The Analyst™ Note.

UBA H1 2024 Result: Lower Non-Interest Income Squeezes Net Profit by -16.36%.

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A Market Intelligence and Strategic Advisory Group Report

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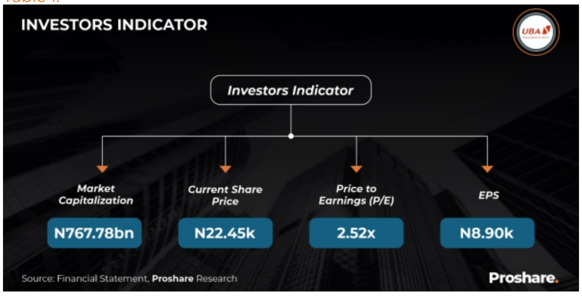
Proshare Graphics.

In the last decade, **UBA** has embarked on a rapid continental expansion that has raised its revenue base, asset size, and industry relevance. Recent Central Banks' monetary tightening across Africa has enabled UBA to scale its top-line earnings above N1trn. However, its exposure to continental macroeconomic downside risks has resulted in a hyperinflation monetary loss of N4.38bn and substantial operating expenses that pinched its profit. The -33.60% drop in non-interest income resulting from its net FX loss on derivatives instruments tempered its capacity to absorb the operating cost increases, with the group's pre- and post-tax profit declining by -0.15% and -16.36% to N401.58bn and N316.16bn respectively. This performance mildly affected most of the group's financial ratios, lower return on assets and equity, higher CIR, cost of funds, cost of risk, and NPL.

Despite the recapitalisation directive by the Central Bank of Nigeria (CBN) to all banks, **UBA** is yet to announce a capital raise strategy to fill its N385bn tier 1 capital gap. Analysts suspect the group might leverage its strong presence across Africa to raise funds from private investors and reduce shareholder's exposure to share dilution; analysts expect a three-stage capital raise process that will start with a Rights Offer followed by a private placement and then an Initial Public Offer (IPO), if the first two stages create further headroom for more capital raising (*see table 1*).

Table 1:



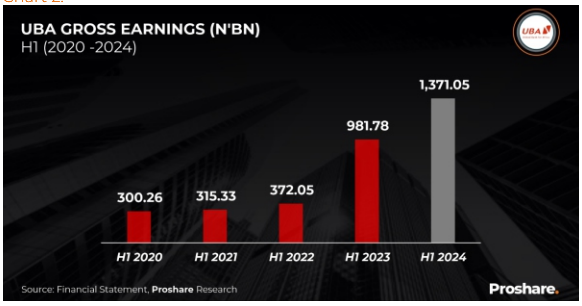
Key Highlights.

- UBA's gross earnings rose by +39.65% from N981.78bn in H1 2023 to N1.37trn in H1 2024.
- Interest income rose by +134.32% to N1.00trn while non-interest income declined by -33.60% to N367.49bn in H1 2024.
- The group's other operating expense rose by +121.75% from N140.86bn in H1 2023 to N312.36bn in H1 2024.
- The group's Profit before tax declined by -0.51% from N403.65bn in H1 2023 to N401.58bn in H1 2024. Profit after tax dipped further by -16.36% to N316.36bn in H1 2024 from N378.24bn in H1 2023.
- Total assets rose by +84.22% to N28.34trn in H1 2024 from N15.38trn in H1 2023.
- Loans and advances rose by +49.44% to N7.00trn in H1 2024 from N4.68trn in H1 2023.
- Customer deposits increased by +109.12% to N23.30trn in H1 2024 from N11.14trn in H1 2023.
- Shareholder's funds rose by +74.33% to N2.99trn in H1 2024 from N1.71trn in H1 2023.
- Earnings per share declined to N8.60k in H1 2024 from N10.95k in H1 2023.
- Retained earnings rose +61.66% from N683.02bn in H1 2023 to N1.10trn in H1 2024.
- Investment Securities rose +85.30% from N6.20trn in H1 2023 to N11.50trn in H1 2024.

Gross Earnings.

The Pan-African bank's gross earnings rose by +39.65% from N981.78bn in H1 2023 to N1.37trn in H1 2024. The +134.32% growth in the group's interest income to N1.00trn compensated for the decline in non-interest income of -33.60% to N367.49bn in H1 2024 from N553.48bn in H1 2023. The lower non-interest income was driven by a -76.53% decline in foreign exchange gain to N98.18bn in H1 2024 from N418.28bn in H1 2023 (*see chart 1*).

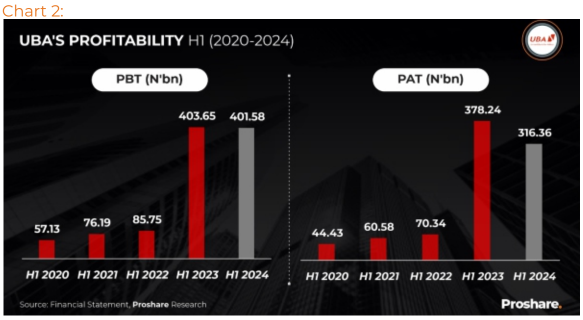
Chart 2:



Profitability.

Despite the double-digit growth in gross earnings, the group's profitability fell slightly due to higher operating and personnel expenses. The +121.75% rise in other operating costs to N312.26bn came from NDIC premium, AMCON levy, and fuels and maintenance. Also, the doubling growth (+92%) in wages and salaries to N126.58bn raised employee benefit expenses. Hence, UBA's pre- and post-tax profit declined by -0.51% and -16.36% to N401.58% and N378.24bn in H1 2024, respectively (*see chart 2*).

Chart 2:



Statement of Financial Position.

The group's statement of financial position improved as total assets rose by +84.22% to N28.34trn in H1 2024 from N15.38trn in H1 2023. This rise came from a +142.19% rise in cash and bank balance to N8.32trn in H1 2024, a +497.39% rise in financial assets at fair value to N56.23bn, +85.30% rise in investment securities to N11.50trn and +49.44% rise in loans and advances.

The group's customer deposits doubled in H1 2024 to N23.30trn from N11.14trn in H1 2023. The retained earnings improved by +61.66 to N1.10trn, driving growth in shareholder's equity to N2.99trn in H1 2024, a +74.33% rise from N1.71trn in H1 2023 (*see table 2*).

Table 2:

FINANCIAL POSITION

	H1 2023 (N'bn)	H1 2024 (N'bn)
Total Assets	15,382.38	28,337.54
Loans and Advances	4,682.66	6,997.84
Investment Securities	6,204.88	11,497.57
Customers Deposit	11,139.90	23,295.73
Shareholders Equity	1,712.36	2,985.15
Share Capital	17.10	17.10
Retained Earnings	683.02	1,104.19

Source: Financial Statement, **Proshare** Research

Financial **Ratio.**

Falling profit for the period drove down the group's return on asset and equity to 2.58% and 25.23% in H1 2024, respectively. However, a high-interest rate environment drove the net interest margin to 8.28% in H1 2024 from 6.00% in H1 2023 but lifted the cost of funds to 3.08% in H1 2024. However, the inflationary pressure raised the cost-to-income ratio (CIR) to 50.24% in H1 2024, respectively. The risk-prone environment raised the non-performing loan ratio to 6.18%, above the regulator's statutory requirement (*see table 3*).

Table 3:

FINANCIAL RATIO

	H1 2023	H1 2024
Return on Equity	57.70%	25.23%
Return on Asset	5.80%	2.58%
Net Interest Margin	6.00%	8.28%
Cost of Risk	3.40%	1.79%
Cost of Fund	2.60%	3.08%
Cost to Income	28.90%	50.24%
Loan to Deposit	37.15%	26.50%
NPL	3.30%	6.18%

Source: Financial Statement, **Proshare** Research

Valuation.

Lower net earnings relative to strong market perception nudged the group's price-to-earnings ratio to 2.52x in H1 2024 from 1.12x in H1 2023, higher than the industry average of 1.4x. Similarly, the price-to-book value increased to 0.26x in H1 2024 from 0.24x in H1 2023, reflecting the market priced the company below its book value (*see table 4*).

Table 4:

VALUATION

			Industry Average
P/E	1.12x	2.52x	1.4x
P/B	0.24x	0.26x	0.76x

Source: Financial Statement, **Proshare** Research

Share Price **Movement.**

The group's share price was volatile upward at the beginning of the year, starting from N26.00k and hitting a peak of N33.95k by 16th January. The bullish run ceased by mid-January, declining to a support price of N20.50k, but regained momentum in March, appreciating to N28.00k by 28th March. Since then, the share price has fluctuated downwards, generating a year-to-date (YTD) return of 9.16% as of October 7th 2024, but lower than the industry's index of +24.39% (*see chart 3*).

Chart 3:

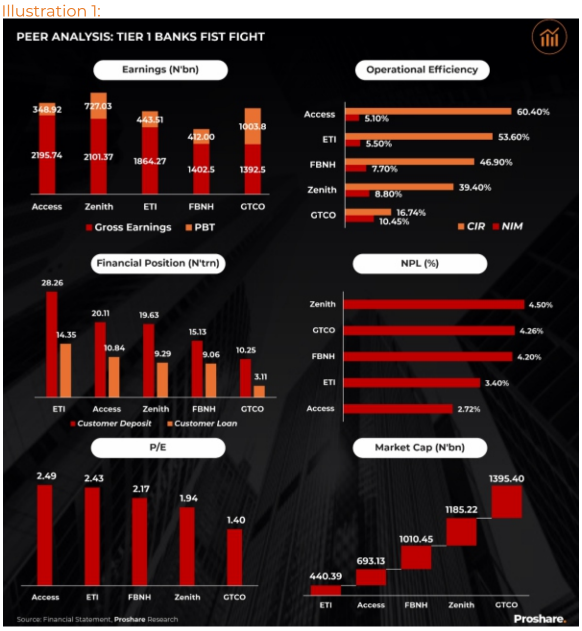
Competitors **Analysis.**

The decomposition of Tier 1 banks' performance in H1 2024 reaffirmed the famous quote that "***bigger is not necessarily better***". The industry's top 3 banks by assets and earnings saw profit fall behind banks with lower assets and gross earnings, revealing a faculty operational structure. While analysts acknowledge that banks' commitment to technology integration and elevated energy costs has put significant pressure on operating expenses, diverting away from a brick-and-mortar structure paved the way for banks like **GTCO**, to hedge the headwinds (**GTCO**, with around 235 branches relative to other banks with over 500 branches). In absolute numbers, **Access Corp** had the highest gross earnings at N2.20trn and the lowest PBT at N348.92bn, while **GTCO** had the lowest gross earnings at N1.39trn but was the only bank to achieve a trillion PBT in H1 2024. This pattern was reflected in financial ratios such as CIR and Net interest margin (NIM), where **GTCO** and **Zenith Bank** led, with Access trailing **ETI** and **FBNH**.

Zenith Bank had the highest nonperforming loans amongst five tier 1 peers, with an NPL of 4.50%; this was still within the regulator's statutory requirement of 5%. However, **Access Corp** had the lowest nonperforming loan amongst six tier 1 banks on **Proshare**'s Bank Strength Index (PBSI). Meanwhile, **GTCO**'s market capitalisation stood at

1.39trn with the lowest P/E ratio of its peers of 1.40x, followed by **Zenith Bank** with a 1.19trn market cap and a P/E ratio of 1.94x. **GTCO**'s cost containment strategy reestablishes that banking is quickly migrating beyond buildings and asset size and is concerned with service agility and flexibility; banking is increasingly becoming more about solutions to customers' journey experiences than their bright and shiny buildings (*see illustration 1*).

Illustration 1:



Closing **Thoughts.**

The favourable impact of the high-interest rate environment on banks' interest margins and top-line earnings comes with the baggage of higher exposure to credit risk and macroeconomic headwinds. This concept played out in **UBA's** financial numbers, with a higher nonperforming loan (NPL), net monetary loss, growing operating expenses, and flattening profit. The bank must be cautious about fresh loan creation to conceal exposure and adopt a tighter cost-containment strategy to avoid weakened performance in H2 2024.

Nevertheless, UBA still appears to have hidden investor value opportunities. Its recent price of N27.50 is lower than independent market analysts' valuation of N30.70, representing a hidden value potential of 11.64%.

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5. UBA Plc Announces Retirement of Dr. Kayode Fasola and Appoints Mr Chukwuma Nweke as Deputy MD.
6. Proshare Tier 1 Banks Report 2024: Access Corp, Zenith Bank, FBNH Lead in PBSI Ranking.
7. UBA FY 2023 Result: Diversification Cushions Rising Operating Costs, PBT Grows +277.19%.
8. Nigeria's Banking Recapitalisation: A Crucial Game, A Risky Gamble, and A Lingering Gap.
9. UBA Plc Declares N607.70bn PAT in FY 2023 Results,(SP:N25.15).
10. Banking Sector Recapitalisation: Much Ado About Retained Earnings.
11. UBA Board Approves FY 2023 Audited Financial Statements and Payment of Final Dividend; Awaits Regulatory Approval.
12. UBA Plc Market Capitalisation Hits N1.02trn.
13. UBA Plc to Hold Board Meeting on January 25th 2024 to Consider FY 2023 Financial Statements and Proposals for Final Dividend.
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15. UBA to Host Business Series on Benefits of E-commerce.
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17. UBA Plc Declares N449.30bn PAT in Q3 2023 Results,(SP:N19.85).
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21. UBA Board Approves H1 2023 Results and Payment of an Interim Dividend Subject to CBN Approval.
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