

Quick take: Fair value gains on derivatives boost profit growth

UBA's H1 2023 audited numbers showed a strong 66.4% y/y growth in Interest Income to N428.3bn driven mainly by a significant growth in Interest Income on Investment Securities and on cash and bank balances. Net Loans to customers grew 43.5% in H1 compared to December 2022, inclusive of the impact of devaluation on foreign currency loans. Interest Expense also grew strongly, up 88.0% y/y on the back of a 237% y/y growth in Interest Expense on deposits from banks, 80% y/y growth on Interest Expense on Customer Deposits, and a 49% y/y growth in Interest Expense on borrowings. Customer Deposits were up 42.4% in June compared with December 2022. Overall, Net Interest Income was up 56.7% y/y to N278.1bn in June 2023 from N177.5bn in June 2022 and up 32.5% q/q to N158.5bn in Q2 2023 from N119.6bn in Q1 2023.

Net Fee and Commission Income also grew strongly, up 30.7% y/y and 70.2% q/q. The y/y growth was driven by growth in account maintenance (+46.1% y/y), funds transfer fees (+84.4y/y), and commissions on transactional services (up 198.9% y/y). E-banking Income, which made up 40.6% of Fees and Commission in H1 2023 was up 40.6% y/y to N51.1bn, but again capped by high e-banking expense of N41.5bn, thus resulting in a balance of only N9.6bn for net e-banking income.

H1 2023 Nm

	H1 2022	H1 2023	change	Q1 2023	Q2 2023	change
Interest Income	257,361	428,292	66.4%	191,879	236,413	23.2%
Interest Expense	(79,899)	(150,179)	88.0%	(72,249)	(77,930)	7.9%
Net interest income	177,462	278,113	56.7%	119,630	158,483	32.5%
Net fee and commission income	59,916	78,296	30.7%	28,977	49,319	70.2%
Other income	18,291	427,549	2237.5%	27,105	400,444	1377.4%
Total operating income	255,669	783,958	206.6%	175,712	608,246	246.2%
Impairment Charge	(8,330)	(153,944)	1748.1%	(7,032)	(146,912)	1989.2%
cost of risk	0.6%	7.7%	710bps	n/a	n/a	n/a
Operating expenses	(161,901)	(226,367)	39.8%	(107,307)	(119,060)	11.0%
cost to income ratio	63.3%	28.9%	-3445bps	61.1%	19.6%	-4150bps
Share of loss of equity-accounted investee	311	0	-100%	0	0	n/a
PBT	85,749	403,647	370.7%	61,373	342,274	457.7%
Tax	(15,415)	(25,412)	64.9%	(7,784)	(17,628)	n/a
Net Profits	70,334	378,235	437.8%	53,589	324,646	505.8%

Source: Company, CSL Research.

Other Income (Net Trading and Foreign Exchange Income and Other Operating Income) grew significantly to N427.5bn in H1 2023 compared with 18.3bn in H1 2022. The y/y growth was driven mainly by a significant growth in net fair value gains on derivatives to N348.8bn in H1 2023 from a loss position of N22.6bn in H1 2022. The bank also reported a foreign currency revaluation gain of N29.2bn.

Impairment Charge grew significantly to N153.9bn in H1 2023 from N8.3bn in H1 2022, bringing H1 2023 annualised Cost of Risk to 7.7% compared with 0.6% for H1

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2022. The growth in impairment charge can be partly accounted for by the impact of devaluation on impairments on FX loans.

OPEX grew significantly, up 39.8% y/y to N226.4bn. The significantly lower y/y increase in opex compared with a 206.6% growth in Total Operating Income led to a strong improvement in Cost to Income Ratio (ex-provisions) to 28.9% in H1 2023 compared with 63.3% in H1 2022.

Overall, Pre-tax Profit buoyed by strong operating performance and strong derivatives gains grew strongly, up 370.7% y/y to N403.6bn while Profit after Tax was up 437.8%y/y to N378.2bn bringing H1 2023 annualised ROAE to 57.4% compared with 19.7% for FY 2022.

The management proposed an interim dividend of No.50/s compared with No.20/s in H1 2022.

We have a Buy recommendation on the stock with a target price target of N18.87/s. Current Price N13.80/s. Our estimates are being reviewed.

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