

**UPDATE**

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## Growing Stronger in HY1, 2016

### 1.0 HY1 2016 Performance Analysis:

**United Capital Plc improved both its top and bottom line performance in HY1, June 2016, despite the challenges facing the domestic operating environment.** The company's Gross Earnings (GE) increased by 32.90% to N3.66bn in HY1 2016, compared with N2.75bn recorded in the corresponding period of 2015. The improvement in the GE can be majorly attributed to the increase in income generated from the company's investment income. This category grew by 27.57% to N1.72bn in 2016 from N1.35bn in 2015 and contributed 47.08% to GE in HY1 2016. Fees and commission income grew by 19.93% to N980.28mn in HY1 2016, from N817.40mn in HY1 2015 and contributed 26.82% to revenue in 2016. Net interest margin income from managed funds grew by 101.99% to N695.27mn and contributed 19.02% to revenue. The total operating expenses (depreciation & amortization, personnel expenses, auditors remuneration, directors emoluments, and other expenses) decreased by 4.84% to N1.07bn. **The cost-to-income ratio decreased to 31.49% in HY1 2016 from 44.33% in HY1 2015.**

*The company's GE increased by 32.90% to N3.66bn in Q2 2016, compared with N2.75bn recorded in the corresponding period of 2015.*

The other operating income increased by 7.65% to N244.80mn in HY1 2016 from N227.40mn in HY1 2015. The PBT grew to N2.58bn in HY1 2016, an increase of 43.99% from N1.79mn, recorded in the corresponding period of 2015. The tax provision also increased by 34.40% to N516.27mn from N384.11mn. This resulted in a PAT of N2.07bn in HY1 2016 from N1.41bn in the corresponding period of 2015, representing an increase of 46.60%. The company also generated extraordinary income of N1.53bn from the sale of its investments in an associate company. This led to a PAT to N3.59bn in HY1 2016. The company's profit margins improved in HY1 2016 compared with HY1 2015. **United Capital's profit increased, as a result of the huge assets the company has under management. Also, the company was able to lower its operational expenses.**

**The company's total assets increased to N162.97bn in HY1 2016, from N144.11bn recorded in FY 2015.** The company plans to steadily increase its productivity, revenue and profitability by FY 2016. The growth in loans and receivables which increased by 87.10% to N58.48bn over the prior year were mainly responsible for the increase in the company's financial assets. The loans and receivables consist of bonds (N37.15bn), commercial paper (N12.91bn) and loans to customers (N8.42bn). **The increasing yield in the fixed income market could have an adverse effect on the mark-to-market position of the company's bond portfolio.** United Capital's bond portfolio accounts for 64.04% of loans and other receivable, which currently stands at N37.15bn. These bonds constitute of both corporate and state government bonds.

Table 1: BUY	
Current Price	2.40
Fair Value	2.87
Price Target	2.87
Horizon	Nine Months

Table 2: Financial Performance (N'bn)			
	HY,2016	HY,2015	Change
T/O	3.66	2.75	32.90%
EBIT	2.34	1.42	64.85%
PBT	2.58	1.79	43.99%
PAT	2.07	1.41	46.60%
PAT*	3.59	1.41	154.85%
EM*	63.92%	51.53%	12.39%
PM*	56.49%	51.22%	5.28%

\*EM: EBIT Margin; PM\*: PAT Margin PAT\*: Including Extraordinary income of N1.53bn

We estimate a DPS of N0.48 in 2016.

The cash profit generated from United Capital's operating activities was N23.79bn in HY1 2016 lower than N47.44bn in FY 2015. We also noted that a considerable part of the company's cash flow is channelled towards its investment in loans and receivables in order to generate income.

We estimate a PAT of N4.38bn for FY December 2016. This will generate an Earning Per Share (EPS) of N0.73 and a final Dividend Per Share (DPS) of N0.48 based on a dividend pay-out of 65.79%.

Looking at the performance in HY1 2016, we maintain our BUY rating on the stock of United Capital Plc at the current price of N2.40 per share as at 27 July 2016.

Table 3: Quarterly Result Highlights (N'bn)

	Q2 2016	Q1 2015	Q4 2015	Q3 2015	Q2 2015
Turnover	1.80	1.86	2.07	1.34	1.44
PBT	1.16	1.42	0.87	0.60	0.90
PAT	2.45	1.14	0.66	0.50	0.70

Source: Company Annual Account and FSDH Analysis

Table 4: Income Forecast 2015 - 2020

Profit and Loss =N='bn	DecA-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Gross Earnings	6.15	7.02	7.76	8.05	8.36	8.51
Investment Income	3.07	4.73	4.82	4.92	5.02	5.07
Fee and Commission Income	1.61	1.77	1.77	1.86	1.96	2.05
Other Income	0.66	0.40	0.44	0.46	0.48	0.48
Interest Income on managed funds	4.68	5.78	5.84	5.90	5.96	5.99
Interest expense on managed funds	(3.87)	(5.18)	(5.03)	(5.00)	(4.96)	(5.00)
Net Interest Income	0.81	0.60	0.81	0.90	1.00	0.99
Total Income	6.15	7.02	7.76	8.05	8.36	8.51
Total Operating Expenses Less Depreciation	3.17	3.33	3.88	4.11	4.35	4.68
Group's Share of Associate Result	0.35	-	-	-	-	-
Depreciation and Amortisation	0.06	0.09	0.10	0.11	0.12	0.13
Total Operating Expenses	3.24	3.42	3.98	4.22	4.46	4.80
PBT	3.26	3.60	3.78	3.84	3.90	3.70
Tax	0.69	0.74	0.78	0.79	0.81	0.77
PAT	2.57	4.38**	3.00	3.05	3.09	2.94
PBT Margin	53.04%	51.24%	48.68%	47.65%	46.62%	43.54%
PAT Margin	41.77%	62.39%	38.62%	37.81%	36.99%	34.55%
Total Expenses to Gross Earnings	52.62%	48.76%	51.32%	52.35%	53.38%	56.46%
Cost to Income Ratio	52.62%	48.76%	51.32%	52.35%	53.38%	56.46%
EPS(N)	0.43	0.73	0.50	0.51	0.52	0.49
DPS(N)	0.35	0.48	0.33	0.33	0.34	0.32
Dividend Pay-out	81.70%	65.79%	65.79%	65.79%	65.79%	65.79%
Earnings Yield*	32.70%	25.45%	17.40%	17.69%	17.97%	17.08%
Dividend Yield*	26.72%	16.74%	11.45%	11.64%	11.82%	11.24%
P/E Ratio	3.06	3.93	5.75	5.65	5.56	5.86
Number of Shares ('bn)	6.00	6.00	6.00	6.00	6.00	6.00

\*At our fair value of N2.87. \*\*Including Extra-ordinary Item of N1.53bn Source: FSDH Research Analysis

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