

United Bank for Africa Plc : Q2 March, 2009



May 22, 2009

BUY

Fair Value: ₦21.39

Current Price: ₦ 15.01

Valuation/Analyst Recommendation

In arriving at a fair value for UBA, we considered the current global economic & financial crises and the likely impact on the Bank's earnings. We have also adjusted our earlier forecast for the bank to account for the possible change in the financial year from September to December with effect from 2009. This implies that the 2009 forecast is 15months. In addition, we adjusted our parameters to reflect the current market dictates. We project GEs, PAT, Free Cash Flow, FCF (PAT adjusted for movement in non-cash items) and dividend payment (based on a dividend payout of 42.35%) for the period ending December, 2009, 2010, 2011, 2012 and 2013. We project GEs of **₦273.59bn**, **₦277.64bn**, **₦323.38bn**, **₦376.81bn** and **₦439.23bn**, for 2009, 2010, 2011, 2012 and 2013 respectively. We project PAT of **₦55.06bn**, **₦60.29bn**, **₦77.74bn**, **₦91.29bn** and **₦107.23bn**, Dividend Payment of **₦23.32bn**, **₦25.53bn**, **₦32.92bn**, **₦38.66bn** and **₦45.41bn** and FCF of **₦65.70bn**, **₦71.08bn**, **₦90.32bn**, **₦105.94bn** and **₦124.31bn** respectively for the period. We assumed a perpetual growth rate of **6.32%**. We used a total **21.555bn** shares (including the shares arising from the bonus of 1 new share for every 4 shares declared during the financial year ended September, 2008). Applying a beta value of **1.32**, risk premium of **10.02%** and risk free rate of **10.50%** we arrive at a cost of equity of **23.76%** (our discount rate). Using the above parameters, the Discounted Future Earnings Model (DFEM) generates **₦19.76** per share, The Dividend Discount Model (DDM) generates **₦8.37** Per Share and the Discounted Free Cash Flow Model (DFCF) generates a value of **₦23.02**. An average of the valuation methods yields a value of **₦17.05** per share. But to arrive at our fair value we are inclined towards the average of DFEM and the DFCF which is **₦21.39** per share. The 2009 forward earnings and dividend yield (EPS at **₦2.55** and DPS at **₦1.08** (with a payout of **42.35%**)) at our fair value are **11.94%** and **5.06%** respectively. Also, the 2009 forward Price to Earnings ratio is **8.37x**. We therefore place a **BUY** on **UBA Plc** 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	21,556,462,462
Capitalisation	₦340,376,542,282.88
% of Market Capitalisation	5.53
52-Week High	₦62.60
52-Week Low	₦6.67
YTD Return %	20.08
52-Week Avg. Trade	12,065,240
Beta Value	1.32
Current EPS	1.96
Current PE	7.65

Building African Bank:

The unaudited Q2'09 result of **United Bank for Africa Plc (UBA)** for the period ended March 31, 2009 showed that its Gross Earnings (GEs) grew by **39.43%** to **₦108.90bn**, compared with **₦78.10bn** in the corresponding period of 2008. Profit Before Tax (PBT) increased by **18.36%** to **₦25.88bn** in 2009 from **₦21.87bn** in 2008. The tax provision which increased by **6.2%** between 2008 and 2009 to **₦1.81bn** from **₦1.71bn** brought about a Profit After Tax (PAT) of **₦19.90bn** in 2009 as against **₦18.42bn** in 2008, representing an increase of **8.04%**.

Looking at the bank's profit margins, the costs associated with a unit of GEs increased between Q2 '08 and Q2 '09 and also increased over the position as at the end of the financial year in 2008. The PBT margin decreased to 23.76% in Q2 '09 from 28% as at Q2 '08, and down from 33.50% as at the end of the financial year in September, 2008. This showed that the company's total costs as a percentage of GEs stood at **76.24%** in Q2 '09, up from **72.00%** in the corresponding period of 2008. PAT Margin currently stands at **18.28%**, down from 23.58% in the corresponding period of 2008 and down from 24.07% as at FY '08. The result also indicated that the percentage of the GEs, PBT, and PAT in the Q2 '09 to the Full Year Audited GEs, PBT and PAT for the period ended September, 2008 are: **64.21%**, **45.55%** and **48.75%**, respectively. Given the current run rate the bank should surpass its top line performance, but needs to improve on its bottom-line. A cursory look at **UBA's** 2008 Audited Reports, shows an improvement in the bank's quality of assets. The gross loan increased by 37.66% from **₦335.39bn** in 2007 to **₦461.70bn** in 2008, while the non-performing loan increased by 10.47% to **₦16.20bn** in 2008 to **₦14.66bn** in 2007. This resulted in a marginal decrease in the non-performing loan to gross loan from 4.37% in 2007 to 3.51% in 2008. If the non-performing loan as at 2008 turns bad, only 8.39% of the shareholders funds would be impaired, lower than 8.74% in 2007.

The GEs of UBA which increased in 2008 over 2007 by 54.85% to **₦169.58bn** was made up of **₦116.70bn**, representing 68.82%, generated from interest income, while **₦52.88bn** representing 31.18% was generated from other Fees & Commission. The interest related expenses increased by 44.35% between 2007 and 2008, but with a more than proportionate increase in the interest income thus leading to a 67.17% leap in the Interest Margin to **₦75.35bn** from **₦45.08bn** in the previous year. The bank's loan loss expenses decreased by 29.34% from **₦3.70bn** in 2007 to **₦2.62bn** in 2008. The combination of operating expenses, taxation and the minority interest reduced the total net income of **₦128.23bn** in 2008 to a PAT (attributable to shareholders) of **₦41.24bn**, an increase of 91.45% from **₦21.54bn** recorded in 2007. The return on average equity and return on average total assets as at September 2008 stood at **17.40%** and **2.56%** 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 and declared a bonus of 1 for 4 and a total dividend per share of 75k per share as benefits to its shareholders for the Full Year result for the period ended September 2008. The cost/income ratio declined from 57% in 2007 to 54% in 2008, meaning that the bank was more efficient during the period.

As at September 30, 2008 no individual shareholder of the bank held up to 10% of the issued share capital. The following 10 companies together accounted for 35.4% of the total number of shares in issue- **First Dominion Investment Ltd (5.7%)**, **Bank of New York Mellon (3.7%)**, **Consolidated Trust Funds Ltd (6.5%)**, **BGL securities Ltd (4.9%)**, **STH Ltd (3.4%)**, **Poshville Investment (3%)**, **Stanbic Nominees Nigeria Ltd. (2.5%)**, **BGL Investment Ltd (2.3%)**, **International Finance Corporation (1.80%)**, **African Development Bank (1.6%)**, and the remaining **64.6%** 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**. UBA is also one of the 2 banks that was given the **₦200bn special Agricultural Fund** to manage. The Bank's subsidiaries include: **UBA Microfinance Bank Ltd**, **UBA Asset Management Ltd**, **UBA Global Markets Ltd**, **UBA Pensions Custodian Ltd**, **UBA Stockbrokers**, **UBA Registrars** and **UBA Ghana Ltd**. All the subsidiaries are wholly owned subsidiaries of the Bank except **UBA Ghana Limited** in which the bank owns 51%.

Industry Analysis (N'mn)

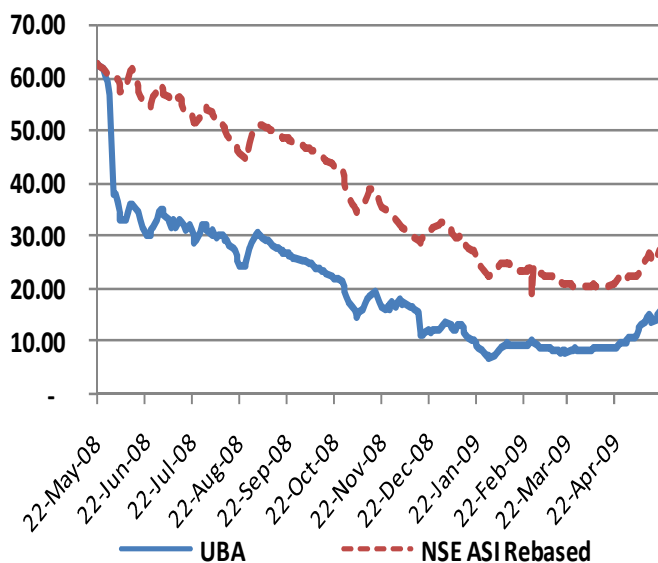
Company	GEs	PBT	PAT	PAT Margin (%)	ROAE (%)	EPS*	PE*
UBA	169,581	48,029	40,825	24.32	17.40	1.96	7.65
Intercontinental	173,571	45,633	34,773	20.03	13.75	2.19	5.21
GT Bank	104,120	35,177	28,316	27.20	14.32	1.71	6.71
Zenith	208,294	56,119	51,992	24.96	15.18	2.65	8.94

Source: Company Annual Reports as at FY '08, NSE FACTBOOK. * Current; The Banks have different FY ends.

Financial Performance (Nmn)

	Q2 '09	Q2 '08	%Δ	FY 2009	FY 2008	%Δ	15 mths FY, Dec. 2009E
Gross Earnings	108,896	78,103	39.40	169,581	109,457	54.90	273.59
PBT	25,879	21,865	18.36	48,029	25,364	89.36	65.28
PAT	19,901	18,420	8.04	40,825	21,441	90.41	55.06
PBT Margin (%)	23.76	28.00	(4.23)	28.32	23.16	5.16	23.86
PAT Margin (%)	18.28	23.58	(5.31)	24.32	19.67	4.65	20.13

UBA vs. NSE ASI Rebased (May, 08 - May, 09)



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Table 3: Directors Shareholding as at September 30, 2008

Director	Position	No of Shares
Chief F. Alabraba	Chairman	7,500,000
Tony O. Elumelu	Mgr. Director	52,366,500
Godwin Ize-Iyamu	Executive	404,100
Chief I.C. Ogbue	Executive	850,665,483
Ibrahim M. Jega	Executive	404,100
Victor Osadolor	Executive	9,384,700
Phillips Oduoza	Executive	5,690,100
Faith Tuedor-Matthews	Executive	15,878,100
Emmanuel Nnorom	Executive	1,534,050
Rasheed Olaoluwa	Executive	2,647,500
Angela Nwabuoku	N. Executive	28,720
Rose A. Okwechime	N. Executive	39,000,000
Paolo A. Di Martino	N. Executive	132,192,000
Adekunle A. Olumide	N. Executive	151,143
Chief K..B. Jamodu	N. Executive	281,217
Foluke K. Abdulrazaq	N. Executive	1,500,150
Ja'afaru A. Paki	N. Executive	12,000,000

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