UBA Plc: Analysis of full year results to September 2007

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Price: N52.60

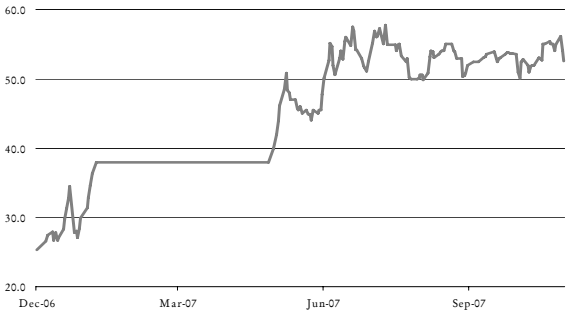
Price target: N62.17

FYE	2007	2008e
EPS, N	1.87	3.34
DPS	1.20	1.80
NAPS, N	14.59	16.1
RoE, %	19.8	21.7
P/E, x	29.0	15.8
P/B, x	3.7	3.3
Div. Yield, %	2.3	2.7

Financial data	
FYE	September
Gross earnings, N'm	109,512
PBT, N'm	29,525
PAT, N'm	21,441
Net assets, N'b	167,719
Market cap., N'm	604,689
Issued shares, m	11,496

Stock data	
NSE/Bloomberg	UBA/
Sector	Banking
Yr. high/low, N	57.75/26.56
3-mth av. daily t/over, N'm	758.7

UBA price movement, year-to-date (N/share)



HIGHLIGHTS

FY07 performance confirms UBA's No. 1 position in the Nigerian banking industry. In its full year results to September '07, UBA Plc reported a 21.1% growth in gross earnings to N109.5bn, which is the highest in the Nigerian banking sector. Profit before tax (PBT) also increased substantially to N29.5bn, up 130.5%, while profit after tax (PAT) increased by 85.6% to N21.4bn. Consequently, earnings per share (EPS) for the period increased by 14% to N1.87, also the highest EPS in the sector.

The strength of the bank's performance is further underscored by the fact that an exceptional item of N4.16bn was written off against profits this year while comparative figures are for 18 months to September '06. Regardless of these, the bank still emerged as the number 1 bank in Nigeria on most metrics.

Substantial improvement is achieved in interest and profit margins. As a result, FY07 net interest margin (to interest income) improved to 61.1% from 53.3% in FY06. Similarly, pre-tax profit margin improved to 27.0% from 14.2% in FY06 while post-tax profit margin improved to 19.6% from 12.8% in FY06.

Cost/income ratio improves as a result of tight cost management and improved quality of risk assets. An analysis of the bank's latest figures indicates the success of management's cost and risk management strategies. Operating income for the year only increased by 5.5% to N47.6bn while provisions for loans and other accounts declined by 33.6% to N3.7bn. As a result, UBA's cost/income ratio dropped to 73.0% for the year compared with 85.8% in FY06. All together, these suggest a significant improvement in the quality of the bank's risk assets.

Shareholders' funds, balance sheet size and customers' deposits grow to N168 billion, N1.64 trillion and N906 billion respectively. UBA recorded a 245.6% growth in equity base to N167.7bn in FY07. Much of the growth was driven by the bank's hybrid offer from which it raised c. N98bn. Similarly, balance sheet size increased by 56.2% to N1.64trillion while customer's deposits increased by 18.8% to N905.8bn.

Valuations remain favourable. In terms of relative valuation, UBA looks attractive when compared with some of its peers at the top of the Nigerian banking sector. Based on trailing numbers, UBA's price/book and price/earnings ratios of 3.7x and 29.0x respectively compare favourably when measured against the average top-6-banks price/book ratio of 5.5x and price/earnings ratio of 32.6x. Meanwhile, the bank's 19.8% return on equity is in line with the peer average of 20.3%.

PLEASE READ THE IMPORTANT DISCLOSURES ON PAGE 3. THIS NOTE WILL BE SUBSEQUENTLY FOLLOWED BY A FULL RESEARCH REPORT.

Fig. 1: Valuations, top 6 banks

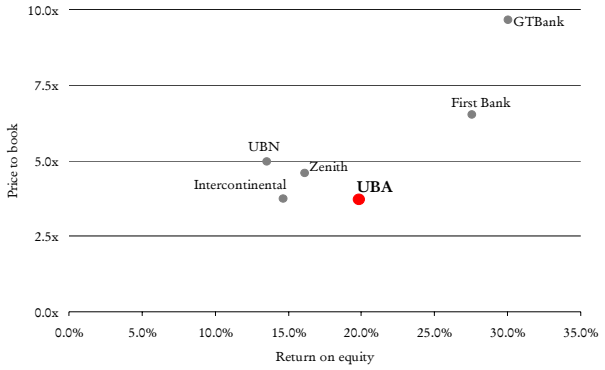


Fig. 2. Market cap., top 6 banks (N'bn)

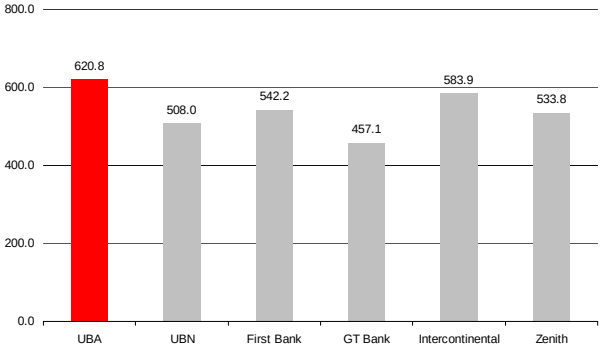


Fig. 3. Balance sheet size, top 6 banks (N'bn)

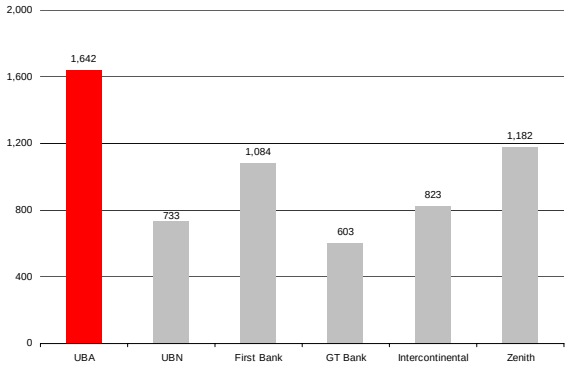


Fig. 4. Customers' deposits, top 6 banks (N'bn)

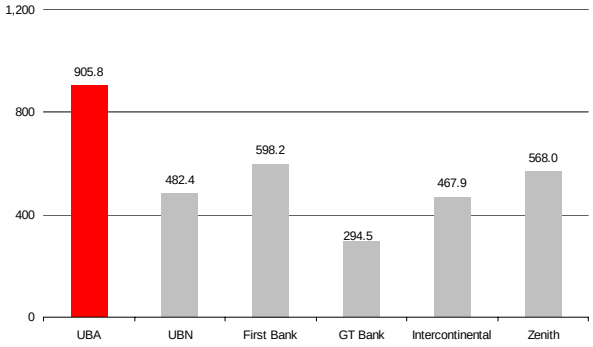


Fig. 5. Gross earnings, top 6 banks (N'bn)

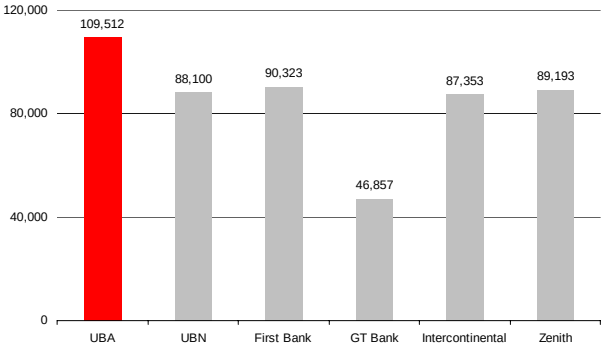
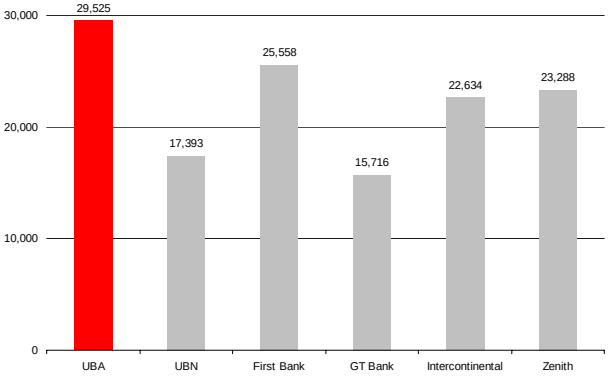


Fig. 6. Profit before tax, top 6 banks (N'bn)



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