Nigeria | Equity Research | Banks | Company Update

October 17, 2025

BLOOMBERG: UBA NL

United Bank for Africa Plc

BUY

Pre-tax earnings to remain robust

Target Price: N54.06

Ref Price: N42.00

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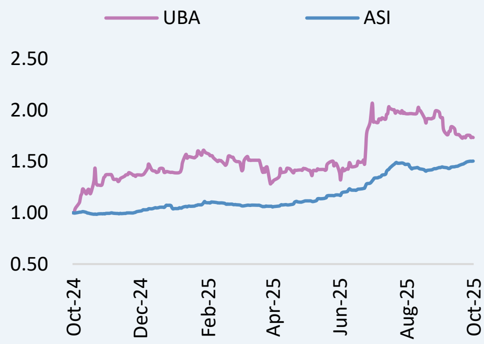
In H1'25, UBA recorded an accelerated growth in interest expense (+70.4% YoY) and a 36.0% YoY decline in Non-interest Revenue (NIR), which collectively weighed on bottom-line performance. These changes reflected increased funding pressures, particularly in its Nigerian business, and the net loss of N123.5 billion related to the maturity of derivative assets and an 87.5% plunge in foreign currency revaluation gain. Owing to these factors, we now project interest expense at N1.1 trillion for FY'25, raising our Cost of Funds (CoF) projection to 3.9% (from 3.7% previously). Alongside, we see scope for a slight 5.6% YoY contraction in NIR with a reversion of its mix to pre-FY'23 composition, characterised by stronger fee & commission income and lower FX-induced gains.

Market Data	UBA
Market Cap (N'tn)	1.74
Last close price (N)	42.00
52-week high-low price (N)	50.55-24.35
Avg 3M daily volume (mn)	25.4

1-year price performance (rebased)



Source: NGX; CardinalStone Research

We project an interest expense of N1.1 trillion for FY'25

UBA's H1'25 results mirrored its Q1'25 performance in terms of the impact of funding cost pressures, with Q2'25 also seeing a quick pace of interest expense increase (+26.1% QoQ, +65.6% YoY) vis-à-vis interest income (+22.3% QoQ, +30.4% YoY), prompting an upward review in our CoF projection to 3.9% from 3.7% in our previous publication. We attribute the growth in interest expense to a significant increase in deposits from banks, which grew by N654.4 billion between FY'24 and H1'25. This rise in deposits from banks resulted in a 3.3x increase in applicable interest expenses, which was the primary driver of total interest cost.

Furthermore, we link the increase in deposits from banks partly to the Central Bank of Nigeria's (CBN) decision to raise the Cash Reserve Ratio (CRR) for commercial banks to 50.0% (vs 45.0% previously). This increase also explains the 79.5% YoY surge in interest expenses from the Nigerian segment, which contributed 66.0% of the bank's total interest expense in H1'25 (compared to 54.6% in FY'24 and 66.8% in FY'23). All considered, we leave our FY'25 interest expense mostly unchanged at N1.1 trillion, given its consistency with the H1'25 run rate. Our view on interest expense accounts for recent macro-economic developments, such as the reduction in CRR to 45.0% and the 50bps cut in Monetary Policy Rate (MPR) to 27.0%. Our adjustments translate to a contraction in Net Interest Margin (NIM) to 7.2% compared to 9.0% in FY'24, 7.1% in H1'25, and 7.5% in management's FY'25 guidance.

Reversion in NIR mix to pre-FY'23 norm

We now expect the NIR mix to revert to its historical pattern, where net fee and commission income typically accounted for c.65.8% of total NIR between FY'20 and FY'22. This anticipated reversion reflects a normalisation of earnings following the absence of the volatile FX-linked gains and losses that had previously distorted the NIR mix. We see latitude for stronger NIR accretion in H2'25, compared to H1'25. This view is supported by the historically strong net-fee and commission income in UBA's second half performances (c.57.0% of total net fee and commission income between FY'22 – FY'23) and management's disclosure of the full write-off of derivative assets, which should result in non-recurrence of related losses in H2'25.

The sanguine view on H2'25 NIR should be supported by the Nigerian business, where improved FX market liquidity is expected to support FX transaction volumes and related fee income. Transactions on the Group's digital channels have also accelerated and are poised to outperform FY'24 levels across key platforms such as POS, Leo, and Mobile Banking (see Figure 1). This momentum has been underpinned by ongoing innovation initiatives, including PAPSS on Leo, which positions UBA as the first African chatbot to enable cross-border payments via PAPSS in Nigeria. This initiative deepens intra-African trade and remittance flows. Elsewhere, RED PAY (POS business) offers instant settlements and a merchant dashboard for effective service access that significantly drives adoption and transaction volumes. Collectively, these developments underpin our expectation of a more resilient and diversified NIR performance in FY'25.

Figure 1: Increasing adoption un UBA's digital channels

Platform	Metric	FY 2023	FY 2024	H1 2025	H1'25 as a % of FY'24
Leo	Count (mn)	15.0	19.0	9.3	48.9%
	Value (N'bn)	179.0	281.0	182.2	64.8%
Mobile Banking	Count (mn)	680.0	747.0	387.6	51.9%
	Value (N'bn)	26,750.0	44,204.0	25,603.5	57.9%
Internet Banking	Count (mn)	18.4	18.3	9.4	51.4%
	Value (N'bn)	36,825.0	61,924.0	29,219.0	47.2%
USSD	Count (mn)	697.0	657.0	320.1	48.7%
	Value (N'bn)	1,767.0	1,952.0	1,232.0	63.1%
Cards	Count (mn)	1,362.0	1,486.0	718.0	48.3%
	Value (N'bn)	30,585.0	38,854.0	15,992.0	41.2%
POS	Count (mn)	202.0	555.0	184.0	33.2%
	Value (N'bn)	1,439.0	4,382.0	6,399.6	146.0%

Source: Company Presentation, CardinalStone Research

UBA fully exited forbearance loans in H1'25 with a minimal impact on its bottom line

UBA fully exited its forbearance loans in H1'25 and declared an interim dividend of N0.25 per share, albeit notably lower than the N2.00 declared in H1'24. We expect the bank to declare a final dividend of N3.09 per share, supported by management's resolve to remain competitive on both final dividend payout and yield relative to peers.

We note that the bank recorded a 40.0% decline in impairments on loans in H1'25, just as it disclosed that it had adequately provisioned for and exited forbearance loans. Management, in explaining the minimal impact of forbearance on its profit or loss account, disclosed that it had previously made sizeable amounts of provisions on some of the forbearance loans prior to H1'25. It also disclosed that some of the facilities have now been written off with the permission of the CBN. In view of the disclosures, we now expect a 61.2% YoY decline in impairment charges to N98.3 billion in FY’25, with further notable contractions expected in FY’26.

Following the moderate 2.2% loan growth achieved in H1'25, UBA intends to expand its loan book by a further 7.0% in H2'25. The proposed increase implies a year-end loan growth target of 9.3% YoY, with management further guiding to a FY'25 CoR of 1.5% vs 0.9% in H1'25. However, we have taken a more conservative stance on FY'25 loan growth, which we peg at 7.8%, given the Group's relatively high NPL ratio of 6.2%.

Figure 2: We forecast a CoR of 1.3% for FY’25

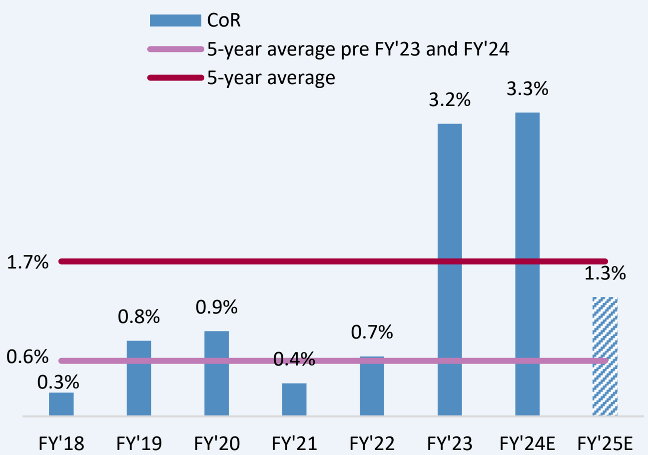


Figure 3: UBA’s NPL ratio remain above the regulatory threshold

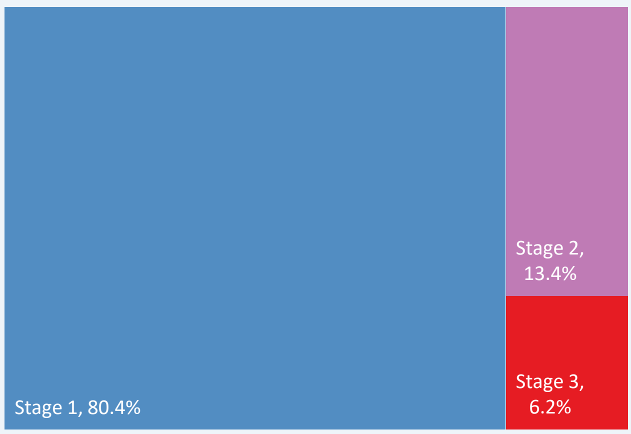


Figure 4: We project gross loans to increase by N431.2 billion in H2’25

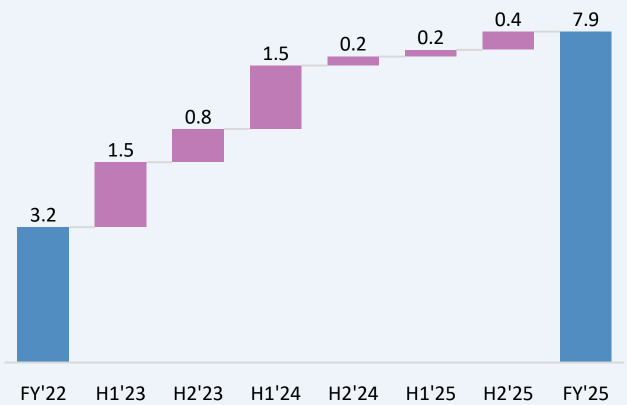
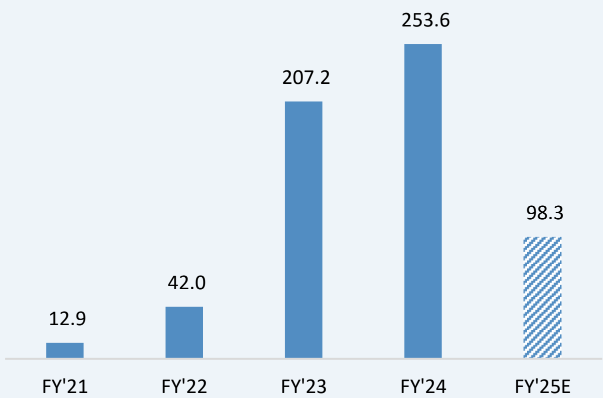


Figure 5: UBA made sizeable provisioning in FY’23 and FY’24 (N’bn)



Source: Company Financials, CardinalStone Research

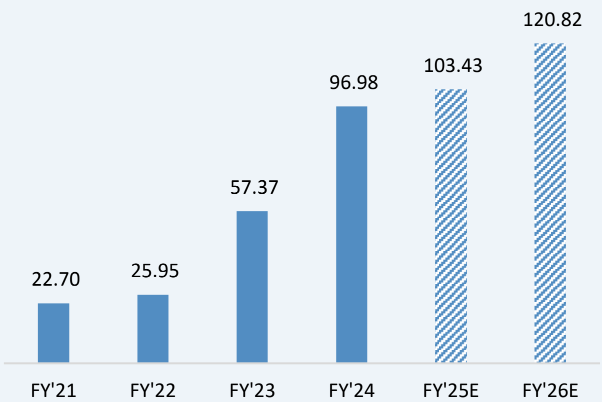
Valuation summary

Following revisions to our model, we now estimate a 12-month Target Price ("TP") of N54.06 (previously N40.90) and maintain our BUY recommendation on the counter. The revised TP implies a potential upside of 28.7% from the current reference price of N42.00, reflecting our expectations of a higher book value per share (BVPS) in FY'26 (N120.82 vs. N103.43 in FY'25). The uplift also mirrors the strong upside potential compared to its Middle East and African peers.

We note that the 32.2% increase in our 12-month TP also reflects the following:

- The significant 80.5% downward adjustments to FY'25 impairment charges to N98.3 billion from N496.5 billion in the previous projection. This material change cascaded to a surge in our estimated FY'25 PBT to N965.9 billion (from N552.2 billion previously). The change in impairment expectation is driven by UBA's exit from forbearance exposure as well as the level of provisioning already booked, which should result in materially lower provisioning in subsequent quarters (Q3'25 and Q4'25).
- The 74.9% improvement in our FY'25 PBT forecast also translates to a surge in FY'25 ROAE to 21.3% from 12.3%. In addition, given the implied increase in retained earnings, we now estimate a 6.7% increase in Book Value Per Share (BVPS) to N103.4. Across our five-year forecast horizon, ROAE should now average 18.0% with mean BVPS at N140.04.
- The moderation in the risk-free rate to 16.4% from 18.0% given by the moderation in fixed-income yields. On the fundamental side, we also factor in an IEA CAGR of 13.8% over the next half-decade to N39.3 trillion, which should provide support for interest income and NIM despite projected yield decline.
- The valuation does not consider the impact of additional capital raise from the recently concluded second phase of the rights issue.

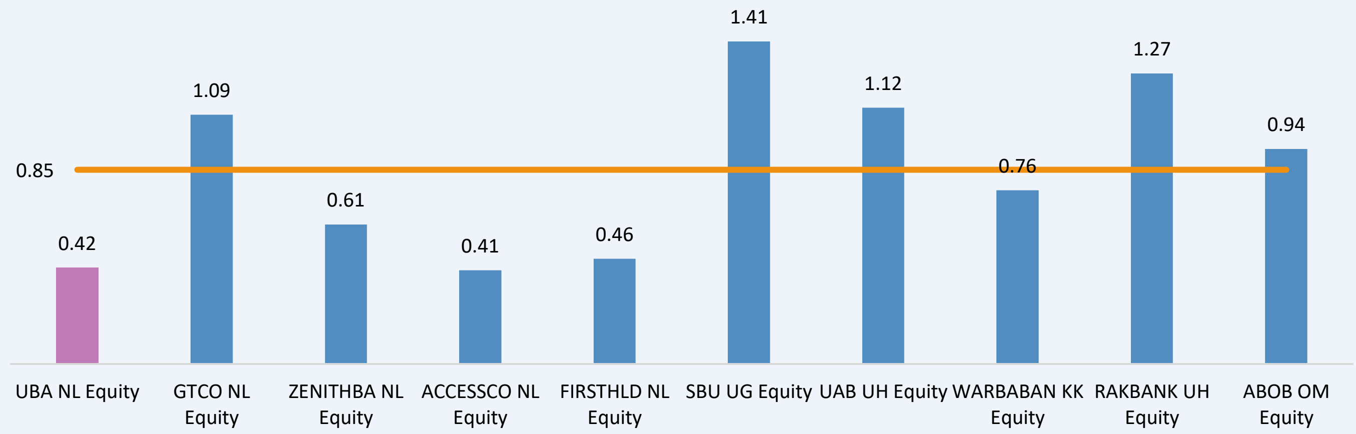
Figure 6: We project FY'25 and FY'26 BVPS* at N103.43 and N120.82, respectively



**BVPS adjusted for minority interest*

Source: Company Financials, Capital IQ, CardinalStone Research

Figure 7: UBA's P/B ratio significantly trails the average for MEA peers



Source: Bloomberg, Capital IQ, CardinalStone Research

Figure 8: Summary table

Income Statement (N'billion)	2023A	2024A	2025E	2026E
Gross Earnings	1,957.3	2,952.9	3,319.0	3,658.0
Interest Income	1,075.3	2,370.0	2,754.9	3,009.5
Interest expense	(367.8)	(839.3)	(1,102.0)	(1,123.1)
Net interest income	**707.5**	**1,530.8**	**1,652.8**	**1886.3**
Non-interest income	882.0	582.8	564.2	648.5
Impairment on financial instruments	(207.2)	(253.6)	(98.3)	(105.4)
Operating expenses	(624.4)	(1,056.3)	(1,152.8)	(1,394.2)
PBT	**757.9**	**803.7**	**965.9**	**1035.3**
Tax	(150.0)	(37.2)	(140.1)	(155.3)
PAT	**607.9**	**766.6**	**825.8**	**880.0**
Profit attributable to parents	**598.3**	**743.1**	**806.7**	**856.3**
EPS (NGN)	**17.5**	**21.7**	**20.8**	**20.9**
DPS (NGN)	**2.8**	**5.0**	**3.3**	**4.0**
Payout ratio	16.0%	23.0%	16.1%	19.4%
Weighted average number of shares (billions	34.2	34.2	38.8	41.0
Shares outstanding (billions)	34.2	34.2	41.0	41.0

Balance Sheet (N'billion)	2023A	2024A	2025E	2026E
Cash and cash equivalents	6,069.5	8,163.7	9,219.5	10,491.6
Assets under management	14.0	15.2	15.8	15.8
Investments Securities	7,940.7	12,823.8	15,754.7	17,390.1
Loans and Advances	5,549.6	7,510.6	8,000.9	8,891.8
Other Assets	758.7	1,186.3	1,913.6	2,098.3
Other Current Assets	53.6	207.2	231.0	231.0
PP&E	267.1	416.6	498.1	546.5
Proceeds from capital raise	-	-	-	-
Total assets	**20,653.2**	**30,323.4**	**35,633.6**	**39,665.2**
Customer deposits	14,891.3	21,894.7	26,214.2	28,744.0
Due from banks	2,464.4	2,756.5	3,658.7	4,300.1
Trading Liabilities	1.9	33.8	-	-
Other Liabilities	364.0	685.9	759.3	834.4
Current income tax payable	42.7	139.0	59.2	59.2
Borrowings	858.7	1,394.8	595.6	666.9
Total liabilities	**18,623.0**	**26,904.7**	**31,286.9**	**34,604.6**
Shareholders' equity	1,962.2	3,316.6	4,244.7	4,958.5
Minority interests	68.0	102.1	102.1	102.1
Total liabilities & equity	**20,653.2**	**30,323.4**	**35,633.6**	**39,665.2**

Loan Analysis	2023A	2024A	2025E	2026E
Cost of Risk (CoR)	3.2%	3.3%	1.3%	1.2%
NPL ratio	5.8%	6.0%	6.2%	6.0%
NPL Coverage	77.5%	73.3%	81.0%	85.0%

Capital & Liquidity Analysis	2023A	2024A	2025E	2026E
Capital Adequacy Ratio	32.6%	31.0%	36.2%	49.4%
Liquidity ratio	72.4%	76.9%	76.5%	77.2%

Ratio Analysis	2023A	2024A	2025E	2026E
Asset Yield	10.2%	13.9%	12.0%	11.4%
Cost of Funds (CoF)	2.7%	3.8%	3.9%	3.5%
Net Income Margin (NIM)	6.7%	9.0%	7.2%	7.1%
Cost-to-Income (CIR)	39.3%	50.0%	52.0%	55.0%
PBT Margin %	38.7%	27.2%	29.1%	28.3%
Effective tax rate	19.8%	4.6%	14.5%	15.0%

Profitability Analysis	2023A	2024A	2025E	2026E
ROAA	3.9%	3.0%	2.5%	2.3%
ROAE	41.2%	28.1%	21.3%	18.7%

Growth Analysis	2023A	2024A	2025E	2026E
Gross Earnings YoY Growth	154.1%	50.9%	12.4%	10.2%
Pre-provison operating profit YoY Growtl	297.4%	9.6%	0.6%	7.2%
Impairment charge YoYGrowth	393.7%	22.4%	-61.2%	7.3%
OPEX YoY Growth	78.4%	69.2%	9.1%	20.9%
PBT YoY Growth	277.3%	6.1%	20.2%	7.2%
PAT YoY Growth	257.0%	26.1%	7.7%	6.6%
EPS YoY Growth	261.6%	24.2%	-4.2%	0.3%
Total assets YoY Growth	90.2%	46.8%	17.5%	11.3%
Total liabilties YoYGrowth	87.4%	44.5%	16.3%	10.6%
Equity YoY Growth	120.2%	68.4%	27.1%	16.4%

Valuation	2023A	2024A	2025E	2026E
P/E (x)	2.4	1.9	2.0	2.0
P/BV (x)	0.7	0.4	0.4	0.3
Dividend Yield	6.7%	11.9%	8.0%	9.6%

Source: Company reports, CardinalStone Research estimates

Note: NGN in billions (except per-share data). Fiscal year ends in December. Forecasts do not capture the impact of recapitalisation yet.

**Totals may not add up due to independent rounding*

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