

### Cost Pressures Drag Profitability Margins Lower

**Summary:** United Capital Plc. (UCAP) in its 9M:2023 financial scorecard posted a 20.35% YoY growth in gross earnings to NGN17.51bn (vs NGN14.55bn in 9M:2022). Notably, investment income (*highest contributor to topline at c. 51%*) surged by 35.31% YoY. This growth is owed to a substantial rise in interest from placements and bonds (+217.82% YoY) linked to the prevailing high interest rate environment. Conversely, fees and commission income (-81.30% YoY) declined as the slowdown in financial advisory fees from the investment banking business offset the growth witnessed in other business units. Similarly, net trading income fell by 48.48% YoY, reversing the gains recorded in the previous financial periods this year. Furthermore, owing to the liberalized exchange rate, FX gains amounted to NGN1.19bn, thus propelling other income to expand by +74.80% YoY. In Q3:2023 standalone, gross earnings grew by 19.42% YoY to NGN6.49bn (vs NGN5.44bn in Q3:2022).

Furthermore, the company's operating expenses escalated by +45.38% YoY (*surpassing the revenue growth rate by more than two folds*) to NGN8.02bn as compared to NGN5.52bn in 9M:2022. Amidst the prevailing high inflationary environment and fuel subsidy removal, other operating expenses (+75.53% YoY) accounted for the largest chunk of total expenses (c. 60.69%). Also, upward salary review and exposure to defaulted Eurobond holdings resulted in expansions in personnel expenses (+23.44%) and impairment loss (NGN1.00bn). Consequently, the cost-to-income ratio deteriorated by 789bps to 45.81% YoY. Nonetheless, EBITDA ticked by 5.06% YoY to NGN9.49bn (vs 9.03bn in 9M:2022). Ultimately, the company's bottom-line increased by 9.76% YoY to NGN8.47bn (vs NGN7.72bn in 9M:2022).

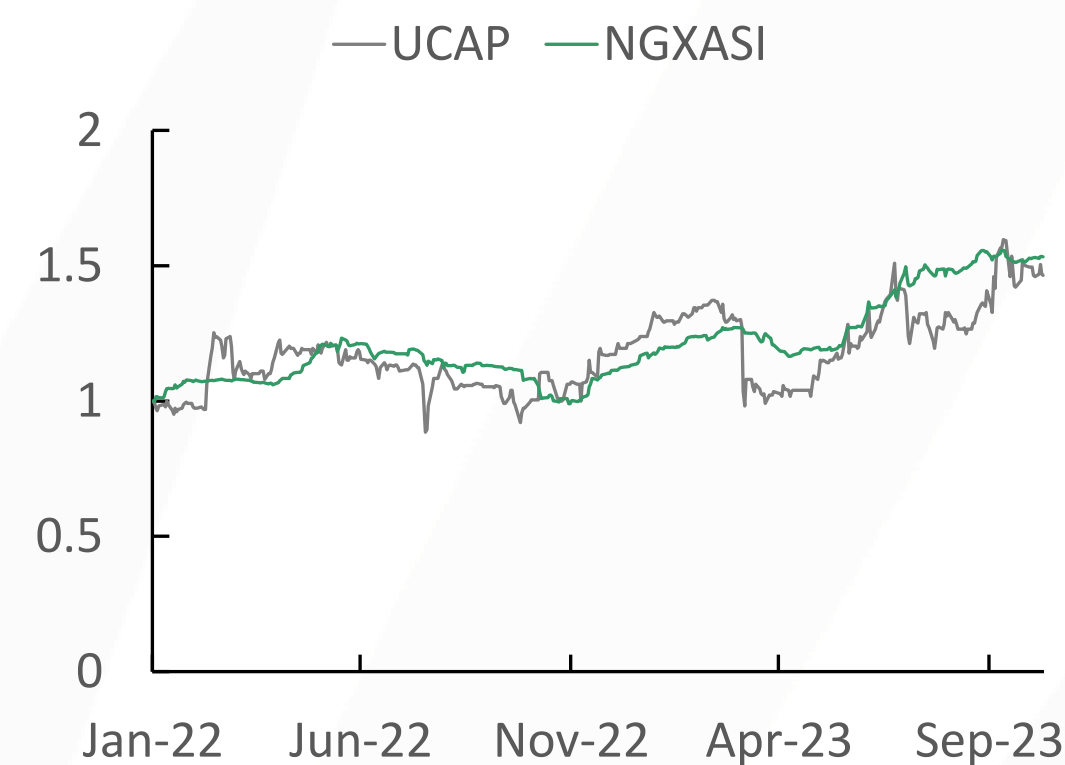
Notably, UCAP's liabilities rose (+17.99% YtD) to NGN671.29bn, primarily driven by a 9.01% YtD increase in managed funds (mainly short-term investments and trust funds) and borrowed funds (+39.26%) - particularly, commercial paper issuance and borrowings from banks.

**Positive:** Gross earnings increased by 20.35% to NGN17.51bn.

**Negative:** Net margin contracted to 48.37% (vs 53.04% in 9M:2022), Cost to income worsened to 45.81% (vs 37.92% in 9M:2022)

**Outlook:** We maintain a positive outlook for the topline underpinned by anticipated higher investment income and fees and commissions (linked to growing Assets under Management). In addition, despite the management's focus on cost optimization, we expect the unrelenting inflation to continue to exert pressure on the firm's expenses. Notwithstanding, we anticipate earnings growth, albeit muted. Finally, we forecast a profit after tax of NGN10.98bn in 2023FY.

Valuation		Stock Highlights	
Trailing EPS	1.73	Yr Hi	18.05
BVPS	10.20	Yr Lo	11.10
P/E	9.51x	YTD return	17.50%
P/BV	1.62x	Beta	0.46
Target PE	8.99x	Adjusted Beta	0.64
Dec-2023 Exp. EPS	1.83	Shares outstanding	6.00bn
Dec 2023 Target price	NGN16.45	Market cap [NGN]	98.70bn
Current Price	NGN16.45	Most recent period	9M:2023



**Recommendation: HOLD TP: 16.45 CP: 16.45 UPP: 0.00%**

#### Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Gross Earnings	17.51	14.55	20.35%
Net Operating income	15.01	13.49	11.22%
OPEX	8.02	5.52	45.38%
EBIDTA	9.49	9.03	5.06%
Operating Profit	9.24	8.81	4.96%
Share of Profit/Loss from Associates	0.47	0.32	46.88%
Profit Before Tax	9.72	9.12	6.51%
Profit After Tax	8.47	7.72	9.76%

#### Balance Sheet

	9M:2023	2022FY	YtD Change
Financial Assets	418.57	386.54	8.29%
Managed Funds	450.96	413.70	9.01%
Total Assets	732.50	601.92	21.69%
Total Equity	61.21	32.99	85.56%
Total Current Liabilities	79.60	53.94	47.56%
Total Non-Current Liabilities	591.69	514.99	14.89%
Total Liabilities	671.29	568.93	17.99%

#### Key Metrics

	9M:2023	9M:2022	3-yr Hist. Avg
Net Interest Margin	85.72%	92.75%	92.52%
Cost to Income Ratio	45.81%	37.92%	39.05%
Net Margin	48.37%	53.04%	52.96%
Return on Asset	1.26%	1.48%	2.81%
Return on Equity	17.00%	26.05%	32.70%
Asset Turnover	0.02	0.02	0.05
Financial Leverage	11.97	20.12	14.07
Debt to Asset Ratio	0.92	0.95	0.92
Asset Yield	1.36%	1.20%	3.03%

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	11.29
						Max	22.11
						EPS	
						1.33	1.58
						1.83	2.08
						2.33	
Target P/E	8.49x	11.29	13.41	15.54	17.66	19.78	
	8.74x	11.62	13.81	15.99	18.18	20.36	
	8.99x	11.96	14.20	16.45	18.70	20.95	
	9.24x	12.29	14.60	16.91	19.22	21.53	
	9.49x	12.62	14.99	17.37	19.74	22.11	

\*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals



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## Movements in Price Target

**Company Name:** United Capital PLC

Date	Price (N)	Previous Price(N)	Target	New Target Price (N)	Previous Recommendation	New Recommendation
07-July-2023	16.00	-		16.45	-	HOLD

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