Equity Research Report NIGERIA

United Bank for Africa Plc : Interim Results – Q3'08

August 07, 2008 **BUY** **Fair Value: NG₦ 56.23** **Current Price: NG₦ 29.73**

Valuation/Analyst Recommendation

In arriving at a fair value for **UBA,** we project GEs, Earnings (PAT) and Dividend payment for 2008, 2009, 2010, and 2011. We project GEs of **N219.02bn**, **N297.87bn**, **N491.49bn** and **N786.38bn**, for 2008(15 months Dec.), 2009, 2010 and 2011 respectively. We project a PAT of **N52.66bn**, **N78.99bn**, **N114.54bn** and **N160.36bn** respectively for the same period and we estimate total dividend payment of **N26.86bn**, **N36.34bn**, **N52.69bn** and **N73.76bn** respectively for the period. The dividend is based on dividend payout of **51%, 46%, 46%** and **46%** respectively for the periods. We used **17.245bn** Ordinary Shares in issue at the date of this valuation. Applying a beta value of **1.03**, risk premium of **8%,** risk free rate of **12.75%** we arrive at a cost of equity of **21%** (our discount rate). Using the above parameters, a perpetual growth rate of **8.5%** and a forward P/E ratio of **20x**, the Discounted Future Earnings Model (DFEM) generates **N51.38k** per share, the Dividend Discount Model (DDM) generates a value of **N23.76k** and the Relative Valuation Method (RVM) generates **N61.08k**. Meanwhile, we are inclined towards the **DFEM** and the **RVM**, the average of which generates **N56.23k** per share which is our fair value. The fair value is lower than our earlier fair value as a result of increase in the cost of equity. The forward earning and dividend (at 1.56k per share) yields at our fair value are **5.43%** and **2.77%** respectively. We note that UBA paid an interim dividend of 25kobo during the current financial year. **We therefore place a BUY on UBA stock at the current market price for capital appreciation and dividend payment.**

Business Description

UBA's principal activity is the business of banking and provides corporate, commercial, consumer and international banking services.

Ticker	UBA
Sector	Banking
Date of Incorporation	February 23, 1961
Date of Listing	1971
Year End	September
No of Ordinary Shares	17,245,169,970
Capitalisation	₦521,698,903,208.30
% of Market Capitalisation	5.03%
52-Week High	₦68.97
52-Week Low	₦28.77
YTD Return %	(5.52)
52-Week Avg. Trade	15,743,734
Beta Value	1.03
Current EPS	1.92
Current PE	15.46

Moving Close to Customers:

The unaudited Q3'08 result of United Bank for Africa Plc (UBA) for the period ended 30 June, 2008 showed that its Gross Earnings (GEs) grew by **59.8%** to **N120.25bn**, compared with **N75.25bn** in the corresponding period of 2007. Profit Before Tax (PBT) increased by **68.3%** to **N33.14bn** in 2008 from N19.69bn in 2007. The tax provision which increased by **68%** between 2007 and 2008 to **N4.3bn** from N2.56bn brought about a Profit After Tax (PAT) of **N28.85bn** in 2008 as against N17.13bn in 2007, representing an increase of 68.4**%.**

Looking at the bank's profit margins, the costs associated with a unit GEs decreased between Q3 '08 and Q3 '07 and also decreased over the position as at the end of the financial year in 2007. The PBT margin increased marginally to 27.56% in Q3 '08 from 26.17% as at Q3 '07, and up from 23.16% as at the end of the financial year in September, 2007. This showed that the company's total costs as a percentage of GEs stood at **72.44%** in Q3 '08, down marginally from **73.83**% in the corresponding period of 2007. PAT Margin currently stands at 23.99**%,** up from 19.58% in the corresponding period of 2007 and up from 19.58**%** as at FY '08. The result also indicated that the percentage of the GEs, PBT, and PAT in the Q3 '08 to the Full Year Audited GEs, PBT and PAT for the period ended September, 2007 are: 109.81%, 130.66% and 134.56%, respectively. Given the current run rate the bank will surely surpass its previous year performance with wide margin.

A cursory look at **UBA's** 2007 Audited Reports, shows a significant improvement in the bank's quality of assets. The gross loan increased by 180.1% from N119.74bn in 2006 to N335.39bn in 2007, while the non performing loan decreased marginally by 2.86% from N15.1bn in 2006 to N14.66bn in 2007. This resulted in a significant decrease in the non-performing loan to gross loan from 12.61% in 2006 to 4.37% in 2007. If the non-performing loan as at 2007 turns bad, only 8.74% of the shareholders funds would be impaired, lower than 31.10% in 2006.

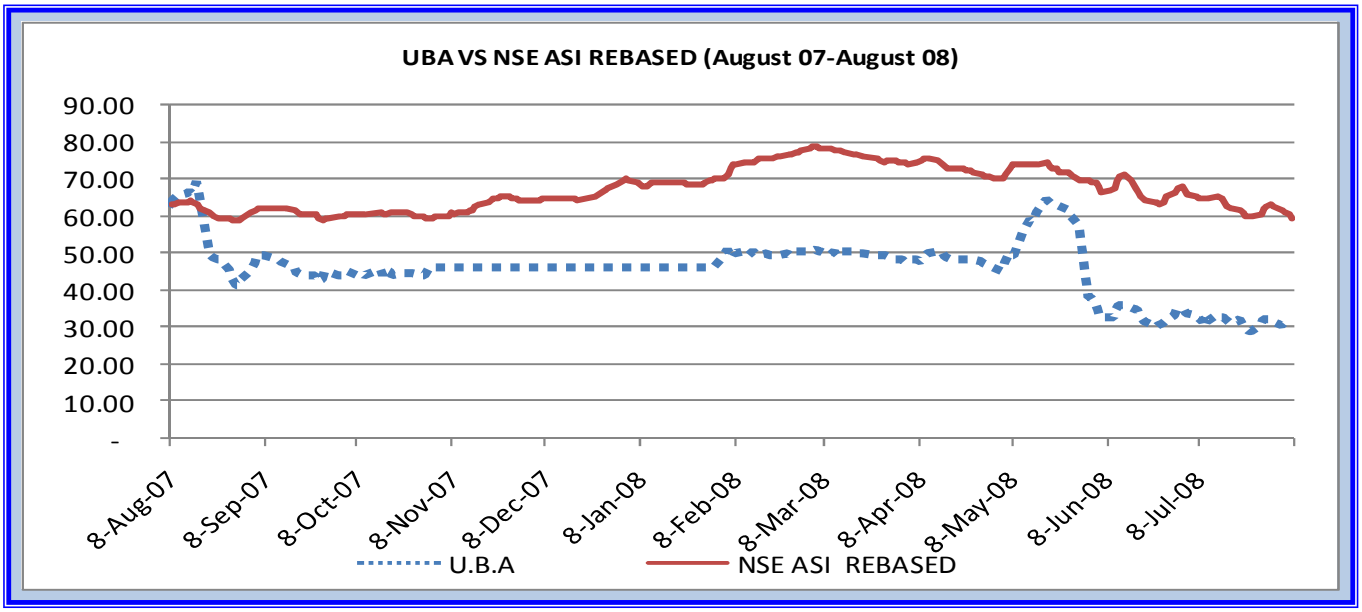
The GEs of UBA which increased in 2007 over 2006 by 21.08% to N109.51bn was made up of N73.72bn (67.35%) interest income and N35.73bn (32.65%) non-interest income. The interest related expenses increased marginally by 6.29% between 2006 and 2007, but with a less proportionate increase in the interest income thus leading to a leap in the Interest Margin of 46.64% to N45.08bn from N30.74bn in the previous year. The bank's loan loss expenses decreased by 33.55% from N5.57mn in 2006 to N3.70bn in 2007. The combination of operating expenses, taxation and the minority interest reduced the total net income of N80.81bn in 2007 to PAT (attributable to shareholders) of N21.54bn, an increase of 129.71% from N9.37bn recorded in 2006.The return on average equity and return on average total assets as at September 2007 stood at 16.08% and 1.94% respectively. The bank declared a bonus of 1 for 2 and a total dividend per share of 25k per share as benefits to its shareholders for the 6 months audited result for the period ended March 2008.

As at September 30, 2007 no individual shareholder of the bank held up to 10% of the issued share capital except for **Stanbic Nominees Nigeria Ltd**. **(14.57%), Monte dei Paschi di Siena, Italy (0.77%), International Finance Corporation (1.80%), African Development Bank (1.57%), Paip-Pcap Sub2 Ltd**. **(0.94%)** and the remaining **80.35%** shares were held by Nigerian Citizens and Associations. **UBA's** products and services include: **Personal Banking Services**, **Card Services**, **Internet Banking Services** and **UBA Prestige Banking**. The Bank's subsidiaries include: **UBA Asset Management Limited, UBA Global Markets Limited**, **UBA Pensions Custodian Limited**, **UBA Stockbrokers**, **UBA Registrars** and **UBA Ghana Limited**. All the subsidiaries are wholly owned subsidiaries of the Bank except UBA Ghana Limited in which the bank owns 51%.

Industry Analysis (N'mn)							
Company	GEs	PBT	PAT	PAT Margin (%)	ROE*** (%)	EPS*	PE*
UBA	109,510	25,364	21,440	19.58	21.43	1.92	15.46
Intercontinental **	173,571	45,633	34,773	20.03	19.03	2.04	14.70
Oceanic	74,940	23,010	17,530	23.40	13.47	1.69	12.42
GT Bank **	78,826	27,368	21,169	26.86	20.06	1.75	14.43
Zenith	94,800	25,680	18,680	19.70	17.45	2.26	18.10

*Source: Company Annual Reports as at FY '07, NSE FACTBOOK. * Current; ** Annual Accounts as at 2008. ***Return on Average Equity.*

Financial Performance (Nmn)							
	Q3 '08	Q3 '07	%Δ	FY 2007	FY 2006	%Δ	FY, Dec. 2008E
Gross Earnings	120,250	75,250	59.8	109,512	90,447	21.08	219,024
PBT	33,140	19,690	68.3	25,364	10,638	138.43	69,515
PAT	28,850	17,130	68.4	21,441	9,377	128.66	52,662
PBT Margin (%)	27.56	26.17	1.39	23.16	12	11.16	31.74
PAT Margin (%)	23.99	19.58	4.41	19.58	10	9.58	24.04



Contact us at Our Offices:

Port Harcourt:
Afribank Bank Building (2nd floor, 5 Trans Amadi Road, Port Harcourt.(Tel) 234-084-463308 (Fax) 234-084-463174

***Lagos Office**: UAC House (6th-8th Floors) 1/5 Odunlami Street, P.M.B 12913 Lagos. (Tel.) 234-1-2640160-9 (Fax) 234-1-2702890*

***Abuja Office**:*
NAL Abuja Complex, Plot 990, Cadastral Zone A O, Central Business District, (behind Leventis Stores), Abuja FCT (Tel) 234-09-6700535
(Website)
www.fsdhgroup.com, www.fsdhsecurities.com
(Email) fsdhsecurities@fsdhgroup.com

This publication is produced by FSDH Securities (FSDH Sec) a subsidiary of First Securities Discount House Limited (FSDH) solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Sec may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of FSDH or FSDH Sec. for actions taken as a result of information provided in this publication.