priority is Ghana where presently it has seven branches and reconstructing economies like Liberia and Sierra Leone. The bank will be looking at Merger and acquisition to expedite its move. **We foresee a stiff competition from other Nigerian banks that have established presence in these markets.**

### Performance

- **Asset Quality:** UBA's NPL FY06 stood at 9% compared to top six peer average of 2.5%. We feel this is a carry over from its merger and acquisition. We look forward to see the impact of the bank's working with IFC on its retail risk management framework at the end of FY07.
- **Profitability:** UBA ranks top in terms of return to shareholder; its RoE figure of 33.98% is industry's best. The EPS and RoA figures of NGN1.87 and 2.04% are also impressive.

- **Valuation:** UBA has a demanding multiple with its growth prospect captured by its current price. It currently trades at 2005-08 PE of 33.54x, 28.88x, 27.14x and 23.89x respectively compared to peer average of 23.9x. It is also trading at 2005-08 Pbv of 8.50x, 7.85x, 5.28, and 4.77 relative to peer average of 5.05x. **We arrived at a fair value of NGN43.45 using PE, PB and DY valuation models.**

- **Rating:** A rating of **A258** infers: A-Fundamental Long Term Buy; 2-Short Term Hold; 5 - Dividend (moderate) with a dividend yield of 1.85% and 8- for the volatility (a standard deviation of 0.13 as against a peer average of 0.17) is considered okay. With a YTD of 112.96% and a sharpe ratio (risk adjusted return) of 0.12, as against a sector average of 0.09, the return per unit of risk taken when investing in UBA is higher than that of the average Banking stock.

| Company | Mkt. Price | Issued Shares (million) | Mkt Cap.(Nm) | PAT (N'm) | RoA(%) | EPS(N) | DPS(N) | PE(x) | PBV(x) | RoE(x) |
|---|---|---|---|---|---|---|---|---|---|---|
| UBA | 53.90 | 10,024.000 | 462,485.10 | 17.13 | 2.04 | 1.87 | 1.00 | 28.9 | 7.85 | 33.9 |
| FBN | 39.99 | 12,222.00 | 486,523.78 | 18.38 | 2.45 | 1.75 | 1.00 | 22.9 | 5.02 | 26.1 |
| Oceanic | 28.00 | 11,642.007 | 325,976.19 | 9.56 | 3.24 | 1.03 | 0.42 | 26.7 | 6.77 | 27.8 |
| Zenith | 44.00 | 11,581.905 | 509,603.84 | 18.67 | 2.35 | 1.89 | 1.00 | 23.4 | 3.78 | 17.3 |
| GTbank | 29.03 | 13,850.000 | 402,065.50 | 13.19 | 3.32 | 1.62 | 0.95 | 18.7 | 5.12 | 31.5 |
| Intercont. | 24.81 | 18,547.211 | 460,156.30 | 15.48 | 2.91 | 1.41 | 0.65 | 18.3 | 1.76 | 14.7 |

- **Peer Comparism**

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## *Company and Industry strategic Highlights*

The Nigerian banking space is settled down into its consolidated status. The sector presently is characterized by increase in branch network, capital base, strong growth, significant investment in IT which makes it a less source of competitive edge, aggressive demand for talents, regionalization of operations, appetite for foreign debt, and marginalization of smaller ones.

We envisaged fierce competition for market share and thinning interest margin, but it is also our view that this will be dampened short/ medium term by the sector's growth prospect. It is analyst's consensus that given the sector low penetration status and the burgeoning middle class estimated to be around 15-25 million, the upside is high.

The key success factors include:

- Quick response to shift in competitive variables.
- Differentiated product and services.
- Strategic partnership and alliances.
- Acceptable franchise.

**Strengths**

- Extensive branch Network.
- Good and stable management team.
- An enlivened brand.
- Cheap deposits.

**Opportunities:**

- Consumer lending.
- Trade financing
- Mortgage lending
- Project financing.

**Weaknesses:**

- Inability to keep up with quality as it aggressively expands.
- Diluting its strength.

**Threats:**

- Increased Rivalry.
- Thinning margin.
- Industry's near mono-product status.
- Increasing Staff cost.
- Dearth of high-level man-power.

| United Bank For Africa Plc. | | | | | www.ubagroup.com | |
|---|---|---|---|---|---|---|
| FYE: September | FY01(mn) | FY02(mn) | FY03(mn) | FY04(mn) | FY05(mn) | FY06(mn) |
| Gross Earnings | 19,387 | 22,521 | 24,194 | 24,510 | 26,089 | 90,447 |
| PBT | 1,682 | 3,421 | 5,128 | 6,010 | 6,520 | 12,811 |
| PAT | 1,269 | 1,566 | 3,280 | 4,525 | 4,921 | 11,550 |
| EPS | 0.41 | 0.51 | 1.07 | 1.48 | 1.61 | 1.87 |
| DPS | 0.17 | 0.2 | 0.45 | 0.5 | 0.6 | 1 |
| DPO | 41% | 39% | 42% | 34% | 37% | 53% |
| Shareholders Funds | 9,067 | 10,627 | 14,901 | 19,533 | 19,443 | 48,535 |

## EXECUTIVE SUMMARY

The successful integration of the old United Bank for Africa Plc (UBA) and Standard Trust Bank (STB), has led to the emergence of one of the largest Groups operating within the domestic financial landscape. The new UBA group's operations have been structured around seven directorates with five dealing with core businesses and two focusing on business support. Consequently, UBA has been effectively transformed into a one-stop financial-service shop with fingers in every pie available in Nigeria's evolving financial markets. Although the group's operations cut across retail banking to trusteeship, pension fund custodianship to microfinance, we believe a substantial portion of income is still generated from core banking operations.

United Bank for Africa (UBA) was incorporated in Nigeria as a private liability company on February 3, 1961. The bank took over the assets and liabilities of the British and French Bank Limited, which had carried on business in Nigeria since 1949. UBA is known as the first Nigerian bank to gain recognition of the international financial community through the establishment of a Global Depository Receipts (GDR) programme.

Standard Trust Bank (STB) was incorporated as Crystal Bank of Africa Limited, a private limited liability company, on March 15 1990, got its license as a commercial bank in March 1990 and commenced operations the same year. As a result of a restructuring exercise in 1997, the Bank's name was changed from Crystal Bank of Africa Limited to Standard Trust Limited. The Bank became a public limited liability company in 2002.

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**CSL Ranking**:

A-Fundamental Long Term Buy
B-Fundamental Long Term Hold
C-Fundamental Long Term Sell

1-Short Term Buy
2-Short Term Hold
3-Short Term Sell

4-High Dividend
5-Dividend (moderate)
6-Low Dividend

7-Low Volatility
8-Moderate Volatility
9-High Volatility

## RESEARCH

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