



Tuesday, August 11, 2015

Strong Half Year Performance

1.1 HY1 Performance Analysis:

As at HY 2015, Gross Earnings (GE) increased by 21.80% to N2.75bn, compared with N2.26bn recorded in the corresponding period of 2014. The company has a relatively diversified income stream. Net interest income, which is the interest on managed funds less the interest expenses on managed funds accounted for 51.18% of the company's GE. Fees and Commission income which represents financial advisory fees and other fees changes accounts for 29.72% of GE. The investment income which is income on fixed deposits accounted for 10.38% of GE. Net trading income which includes gains and losses arising from trades and purchases of quoted equity accounted for 1.29% of GE. The other income which covers dividend on equity instruments and others accounted for 8.27% of GE. Net loss on Financial Assets Held for Trading stood at N23mn.

Gross Earnings increased by 21.80% over last year.

The rising yield and interest rate in the fixed income market helped to improve the income of the company.

The impairment in trade receivables as a result of the growth in the trade and other receivables and foreign currency related loans of the company, are the major downside risks in the short-term.

The rising yield and interest rate in the fixed income market helped to improve the income of the company. It also grew its fees and income due to its involvement in some corporate finance transactions in the market. The impairment in trade receivables as a result of the growth in the trade and other receivables and foreign currency related loans of the company, are the major downside risks in the short-term. Any borrower of dollar denominated loan is currently faced with challenges because of the devaluation of the Nigerian Naira due to the fall in oil prices. Investment income increased significantly by 218.31% to N285.48mn in 2014, while fees and commission income increased by 90.14% to N817.40mn in 2014. The operating expenses increased significantly by 232.68% to N1.13bn in HY1 2015. The PBT increased to N1.79bn, an increase of 19.54% from N1.50bn recorded in the corresponding period of 2014. The tax provision increased by 51.12% to N384.11mn from N254.18mn, leading to a PAT of N1.41bn in HY1 2015 from N1.25bn in the corresponding period of 2014, representing an increase of 13.10%. The increase in the tax provision may be linked to the increase in income derived from sources not qualified for income tax exemption.

Table 1: Composition of Gross Earnings (%)

Income Segment	Amount (Nm)	Contribution
Investment Income	285.48	10.38%
Fees & Commission Income	817.40	29.72%
Net Trading Income	35.55	1.29%
Net Interest Margin	1,407.67	51.18%
Other Income (Net)	204.38	7.43%

Assets	Amounts (N'000)	Contribution to Total Assets
Cash and Cash Equivalents	37,847,899	34.69%
Loans and Receivables	20,587,884	18.87%
Available for Sale Securities	10,107,365	9.27%
Held to Maturity Securities	32,835,822	30.10%
Investment in Associates	2,067,457	1.90%
Trade and Other Receivables	4,387,423	4.02%
Others	1,257,398	1.15%
Total	109,091,248	100.00%

The PBT Margin decreased marginally over the HY1 2014, but higher than the Financial Year ended December (FY) 2014 figure. The PBT margin decreased to 65.18% in HY1 2015 from 66.41% as at HY1 2014, but higher than the 49.40% recorded at the end of FY 2014. Also, the PAT margin stands at 51.22% in HY1 2015, down from 55.16% in the corresponding period of 2014, but up from 46.26% as at FY 2014. The result also indicates that the percentage of T/O, PBT, and PAT in the HY1 2015 to the Audited T/O, PBT and PAT for the period ended December 2014 are: 58.82%, 77.61% and 65.13%, respectively.

The company should surpass last year's performance if the current high yields persist in 2015 and it can secure additional corporate finance mandates.

Given the run rate, the company is likely to meet and surpass its previous year's performance provided the current high yields on fixed income securities persists and the company is able to secure additional corporate finance mandates where it can earn fees.

Liabilities	Amount (N'000)	Contribution (%)
Managed Funds	79,819,707	80.03
Other Borrowed Funds	13,644,439	13.68
Other Liabilities	4,545,753	4.56
Tax Provisions	1,726,477	1.73

Table 5: Profitability Margins (%)

	HY1 2015	HY1 2014
EBIT Margin	92.57%	77.59%
PBT Margin	65.18%	66.41%
PAT Margin	51.22%	55.16%

2.0 Drivers of Performance:

United Capital's earnings were impacted by the following:

The company's performance was impacted by some positive and negative factors.

Positive Factors:

- High yields on fixed income securities as a result of the tight monetary policy.
- The growth in its corporate finance business.
- Growth in its funds under management from various managed funds.
- Aggressive marketing drive of its products.

Negative Factors:

- The decline in the equity market.
- Difficult operating environment due to fall in oil prices.
- Growth in trade receivables and impairment charges.
- Low activities in the primary market for debt and equity issuance.
- The weakness in the value of the Naira in relation to the dollar.

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Table 6: Financial Performance (N'bn)

	HY1 2015	HY1 2014	Change
T/O	2.75	2.26	21.80%
EBIT	2.55	1.75	45.32%
PBT	1.79	1.50	19.54%
PAT	1.41	1.25	13.10%

Table 7: Quarterly Performance (N'bn)

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Turnover	1.44	1.31	1.48	0.94	1.26
PBT	0.9	0.89	0.28	0.53	0.88
PAT	0.7	0.71	1.85	-1.25	0.74

Table 8: Financial Performance (N'bn)

	FY 2014	FY 2013	Change
T/O	4.68	4.57	2.26%
EBIT	2.18	2.47	(11.74%)
PBT	2.31	2.63	(12.30%)
PAT	1.85	1.76	4.73%

3.0 FY 2014 Performance Analysis:

The audited Full Year 2014 (FY 2014) result of United Capital Plc (UniCapital) for the period ended December 31, 2014 shows that its Gross Earnings (GE) increased marginally by 2.26% to N4.68bn, compared with N4.57bn recorded in the corresponding period of 2013. The improvement in the GE can be attributed to the increased income generated from investment income, which grew by 7.15% to N1.67bn in 2014 from N1.56bn in 2013; followed by net interest margin income from managed funds (103.08% to N424.99mn) and other operating income (42.55% to N759.09mn). The growth in the GE was weighed down by the 11.81% drop in the fee and commission income to N1.85bn from N2.09bn in 2013; as well as the 76.06% drop in net trading income to N25.98mn in 2014. The total operating expenses (depreciation & amortization, personnel expenses, impairment charge auditors remuneration, directors emoluments, and other expenses) increased by 18.58% to N2.49bn. The cost-to-income ratio increased to 53.33% in 2014 from 45.99% in 2013.

The other operating income increased by 42.55% to N759.09mn in 2014 from N532.52mn in 2013. This increase was mostly due to dividend on equity investment of N314.92mn and write back of excess provision of N170.60mn. The Profit Before Tax (PBT) fell to N2.31bn, a decrease of 12.30% from N2.63bn recorded in the corresponding period of 2013. The tax provision also decreased by 46.78% to N463.53mn from N870.90mn, leading to a Profit After Tax (PAT) of N1.85bn in FY 2014 from N1.76bn in the corresponding period of 2013, representing an increase of 4.73%. The company's profit margins recorded a mixed performance in FY 2014 compared with FY 2013. This is a reflection of the efforts of company to grow revenue and be competitive despite the challenges it faced with regards to the tough operating environment and external environment during the period under review.

The turnover in FY December 2014 increased marginally by 2.26% to N4.68bn.

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The company's profit margins recorded mixed performance in 2014 compared with 2013. The EBIT Margin decreased in 2014 to 46.79% from 54.05% in 2013. The PBT margin decreased to 49.39% in 2014 from 57.59% in 2013. However, the PAT margin increased to 39.48% in 2014, up from 38.55% in 2013.

Table 9: Profitability Margins

	FY 2014	FY 2013	FY 2012
EBIT Margin	46.67%	54.01%	53.30%
PBT Margin	49.39%	57.59%	62.90%
PAT Margin	39.48%	38.55%	63.81%

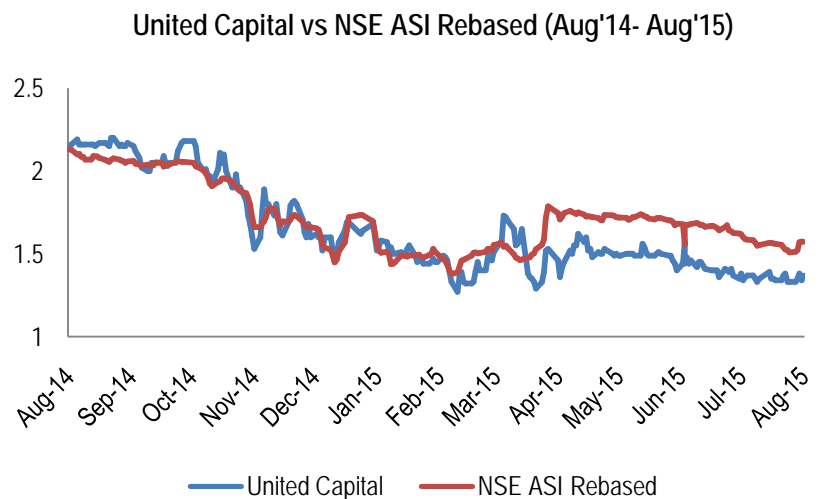
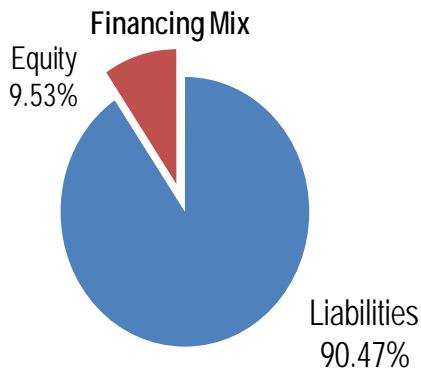
The PBT Margin decreased to 49.39% in 2014 from 57.59% in 2013. The PAT Margin increased in 2014 to 39.48% from 38.55% in 2013.

A cursory look at the balance sheet position as at FY 2014 compared with the position as at FY 2013 shows an increase in the company's total assets. The company's financial assets (loans and receivables, available for sale and held to maturity) increased by 24.59% to N57.71bn from N46.32bn in FY 2013. Loans and receivables as a component of the financial instrument were majorly responsible for the increase in the financial assets, as it increased by 138.98% to N21.15bn in 2014. The cash and cash equivalent recorded an increase of 8.88% from N29.20bn in FY 2013 to N31.80bn in FY 2014. Included in the Group's cash balance is a money market placement of N30.56bn. The trade receivables and prepayments increased in FY 2014 by 61.53% to N2.79bn from N1.73bn in the FY 2013 period. There was also an increase in other borrowed funds, which increased by 171.88% to N14.48bn in 2014. The loans from commercial banks constituted the biggest part of the other borrowed funds, which grew by 184.33% to N13.42bn in 2014. The loans represent different facilities with floating interest rates indexed to LIBOR for a period of 60 months with maturity ranging from 1 month to 32 months. The loans are collateralized by negative pledge. The net assets for the period increased by 8.29% to stand at N9.10bn from N8.38bn as at FY 2013.

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The total assets of the company which stood at N95.29bn as at FY 2014 were financed by a mix of equities and liabilities in the ratio of 9.53% and 90.47% respectively.

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4.0 Strategic Focus:

United Capital's strategic focus is to build an African Leading Investment Banking and Financial Services Group. The company's priorities are listed below:

United Capital's strategic focus is to build an African Leading Investment Banking and Financial Services Group.

- Re-branding to achieve market-wide recognition and appreciation of its new name and corporate identity.
- Integrated marketing to achieve growth along all business lines.
- Superior services and execution to drive client growth and retention.
- Business expansion to accommodate new product lines.
- Underwriting development of its staff in order to strengthen the workforce.
- Targeted participation in regional transactions.

United Capital is a holding company with three subsidiaries.

5.0 Business:

United Capital is a holding company with three subsidiaries: United Capital Trustees Limited, United Capital Asset Management Limited and United Capital Securities Limited. The principal activities of United Capital is investment banking and provision of issuing house, corporate investment advisory services, project finance, debt restructuring, mergers and acquisitions and capital market activities. The company, through its subsidiaries and associates provides additional services such as trusteeship, asset management, securities trading and insurance.

We however caution the company against setting up offices in other African countries so as to keep its operating expenses under control.

Meanwhile, the company noted that despite the continued market-wide dearth of initial Public Offers (IPOs), its investment banking and trustee divisions played actively in corporate debt and advisory transactions, whilst its asset management business continued to grow its managed funds. The securities business secured key international clients and also initiated strategic partnerships with regional providers across Africa. The company has also secured significant mandates for sub-national Bonds, Equity, Mergers & Acquisition and Project Advisory for its Investment Banking and Trust Services, which is expected to generate revenues from 2015 onwards.

We however, caution the company against setting up offices in other African countries so as to keep its operating expenses under control.

Table 10: Directors' Shareholding as at December 31, 2014

Director	Position	Holdings
Chika Mordi	Chairman	12,363
Oluwatoyin Sanni	Managing Director	1,015,359
Wale Shonibare	Executive Director	Nil
Tokunbo Ajayi	Non-Executive	Nil
Modupe Mujota	Non-Executive	Nil
Jude Chiemeka	Non-Executive	Nil
Emmanuel N. Nnorom	Non-Executive	2,640,486 22,182,665*
Amb. J.K. Shinkaiye	Non-Executive	2,514,308
Adim Jibunoh	Non-Executive	Nil
Yoro Mohammed Diallo	Non-Executive	Nil

*Indirect Shareholding

Table 11: Shareholding Structure as at December 31, 2014

Shareholders	No. of Shares Held	% of Shareholding
West Coast Equity Limited	668,367,002	11.14%
West Coast Equity Limited	637,111,568	10.62%
Others	4,694,526,430	79.24%
Total	6,000,000,000	100.00%

Table 12: Company Summary

Ticker	UBCap
Sector	Financial Services
Sub-sector	Other Financial Institution
Date of Incorporation	March 14, 2002
Date of Listing	January 2013
Financial Year End	December
Number of Fully Paid Share	6,000,000,000
Current Capitalization(NGN)	8,220,000,000.00
NSE Capitalization (NGN)	10,776,778,743,853.70
% of NSE Capitalization	7.63%
52 Week high NGN	2.20
52 Week low NGN	1.27
YTD Return (%)	(4.27%)
52 Weeks Average Volume Traded	7,517,581
Trailing EPS NGN	0.33
Trailing P/E Ratio (X)	4.15

**As at the August, 07, 2015*

United Capital's businesses include investment banking, trusteeship, asset management and securities trading.

6.0 Product Analysis:

United Capital's businesses include investment banking, trusteeship, asset management and securities trading.

6.1 United Capital Investment Banking (UCIB):

UCIB is an integrated investment bank providing advisory services along the following business lines:

- Project Finance.
- Capital Markets.
- Mergers & Acquisitions.
- Structured Finance.

6.2 United Capital Asset Management (UCAM):

The subsidiary provides investment services to a diverse client base that includes; Corporate Institutions, Government and Agencies, High Net worth Individuals and Retail Investors. The assets under its management is in excess of N79bn. The products offered by this subsidiary include:

- Collective Investment Scheme.
- Fixed Income Investment.
- Portfolio Management Services.
- Wealth Management, and
- Investment Advisory Services.

6.3 United Capital Trustees (UCT):

UCT works closely with individuals, families and foundations, guiding them in the preservation and transfer of wealth across generations. The products offered by this subsidiary include:

- Bond Trusteeship.
- Collective Investment Scheme.

- Private Trusts.
- Security and Debenture Trusts.

6.4 United Capital Securities (UCS):

UCS operates a business model that encompasses sales and trading of listed and unlisted securities for a diverse universe of Private and Institutional clients.

UCS also provides access to primary market opportunities for listed equities (IPOs, Right Issues, Offer for Sale and Offer for Subscription) and fixed income securities.

The products offered by the subsidiary include:

- Securities Dealing Services.
- Portfolio Management Services.
- Receiving Agent to New Issues.
- Stockbroker to Primary Issues, and
- Designated Advisers to Small and Medium Scale Enterprises (SMEs).

7.0 SWOT Analysis:

<p>7.1 Strengths:</p> <ul style="list-style-type: none"> - Strong alliance with the UBA Group. - Diversified income stream. - Stable management. - Robust Trustees business. 	<p>7.2 Weaknesses:</p> <ul style="list-style-type: none"> - Rising finance costs. - Declining margins. - Key customer risk.
<p>7.3 Opportunities:</p> <ul style="list-style-type: none"> - Growing debt market financing for the state and federal government. - The tight monetary policy stance of the CBN. - Large infrastructure deficit which would require various project finance opportunities. - Local content financing. 	<p>7.4 Threats:</p> <ul style="list-style-type: none"> - Increasing cost of funds in the financial system. - Foreign exchange risk - Declining stock market.

8.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- High yields on the fixed income securities in the market.
- Diversified income stream.
- Growing and vibrant bond market in Nigeria.
- Large infrastructure deficit in Nigeria looking for funding.
- Drive to ensure operational efficiencies, leading to cost reduction.
- Moderate recovery in the stock market after 2015.

Negative Factors:

- Foreign exchange risk exposure.
- The weak consumers spending power.
- Growing trade receivables.

Looking at the medium to long term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate Gross Earnings of N5.05bn, N6.76bn, N7.98bn, N8.90bn and N9.85bn for the periods ending December 2015, 2016, 2017, 2018 and 2019. Our PBT forecasts for the periods are: N2.78bn, N3.66bn, N4.29bn, N4.77bn and N5.37bn. Adjusting for tax, our PAT forecasts are N2.10bn, N2.76bn, N3.23bn, N3.60bn and N4.05bn. PAT Margin for the period are 41.59%, 40.82%, 40.53%, 40.42% and 41.10%. Our forecast final dividend for the FY 2015 is N0.26 per share.

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Profit and Loss =N='bn	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Gross Earnings	5.05	6.76	7.98	8.90	9.85
Investment Income	1.96	1.96	1.85	1.77	2.07
Fee and Commission Income	1.88	1.94	2.00	2.06	2.12
Other Income	(0.18)	1.23	1.32	1.20	1.13
Interest Income on managed funds	4.93	5.44	5.65	6.07	6.85
Interest expense on managed funds	(3.54)	(3.81)	(2.84)	(2.20)	(2.32)
Net Interest Income	1.39	1.63	2.82	3.87	4.53
Operating Income	4.42	6.13	7.35	8.27	9.20
Total Operating Expenses Less Depreciation	(2.46)	(3.29)	(3.88)	(4.33)	(4.69)
Group's Share of Associate Result	0.26	0.27	0.29	0.31	0.34
Depreciation and Amortisation	(0.06)	(0.09)	(0.10)	(0.11)	(0.12)
Total Operating Expenses	(2.52)	(3.38)	(3.99)	(4.45)	(4.82)
PBT	2.78	3.66	4.29	4.77	5.37
Tax	(0.68)	(0.90)	(1.05)	(1.17)	(1.32)
PAT	2.10	2.76	3.23	3.60	4.05

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
PBT Margin	55.13%	54.11%	53.73%	53.58%	54.49%
PAT Margin	41.59%	40.82%	40.53%	40.42%	41.10%
Total Expenses to Gross Earnings	49.95%	49.95%	49.95%	49.95%	48.92%
Cost to Income Ratio	57.01%	55.06%	54.26%	53.81%	52.36%
EPS(N)	0.35	0.46	0.54	0.60	0.67
DPS(N)	0.26	0.35	0.40	0.45	0.51
Dividend Payout	75.04%	75.04%	75.04%	75.04%	75.04%
Earnings Yield*	22.21%	29.18%	34.21%	38.06%	42.81%
Dividend Yield*	16.66%	21.89%	25.67%	28.56%	32.12%
P/E Ratio	4.50	3.43	2.92	2.63	2.34
Number of Shares ('bn)	6.00	6.00	6.00	6.00	6.00
<i>*At Our Fair Value of N1.58</i>					

9.0 Valuation

In arriving at a fair value for the ordinary share of the company, we used the Discounted Free Cash Flow (DCF) model. We applied a terminal growth rate of 6.44%. We used a beta value of 0.84x based on the 5-year daily historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used the yield of 14.61% as our risk free rate, and market premium of 11.15%. Applying the foregoing parameters on the Capital Asset Pricing Model (CAPM), the cost of equity generates 23.94%. Using 6bn shares in issue, the DCF model generates N1.58 per share, which is our fair value.

The current market price of United Capital shares is N1.35. The highest and the lowest closing price in the last 52 weeks are N2.20 and N1.27 respectively. The 2015 forward earnings yield and dividend yield based on our fair value are: 22.21% and 16.66% respectively. The expected capital appreciation from the current price to our fair value is 17.04%. This is higher than our risk free rate of 14.61% which is the current yield on the FGN Bond. We therefore place a **BUY** on the shares of United Capital Plc at the current price of N1.35 as of August 11, 2015.

We note that the cost of equity is high. This reflects the current investors' expectations on equity investment in the Nigerian market and particularly for financial related companies. This is compensated for by the high earning and dividend yields in United Capital.

The fair value for United Capital Plc is N1.58.

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