Fitch Publishes UBA Cameroon's 'B-' IDR; Outlook Stable

According to Fitch's published ratings, UBA Cameroon's Long term Issuer Default Rating (IDR) is B- while its Outlook is stable. The key drivers of Fitch's ratings include: Issuer Default Rating (IDR), Viability Rating (VR) and Support Rating (SR).

Drawing from the ratings,

- UBA Cameroon's Long-Term IDR and Stable Outlook reflect the bank's standalone strength as defined by its Viability Rating (VR)
- UBA Cameroon's VR is constrained by its relatively weak operating environment (Cameroon; B/Stable), its limited franchise (less than 5% loans market shares at end-2014), its vulnerable asset quality and limited capital buffer, as well as its strong profitability and adequate funding and liquidity.
- The implicit support level of 'b-' and Support Rating (SR) of '5' are derived from UBA's VR of 'b' as an anchor rating, indicating that support is likely to come from the parent's (UBA Nigeria) resources rather than indirectly from the Nigerian sovereign (Nigerian government). Nigerian sovereign support, which drives UBA's IDR of B+, is unlikely, in Fitch's view, to extend to overseas subsidiaries (UBA Cameroon).

As a result, in Fitch's view,

- UBA Cameroon's impaired loans ratio (2.6% at end-2014) compares well with sub-Saharan peers but the reserve coverage of 30% ratio is low.
- The bank is exposed to event risk due to very high single obligor loan concentration, despite some of them being 0% risk-weighted.
- A significant portion of the bank's loan book is to the oil (around 30% of the loan book at end-1H15) and retail (around 35%) sectors, which Fitch considers higher risk exposures.
- UBA Cameroon's Basel I Tier 1 capital ratio (13.8% at end-1H15) is weak, given that it reports its regulatory capital ratios by applying a 0% risk weight on government-related exposures, which positively impacts its capital ratios.
- UBA Cameroon's tangible common equity to tangible assets (9.5% at end-1H15) as low considering the bank's risk profile with large loan concentration, significant exposure to higher risk sectors and to low or non-rated sovereigns.
- UBA Cameroon's profitability is strong, although Fitch expects historically aggressive loan growth and expansion of the retail segment to weigh on profitability in the near term.

In light of the above views,

- Fitch does not consider UBA Cameroon to be a core subsidiary given its limited role and overall contribution to UBA (less than 3% of income and assets).
- However, UBA Cameroon is still viewed by the UBA group as an important hub in prospective CEMAC region targeting local major corporates and serving local operations of UBA Nigeria's core clients.
- In addition, given UBA Cameroon's small size, the potential cost of support should not be too onerous (a burden or to heavy) for the parent (UBA Nigeria) because failing to support it could cause reputational damage for the group.

In order for UBA Cameroon to upgrade, Fitch proposes that

- An upgrade of UBA Cameroon's Long-Term IDR would be driven by a stronger company profile, a sustained improvement in asset quality metrics and reduced concentration in both its loan book and depositor base.
- Its IDR could also be upgraded if synergies increased or it assumed a greater role in the UBA group, or if UBA's VR was upgraded
- The SR could be upgraded following an upgrade of UBA's VR to 'b+' or following increased synergies and a greater role of the subsidiary within the UBA group.

The rating actions are as follows:

- Long-term IDR published at 'B-';
- Outlook Stable Short-term IDR published at 'B'
- Viability Rating published at 'b-'
- Support Rating published at '5'