UBA PLC

Equity | Nigeria | Banking

Vetiva Research
12 October 2010

Company Update

Oversold and attractive…reiterating BUY rating

At a 45% discount to its 2010 high and a mere 8% premium to its year low, United Bank for Africa Plc (UBA) is trading cheap. 2011 multiples present an even more compelling scenario, with P/E and P/B multiples of 7.52x and 0.78x respectively. At this point, we now focus on UBA's 2011 earnings for a couple of reasons:

- Its Balance Sheet is clearly under-leveraged, with Loan/Deposit Ratio sitting <50% and a Liquidity Ratio of c.42%
- While maintaining LDR at this level may have been justified by the Bank's relatively stretched capital ratio level, we note that the Bank recently sourced ₦20 billion in Tier II capital, which has boosted its Total Capital Adequacy Ratio (Bank) to 17.3%
- 2011 should see the Bank tap the capital markets for a second tranche (common equity), as it seeks to raise its CAR to c.20%
- Finally, 300bps would be added to its PBT Margin in 2011, as *Special Asset write-offs* come to an end in 2010

In view of the above we note the following:

PAT growth to average 62% over the next 3 years; though we see the capital raise weighing on ROE in the near term, effectively reducing our 5-year average ROE estimate to 15% (down from 25%). Whilst UBA could easily average loan growth of 20% over the next 2-3 years (we model 13%), we believe there is an increased likelihood that the pricing of these loans (mainly to corporates) may only rise by some 300bps at best from current levels. The interesting thing however, is that the loan growth would nil-off the margin pressures from expected normalization in cost of funds (across the Sector) next year, costs which would be impacted mostly by the removal of the CBN's de-risk blanket on the money market. Nonetheless, the capital raise is vital to underpin the Bank's operations and growth plans in the near term.

UBA is still expanding into its favorite market, Africa. The Bank is looking at implanting its footprints in Mozambique and Democratic Republic of Congo at first (recall First Bank also plans to enter the DRC in 2011), then Congo Brazzaville and Mali. We believe the progress made in the first two countries would partly pressure OPEX in H2'10; however, we expect Interest Margin improvements to help CIR reduce by some 300bps to 79% by FY'10.

H2'10 to be more profitable, helped particularly by improvements in UBA's Interest Margin from 56% in H1'10 to 67% over H2'10, which blends for the year at 62% by FY'10. Furthermore, we anticipate the Bank's taxation numbers would normalize over H2'10, with Effective Tax Rate halving to 23% in H2'10 relative to 44% in H1'10.

Repayments would mask underlying loan growth in Q3'10. In other words, the 9% YTD loan growth we had seen as at H1'10 would drop to c.5% due to pay downs by some of the Bank's customers (public sector and corporate). Nevertheless, we note that the Bank still extended new credits in Q3'10 to its key corporate customers in the Oil & Gas and Telecom Sectors. Recall that the Bank also signed a €234 million facility with Senegal's sole refinery Société Africaine de Raffinage.

We retain our BUY recommendation on UBA at current market price of ₦9.40, which presents a **27%** upside relative to the mid-point of our revised fair value range. Based on our somewhat conservative forecasts, we see 2011 Dividend Yield at 6.65%.

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Fair Value Range
₦11.12 – ₦12.80

Stock Data

Symbol:	NSE:	UBA
	Bloomberg:	UBA:NL
	Reuters:	UBA.LG

Current Price (NGN):	9.40
Annualized EPS (NGN):	0.37
Annualized P/E (x):	25.08
2010 P/E (x):	15.55
Shares Outstanding (mn):	25,868
Market Cap (NGNbn):	243.17
Year High (NGN):	16.94
Year Low (NGN):	8.70

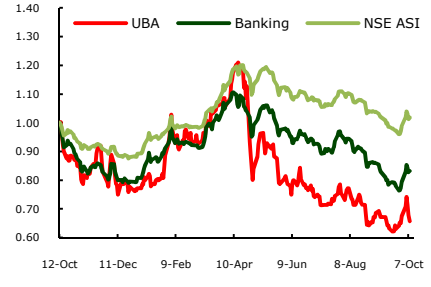
Share Price Performance

30 Days (%):	0.00
90 Days (%):	-5.81
YTD (%):	-12.96

Ownership Structure:

UBA Staff Investment Trust (%):	7.92
Foreign Investors: (%)	6.57
Others (%):	85.51

52-week share price performance



Source: NSE, Vetiva Research

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Appendix:

United Bank for Africa Plc Financial Model

Income Statement (N' Million)	2009	2010F	2011F	2012F	2013F
Gross Earnings	**246,725**	**186,260**	**214,199**	**239,903**	**275,888**
Interest & Discount Income	177,848	135,970	160,649	177,528	205,537
Interest Expense	59,659	52,153	62,118	69,572	77,249
Net Interest & Discount Income	**118,189**	**83,817**	**98,532**	**107,956**	**128,288**
Other Income	68,877	50,290	53,550	62,375	70,352
Operating Income	**187,066**	**134,107**	**152,081**	**170,331**	**198,640**
Operating Expenses	130,067	106,168	112,455	119,951	124,150
PBT Before Provisions	**56,999**	**27,939**	**39,627**	**50,380**	**74,490**
Provision For Risk Assets	43,337	1,863	3,856	4,798	5,518
Profit Before Tax & Exceptional Items	**13,662**	**26,076**	**35,771**	**45,582**	**68,972**
Exceptional Items (Special Assets Write-off)	**7,025**	**7,040**	**-**	**-**	**-**
Profit Before Tax	**6,637**	**19,036**	**35,771**	**45,582**	**68,972**
Tax	4,262	6,147	9,103	11,515	17,381
Profit After Tax	**2,375**	**12,890**	**26,668**	**34,066**	**51,591**
Dividend Payable	*2,156*	*6,445*	*13,334*	*17,033*	*25,796*
Retained Earnings	*219*	*6,445*	*13,334*	*17,033*	*25,796*

Balance Sheet (N'Million)	2009	2010F	2011F	2012F	2013F
Cash & Balances With CBN	68,225	69,620	79,220	94,332	122,002
Due From Other Banks & Financial Institutions	470,195	435,126	536,824	698,999	771,119
Short Term Investments (Treasury Bills)	42,035	93,813	101,826	141,498	165,240
Bills Discounted	-	-	-	-	-
Loans And Advances	606,616	667,278	767,369	844,106	970,722
Advances Under Finance Lease	-	-	-	-	-
Deferred Taxation	-	-	-	-	-
Other Assets (Including Mgd. Funds)	87,003	139,240	162,921	179,702	234,090
Long Term Investments	197,913	261,076	305,477	306,578	385,559
Investment Properties	269	-	-	-	-
Fixed Assets	73,042	71,361	79,424	89,615	101,898
Intangibles (Goodwill)	2,983	3,000	3,500	3,500	3,500
Total Assets	**1,548,281**	**1,740,506**	**2,036,510**	**2,358,296**	**2,753,996**
Deposits	1,245,650	1,407,585	1,477,964	1,596,201	1,755,821
Due To Other Banks & Financial Institutions	15,807	8,703	20,365	47,166	82,620
Liability On Investment Contracts (Managed Funds)	22,138	18,623	40,730	35,374	55,080
Taxation	3,385	1,741	1,426	1,651	1,928
Deferred Taxation	2	-	-	-	-
Dividend Payable	-	-	-	-	-
Other Liabilities	58,207	69,620	221,267	362,069	487,843
Long Term Borrowings	14,760	15,000	15,000	15,000	15,000
Retirement Benefit Obligations	1,503	1,741	2,037	2,358	2,754
Total Liabilities	**1,361,452**	**1,522,951**	**1,778,774**	**2,059,812**	**2,401,053**
Share Capital	10,778	12,934	12,934	12,934	12,934
Reserves	170,735	177,668	216,299	256,152	307,750
Total Capital & Reserves	**181,513**	**190,601**	**229,233**	**269,085**	**320,683**
Minority Interest	5,316	6,962	8,553	9,433	12,393
Tier 2 Capital (Fixed, Subordinated, Unsecured)	-	20,000	20,000	20,000	20,000
Shareholders Funds	**186,829**	**217,563**	**257,786**	**298,518**	**353,076**
Total Liabilities & Equity	**1,548,281**	**1,740,515**	**2,036,560**	**2,358,330**	**2,754,130**
Contingent Accounts	616,734	783,228	814,604	896,152	1,156,678
Total Assets & Contigents	**2,165,015**	**2,523,742**	**2,851,164**	**3,254,483**	**3,910,808**

Key financial ratios and forecasts

Per Share Ratios	2009	2010F	2011F	2012F	2013F
Average Assets	1,610,636	1,644,393	1,888,508	2,197,403	2,556,146
Average Shareholders Funds	190,846	202,196	237,675	278,152	325,797

Per Share Ratios	2009	2010F	2011F	2012F	2013F
Earnings	0.11	0.50	1.03	1.32	1.99
Dividends	0.10	0.25	0.52	0.66	1.00
Net Assets	8.42	7.37	8.86	10.40	12.40
No. of Shares Outstanding	21,556	25,867	25,867	25,867	25,867

Growth Rates	2009	2010F	2011F	2012F	2013F
Gross Earnings	46%	-25%	15%	12%	15%
PBT	-86%	91%	37%	27%	51%
PAT	-94%	443%	107%	28%	51%
Total Assets	-7%	12%	17%	16%	17%
Loan & Advances	36%	10%	15%	10%	15%
Deposit Growth Rate	-5%	13%	5%	8%	10%
Shareholders Funds	-1%	5%	20%	17%	19%

Profitablilty	2009	2010F	2011F	2012F	2013F
Interest Margin	66%	62%	61%	61%	62%
Dividend Payout Ratio	91%	50%	50%	50%	50%
Retention Ratio	9%	50%	50%	50%	50%
Return on Average Equity	1%	6%	11%	12%	16%
Return on Average Assets	0%	1%	1%	2%	2%
Cost/Income (Ex-Provisions)	70%	79%	74%	70%	63%
Cost/Income (Normalized)	93%	81%	76%	73%	65%
PBT Margin	6%	14%	17%	19%	25%
PAT Margin	1%	7%	12%	14%	19%
Effective Tax Rate	31%	24%	25%	25%	25%

Liquidity	2009	2010F	2011F	2012F	2013F
Deposit Growth Rate	-7%	13%	5%	8%	10%
Loans/Deposits	49%	47%	52%	53%	55%

Capital Adequacy	2009	2010F	2011F	2012F	2013F
Debt/Equity	8%	8%	7%	6%	5%
Debt/Total Assets	1%	1%	1%	1%	1%
Equity/Total Assets	12%	11%	11%	11%	12%
Leverage Ratio (x)	8.53	9.13	8.88	8.76	8.59

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Vetiva uses a 5-tier recommendation system for stocks under coverage: Buy, Accumulate, Neutral, Reduce and Sell.

Buy/Overweight ≥ +25% expected absolute price performance

Accumulate +10% to +25% expected absolute price performance

Neutral/Hold +/-10% range expected absolute price performance

Reduce -10% to -20% expected absolute price performance

Sell/Underweight ≤ -20% expected absolute price performance

Definition of Ratings

Buy/Overweight recommendation refers to stocks that are highly undervalued but with strong fundamentals and where potential return in excess of or equal to **20%** is expected to be realized between the current price and analysts' target price.

Accumulate recommendation refers to stocks that are undervalued but with good fundamentals and where potential return of between **10%** and **20%** is expected to be realized between the current price and analysts' target price.

Neutral/Hold recommendation refers to stocks that are correctly valued with little upside or downside where potential return of between **+/- 10%** is expected to be realized between current price and analysts' target price.

Reduce recommendation refers to stocks that are overvalued but with good or weakening fundamentals and where potential return of between **-10%** and **-20%** is expected to be realized between current price and analysts' target price.

Sell/Underweight recommendation refers to stocks that are highly overvalued but with weak fundamentals and where potential return in excess of or equal to **-20%** is expected to be realized between current price and analysts' target price.

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