

**United Capital Plc's Series II ~~€~~11.7 billion 5- Year  
Senior Unsecured Fixed-Rate Bond**

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**Final Rating Report**

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 **Agusto&Co.**

*Research, Credit Ratings, Credit Risk Management*

# United Capital Plc

## 5-Year Senior 15% ₦11.7 billion Unsecured Fixed-Rate Series II Bond

Rating:

**A-**

*The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.*

**Outlook:** Stable

**Issue Date:** 22 September 2022

**Expiry Date:** 29 August 2023

*The rating is valid throughout the life of the instrument but will be subject to annual monitoring and review.*

**Bond tenor:** 5 years

**Industry:** Securities & Investments

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## RATING RATIONALE

Agusto & Co. hereby assigns an ‘A-’ rating to United Capital Plc’s (“United Capital” or “the Issuer”) 15% ₦11.7 Billion Five-Year Fixed-Rate Senior Unsecured Bond (“the Issue” or “the Bond”). The assigned rating mirrors the standalone rating of the Issuer as the Issue represents senior unsecured obligations that rank pari passu with United Capital’s other senior unsecured debts. Agusto & Co. assigned an “A-” rating to the Issuer in August 2021, with an expiry date of 30 June 2022. The Bond’s proceeds was used to underwrite fixed income securities and replace United Capital’s short-term borrowings.

The Issue’s fixed coupon rate of 15% is payable semi-annually starting six months from the allotment date while the principal will be repaid at maturity. The Bond’s principal and coupon will be paid from the Issuer’s operating cash flows. The rating is supported by United Capital’s good profitability, good liquidity and funding profile, large market share and experienced management team. The rating is, however, constrained by the considerable concentration and exposure to parties related to erstwhile parent (UBA Plc) and weak capitalisation. The present global and domestic economic challenges and the likely implications for the Issuer’s business have also been taken into consideration.

As at 31 December 2020, United Capital’s total assets stood at ₦228 billion. Liquid assets of ₦156.5 billion, largely comprising money market placements, FGN securities and bank balances, constituted 70% of total assets. The Issuer’s placements of ₦63.3 billion showed concentration as the top six counterparties accounted for 61% of the portfolio. Nonetheless, 95% of the placements were held with investment-grade financial institutions, which we consider good. The remaining 5% of the portfolio, equating to a sizeable 12% of United Capital’s shareholders’ funds, was however held with an unrated institution.

## TRANSACTION PARTIES

### Issuer:

*United Capital Plc*

### Lead Issuing House/Bookrunner:

*FSDH Capital Limited*

### Joint Issuing Houses/Bookrunners:

*UCML Capital Limited*

*ABSA Capital Markets Nigeria Limited*

### Trustee:

*United Capital Trustees Limited*

*EAC Trustees Limited*

### Counsel to the Issue:

*G. Elias & Co.*

### Counsel to the Issuer:

*Sefton Fross*

## TRANSACTION STRUCTURE

### Bond Repayment Structure:

*5-year tenor with semi-annual repayment of coupon. The principal is repaid as a lump sum at maturity.*

### Bond Status:

*Direct, unconditional, unsubordinated and unsecured obligations of the Issuer.*

### Use of Bond Proceeds:

*The Issue proceeds will be used to underwrite fixed income securities and replace short-term debt obligations of United Capital.*

As at the 2020 FYE, the Issuer had gross loans and advances of ₦48.9 billion, with 98% of the portfolio comprising exposures to related parties of United Capital's erstwhile parent (UBA Plc) that operate in the oil and gas sector. We believe this level of concentration makes the Issuer very susceptible to the volatile oil and gas sector, which has faced significant challenges in the light of the COVID-19 pandemic. Nonetheless, as at 31 December 2020, United Capital had no non-performing loans, which we consider good. Based on the unaudited accounts as at 30 September 2021, the Issuer had no NPLs.

As at 31 December 2020, United Capital had shareholders' funds of ₦24.4 billion while our estimate of the Issuer's Basel I Capital Adequacy Ratio (CAR) stood at 12.3%. Based on the unaudited accounts as at 30 September 2021, United Capital's CAR dipped below our benchmark to 6.7% due to the rapid asset growth. When we consider the impact of the proposed Bond in providing additional buffers based on the level of business risk undertaken as at 30 September 2021, the Issuer's stressed CAR improved but remained weak at 8.6%. As at the 2020 FYE, United Capital's coverage ratio (operating income/interest expenses) stood at 2.4 times and averaged 2.6x over the last three years, indicating adequate ability to meet interest payments. We expect the Issuer's CAR to remain subpar following the issuance of the Bond while the coverage ratio will remain satisfactory within the range of 1-3 times.

During the financial year ended 31 December 2020, United Capital recorded a profit before tax of ₦7.9 billion. This translated to improved profitability ratios, with a pre-tax return on average assets (ROA) of 4.3% (2019: 3.3%) and a pre-tax return on average equity (ROE) of 36.1% (2019 FY: 27.9%). The Issuer's ratios were, however, lower than peer CardinalStone Partners' pre-tax ROA and pre-tax ROE of 10.1% and 64.3% respectively. Based on the unaudited accounts to 30 September 2021, United Capital's annualised ROA dipped to 3% due to the significant asset growth while ROE was largely stable at 36.9%. We expect the Issuer's profitability to remain good in the near to medium term as the product portfolio and customer base continue to expand.

As at 31 December 2020, United Capital had clients' FuM of ₦116 billion, which funded 52% of total assets. At the same date, the Issuer's borrowings consisting of loans from the erstwhile parent (UBA Plc), bonds and commercial papers stood at ₦72.7 billion. We believe the successful issuance of the Bond will provide greater flexibility to fund longer-term assets. As at the 2020 FYE, the Issuer had liquid assets of ₦156.5 billion, sufficient to cover 79% of total liabilities and 135% of clients' FuM, which we consider good. Based on unaudited accounts as at 30 September 2021, United Capital's liquid assets stood at ₦259.2 billion, sufficient to cover 89% of the clients' FuM.

**Table 1: Financial Data for United Capital Plc**

|                                  | 30 September 2021 (UA) | 31 December 2020 |
|----------------------------------|------------------------|------------------|
| Total Assets                     | ₦400.7 billion         | ₦222.7 billion   |
| Net Earnings                     | ₦10.8 billion          | ₦12.9 billion    |
| Pre-tax return on average assets | 3%*                    | 4.3%             |
| Pre-tax return on average equity | 36.9%*                 | 36.1%            |

*\*Annualised*

**Figure 1: Strengths, Weaknesses and Challenges**

### Strengths

- Large market share in Nigerian asset management industry
- Stable and experienced management team
- Good profitability
- Strong liquidity profile

### Weaknesses

- Significant concentration to entities related to United Bank for Africa Plc
- Concentration in borrowings
- Capital adequacy requires improvement

### Challenge

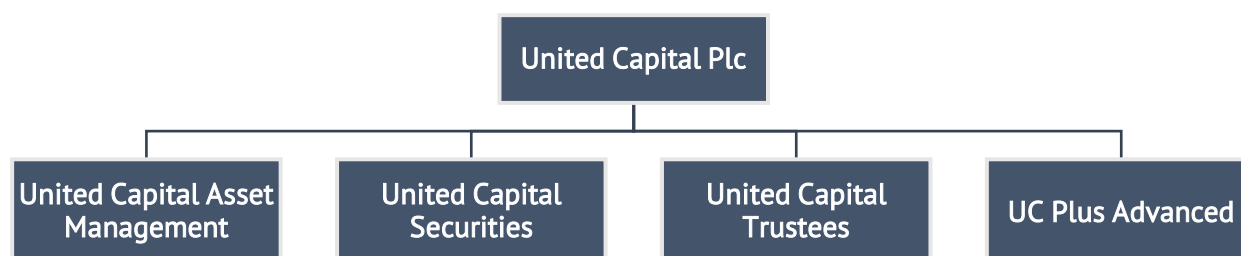
- Improving performance amidst an adverse business climate elevated by the COVID-19 pandemic

*This report should be read in conjunction with Agusto & Co.'s 2021 United Capital Plc's rating*

## ISSUER PROFILE

United Capital Plc ('United Capital' or 'the Issuer') provides a bouquet of financial services including investment banking, securities trading, trusteeship, asset management and consumer loans to corporations, governments, high net-worth individuals, institutional investors and retail clients. United Capital was incorporated in March 2002 and was listed on the Nigerian Exchange (NGX) in 2013 following a divestment by the erstwhile parent company, United Bank for Africa Plc (UBA Plc). The Issuer has four operating subsidiaries: United Capital Asset Management ("UCAM"), United Capital Securities ("UCS"), United Capital Trustees ("UCT") and UC Plus Advanced ("UCPA"). United Capital and its subsidiaries: UCAM, UCS and UCT are licensed by the Securities & Exchange Commission (SEC) to provide issuing house, asset management, securities brokerage and trusteeship services respectively while UCPA has a money lender's licence from Lagos State.

**Figure 1: United Capital Group Structure**



United Capital is owned by over 261,000 shareholders comprising individuals and institutional investors. As at 31 December 2020, West Coast Equity Limited was the Issuer's largest shareholder with a 26% equity stake. United Capital is governed by a nine-member Board of Directors ("the Board"), which is chaired by Mr. Chika Mordi. The Board comprises seven non-executive directors, five of whom are independent, and two executive directors. A Non-executive director – Mrs. Sutura Aisha Bello – was appointed in December 2020 to comply with the principles of the Nigerian Code of Corporate Governance on gender diversity. The Issuer's head office is located on the 3rd and 4th Floors of Afriland Towers at 97 Broad Street, Lagos Island. During the financial year ended 31 December 2020, United Capital Plc had an average staff strength of 94 employees.

## MANAGEMENT TEAM

**Mr. Peter Ashade** was appointed Group Chief Executive Officer (GCEO) and Managing Director of United Capital Plc in July 2018. Mr. Ashade has more than 30 years of finance and business executive leadership experience in the financial services sector. Prior to his appointment, he served as the Chief Executive Officer of Africa Prudential Plc, a leading share registration company in Nigeria and a company with common shareholders with United Capital and UBA Plc.

Mr. Ashade holds a Bachelor's degree in Banking and Finance from Olabisi Onabanjo University (formerly Ogun State University), Ago-Iwoye, Ogun State and a Master of Business Administration (MBA) degree in Marketing from the Obafemi Awolowo University, Ile-Ife, Osun State. He also holds a Master of Science degree in Finance from the University of Lagos, Akoka, Lagos State. Mr. Ashade is a Fellow of the Chartered Institute of Bankers and the Institute of Capital Market Registrars. He also holds professional qualifications from the Chartered Institute of Taxation in Nigeria and the Institute of Directors.

**Mr. Sunny Anene** is an Executive Director of United Capital Plc. He was appointed a director of the Issuer in January 2019. Prior to his appointment as an Executive Director, Mr Anene was the Managing Director of United Capital Asset Management Limited, a wholly owned subsidiary of United Capital. His experience spans over twenty-six (26) years and cuts across investment, capital markets, pensions, finance and banking operations.

Mr Anene has a Master's degree in Finance from the University of Lagos. He is also an alumnus of the Lagos Business School (LBS) and the IESE Business School, Barcelona, Spain. Mr Anene is a Fellow of the Chartered Institute of Stockbrokers (CIS), the Institute of Chartered Accountants of Nigeria (ICAN) and the Chartered Institute of Taxation of Nigeria (CITN). He is also an Associate of the Certified Pension Institute of Nigeria and a member of the Institute of Directors.

United Capital's senior management includes:

- |                         |                                                            |
|-------------------------|------------------------------------------------------------|
| ▪ Ms. Buky Ikeotuonye   | Managing Director, United Capital Trustees Limited         |
| ▪ Mr. Bawo Oritsejafor  | Managing Director, United Capital Securities Limited       |
| ▪ Ms. Odiri Oginni      | Managing Director, United Capital Asset Management Limited |
| ▪ Dr. Gbadebo Adenrele  | Head, United Capital Plc (Investment Banking)              |
| ▪ Mr. Richard Akindede  | Head, UC Plus Advance Limited                              |
| ▪ Mr. Shedrack Onakpoma | Chief Financial Officer                                    |
| ▪ Mr. Leo Okafor        | Company Secretary/General Counsel                          |

## THE ISSUE

### Structure

United Capital has issued a five year ₦11.7 billion in Fixed-Rate Senior Unsecured Bonds (“the Bond” or “the Issue”), which will mature in 2027 and form Series II under the Issuer’s ₦30 billion Bond Issuance Programme (“the Programme”). The Bond’s fixed coupon rate of 15% will be payable semi-annually in arrears, while the principal amount will be repaid as a lump sum at maturity in 2027. The Issue will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall rank pari passu and without any preference to other issuances under the Programme. The coupon and principal payment obligations of United Capital under the Bond shall, except where required by legislation, rank equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

### Purpose

United Capital plans to use the net proceeds of the Bond to underwrite fixed income securities and replace existing debt obligations. The Issuer expects this to increase its earning capacity and moderately reduce interest expenses, which constitute the largest portion of United Capital’s direct costs.

**Table 2: Utilisation of the Bond’s Proceeds**

| Financing Type                           | Share of Proceeds |
|------------------------------------------|-------------------|
| Underwriting of fixed income securities  | 60% – 100%        |
| Replacement of existing debt obligations | 0% – 40%          |

Source: United Capital Plc

### Repayment

United Capital will repay the Bond from its operating cash flows. The fixed-rate coupon on the Issue, which is to be determined through a book building process, will be payable semi-annually in arrears commencing six months from the allotment date. The principal on the Bond will be repaid as a lump sum at maturity in 2027. A Designated Account is to be created in accordance with the Trust Deed and made available for principal redemption and coupon payments. Monthly payments shall be made from the cash flows of the Issuer into the Designated Account as set out in the Series Trust Deed. In addition, United Capital shall ensure that the amount standing to the balance of the Designated Account shall be equal to the amount due on the next coupon payment date plus one-third (1/3rd) of the amount due on the subsequent coupon payment date. The Issuer has prepared a loan amortisation schedule using the interest rate of 15% (see Table 2).

**Table 3: Bond Repayment Schedule @15% Coupon Rate**

| Period | Coupon      | Principal | Total Payment | Balance        |
|--------|-------------|-----------|---------------|----------------|
| 1      | 879,750,000 | -         | 879,750,000   | 11,730,000,000 |
| 2      | 879,750,000 | -         | 879,750,000   | 11,730,000,000 |
| 3      | 879,750,000 | -         | 879,750,000   | 11,730,000,000 |
| 4      | 879,750,000 | -         | 879,750,000   | 11,730,000,000 |
| 5      | 879,750,000 | -         | 879,750,000   | 11,730,000,000 |
| 6      | 879,750,000 | -         | 879,750,000   | 11,730,000,000 |

|    |             |                |                |                |
|----|-------------|----------------|----------------|----------------|
| 7  | 879,750,000 | -              | 879,750,000    | 11,730,000,000 |
| 8  | 879,750,000 | -              | 879,750,000    | 11,730,000,000 |
| 9  | 879,750,000 | -              | 879,750,000    | 11,730,000,000 |
| 10 | 879,750,000 | 11,730,000,000 | 12,609,750,000 | -              |

Source: United Capital Plc

## Covenants & Guarantees

United Capital undertakes to pay the principal and interest on the Bond as and when due. The Issuer also covenants to use all reasonable endeavours to ensure that the Bond is, upon issue, quoted and/or listed on the FMDQ Securities Exchange and/or the Nigerian Exchange (NGX) and that such a quotation is maintained until the maturity date. In addition, United Capital undertakes to furnish the Trustees annually, with a certificate on which the Trustees may rely to confirm the Issuer's compliance with the set covenants. Notwithstanding, the Trustees are not obliged to monitor the application of the proceeds of the Bonds by United Capital.

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**ANALYSTS' COMMENTS**

## ISSUER'S FINANCIAL CONDITION

### *Asset quality to remain constrained by related party exposures*

As at 31 December 2020, United Capital's total assets stood at ₦223 billion, which represented a 48% increase from the prior year's ₦151 billion. The notable growth in assets was driven by the 60% increase in the asset management business specifically clients' funds under management (FuM) which funded investments in money market instruments and collective investment schemes (CISs). Based on unaudited accounts as at 30 September 2021, the Issuer's total assets stood at ₦401 billion. This represented an 80% increase from the 2020 FYE as United Capital's asset management business continued to offer competitive rates on clients' FuM to take advantage of the increased liquidity in the financial markets. We expect the Issuer's asset growth to slow in the near to medium term as yields rise in the financial markets and United Capital refocuses on the strategy to raise longer-term funding from clients and the debt capital market.

### **Placements & Fixed Income**

As at the 2020 FYE, the Issuer's placement portfolio stood at ₦63.3 billion (2019: ₦27.4 billion). The significant increase in placements with financial institutions was driven by the sharp rise in funding in the review period. United Capital's placements were concentrated with the top 6 counterparties constituting 61% of the portfolio. Nonetheless, 95% of the placement portfolio was held with investment-grade institutions, which we consider good. The balance of 5% of the placement portfolio comprised exposures to unrated entities, which equated to a sizeable 12% of the Issuer's shareholders' funds. We expect a moderate rise in United Capital's portfolio as the Issuer deploys proceeds of the Bond towards underwriting fixed income securities.

### **Loans & Advances**

As at 31 December 2020, United Capital had gross loans and advances of ₦48.9 billion. The vast majority or 98% of the loan portfolio comprised exposures to related parties of the Issuer's erstwhile parent (UBA Plc) that operate in the oil and gas sector. In our view, this level of concentration leaves United Capital very susceptible to downturns in the oil and gas sector, which has faced significant challenges due to the COVID-19 pandemic and remains exposed to the increased uncertainty in the near term. The loans to the entities in the oil and gas sector were funded by dollar-denominated borrowings from UBA Plc and priced off oil benchmarks, where the Issuer receives a fixed rate of 10% plus an additional 8% if crude oil prices are above \$45 per barrel. The loans are repaid in foreign currency (FCY) to mitigate currency risks. We note positively that as at the 2020 FYE, United Capital had no non-performing loans. Based on the unaudited accounts as at 30 September 2021, the Issuer's gross loan portfolio stood at ₦49.4 billion. As at the same date, the Issuer had no NPLs.

In our opinion, United Capital's asset quality requires improvement given the significant concentration and exposure to related entities.

### *Profitability to remain good in the medium term*

United Capital primarily generates income from interest on investments in money market and fixed income instruments, placements with financial institutions and loans. The Issuer also generates income from fees and commissions earned providing securities trading, financial advisory and asset management services. During the financial year ended 31 December 2020, United Capital recorded a net interest margin (NIM) of 25.3% (2019: 28.1%). The drop in NIM was due to the rapid rise in clients' FuM and the attendant increase in funding costs. The Issuer's NIM compared poorly with peer CardinalStone Partner's margin of 47.3% (2019: 55%) during the same period. In the 2020 FY, United Capital generated net earnings of ₦12.9 billion, which represented a 50% increase from the previous year's ₦8.6 billion. The considerable increase in net earnings was largely driven by the proprietary trading business as fixed income and equity investments saw considerable gains due to the significant drop in fixed-income yields and the 50% return on the NGX All Share Index in the period. Based on the unaudited accounts for the nine months to 30 September 2021, the Issuer recorded net earnings of ₦10.8 billion, which represented an annualised increase of 11% despite a weaker NIM of 24.1% from the rising cost of funding. The moderate increase in annualised earnings was largely driven by United Capital's management fee income following the 150% rise in clients' FuM subsequent to the year end. We expect a moderate increase in United Capital's net earnings in the near to medium term as the economy recovers, yields improve and the Issuer deploys proceeds from the Series II Bond to replace expensive short-term funding.

In the review period, United Capital recorded a cost to income ratio of 38.3%, which was better than the prior year's 42.4%. The improved cost to income ratio was largely due to the increase in net earnings as the Issuer's efforts to rein in on operating costs in the light of the COVID-19 pandemic were constrained by a rise in direct costs from growing the business. United Capital, thus, recorded improved profitability ratios, with a pre-tax return on average assets (ROA) of 4.3% (2019: 3.3%) and a pre-tax return on average equity (ROE) of 36.1% (2019: 27.9%). The Issuer's profitability ratios, however, compared less favourably with peer, CardinalStone Partners, which recorded pre-tax ROA and pre-tax ROE of 10.1% and 64.3% respectively in 2020. Based on the unaudited accounts for the first three quarters of 2021, United Capital's annualised ROA declined to 3% due to the sizeable growth in total assets while ROE was largely unchanged at 36.9%. Nonetheless, we expect the Issuer's profitability to remain good in the medium term as United Capital's product portfolio and client base continue to expand.

### *Liquidity profile to remain strong as funding is bolstered by the medium-term Bond*

As at 31 December 2020, United Capital's funding primarily constituted clients' FuM, which funded 52% of total assets while the balance was funded 33% by borrowings, 11% by shareholders' funds and 4% by other liabilities. As at the same date, the Issuer's clients' FuM stood at ₦116 billion (2019: ₦72.4 billion), comprising clients' short term-investments (60%), trust funds (28%) and sinking funds (12%). The considerable growth in the clients' FuM (largely from the asset management and trusteeship businesses) was driven by competitively priced fixed-income products and clients' bond issuances in the review period. In 2020, the Issuer paid an average of 4% on 364-day tenors, which was slightly higher than the average yield of 3% earned on FGN Treasury Certificates for the same period. However, the average rate on the managed funds portfolio rose moderately to 7.8% for the first nine months of 2021 due to rising interest rates but remains above the treasury certificates of 4.2% and the average 12 months deposit rate of 6.3% in the same period. The Issuer's

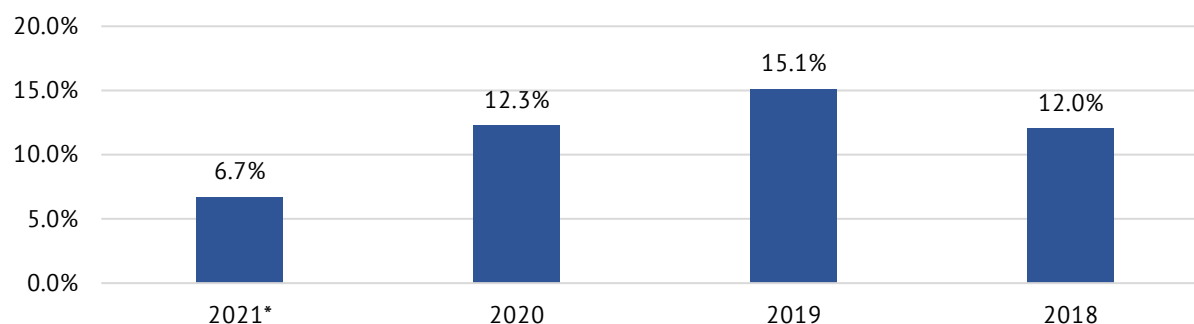
borrowings of ₦72.7 billion as at the 2020 FYE comprised bank borrowings (67%) from United Capital's erstwhile parent (UBA Plc) and debt instruments (33%) consisting of bonds and commercial papers. The Issuer's borrowing mix translated to a weighted average cost of funds of 6%, which we consider satisfactory. Based on the unaudited accounts as at 30 September 2021, United Capital's clients' FuM stood at ₦290 billion, representing a 150% increase from the 2020 FYE as the Issuer continued to offer competitive rates to drive business growth. The successful issuance of the Bond will add up to ₦20 billion of 5-year borrowings to United Capital's funding mix, with up to 40% being utilised to replace shorter-term debt.

As at 31 December 2020, the Issuer had liquid assets of ₦156.5 billion (2019: ₦89.7 billion) comprising money market instruments, listed equities and cash & equivalents. United Capital's liquid assets as at the 2020 FYE were sufficient to cover 79% of total liabilities and 135% of clients' FuM, which we consider good. Based on unaudited accounts as at 30 September 2021, the Issuer's liquid assets stood at ₦259.2 billion, sufficient to cover 89% of the clients' FuM. We expect United Capital's liquidity position to remain strong in the near term as the Issuer maintains sizeable investments in government securities and money market instruments.

*Capital adequacy is expected to deteriorate further due to the aggressive business growth*

As at 31 December 2020, United Capital had shareholders' funds of ₦24.4 billion (2019: ₦19.6 billion), which was sufficient to fund only 11% of total assets, which is low in our view. Based on unaudited accounts as at 30 September 2021, the Issuer's shareholders' funds stood at ₦26.9 billion, representing a 10% increase from the end of 2020 supported by higher revenue reserves. Our estimate of United Capital's Basel I capital adequacy ratio (CAR) as at the 2020 FYE stood at 12.3%, which was a deterioration from the previous year's 15.1% due to the rapid growth in risk assets. Based on unaudited accounts as at 30 September 2021, the Issuer's Basel I ratio dipped further to 6.7%, which was below our minimum benchmark. When we consider the impact of the proposed Bond on United Capital's financials as at 30 September 2021, the Issuer's stressed CAR improved but remained weak at 8.6%. We, thus, believe that United Capital's capitalisation requires further strengthening in the near term to provide adequate buffers for the level of business risks undertaken.

**Figure 4: United Capital's Capital Adequacy Ratio (2018 - 2021)**



\* 30 September 2021

Source: United Capital Plc.

*Coverage ratios to remain stable in the near term with the introduction of cheaper medium-term funding*

As at 31 December 2020, United Capital had interest-bearing debt of ₦72.7 billion, which represented a 42.5% increase from the prior year's ₦51 billion. The sizeable increase in interest-bearing debt was largely driven by the issuances of the ₦10 billion Series I Bond and ₦15 billion Series III commercial papers. The Issuer thus recorded a debt to equity ratio of 3.4 times, a moderate increase from the previous year's 3x but in line with our expectation for a securities firm. Based on unaudited accounts as at 30 September 2021, the interest-bearing debt stood at ₦75.3 billion, which represented a 4% increase from the 2020 FYE, while the debt to equity ratio improved slightly to 3.1x. United Capital plans to utilise the bulk of the Bond's proceeds to underwrite fixed income securities. Thus, we expect the Issuer's debt to equity ratio to rise moderately in the near term.

As at 31 December 2020, United Capital's coverage ratio (operating income/interest expenses) stood at 2.4 times (2019: 2.7x) and has averaged 2.6x over the last three years, indicating sufficient ability to meet interest payments. Based on unaudited accounts as at 30 September 2021, the Issuer's coverage ratio stood at 2 times. We, thus, expect United Capital's leverage to remain moderate over the five-year tenor of the Bond, with the interest coverage ratio remaining satisfactory within the range of 1-3 times.

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## OUTLOOK

The year 2020 was challenging for the Nigerian economy and the financial services sector due to the adverse impact of the COVID-19 pandemic on the business terrain and the monetary policy direction of the Central Bank of Nigeria. The Nigerian economy has, however, shown resilience and coped relatively well with the strong GDP growth figures reported for the second and third quarters of 2021 of 5% and 4% respectively. Nonetheless, some other macroeconomic indices have witnessed considerable deterioration in 2021, with the 12-month average inflation rate as at November 2021 higher at 16.98% compared to 12.92% in the prior year. The financial services sector has also shown good signs of recovery buoyed by increased economic activities, rising yields in the financial markets and an uptick in disbursements of credits. Going forward, Agosto & Co. has projected an annual domestic GDP growth of 3.5% in 2022 supported by stronger performance in the global crude oil market and increased economic activities in the global and domestic economies. Nonetheless, we believe the structural weaknesses in Nigeria's economy will continue to constrain the performance and profitability of operators in the financial services sector in the near to medium term.

Agusto & Co. expects United Capital's performance to remain good in the near to medium term supported by the rising demand for the Issuer's products and services. We believe United Capital will record a moderate increase in earnings in the medium term driven by new product launches, increased lending activities and gradual increase in yields in the financial markets. We also expect the Issuer's profitability to remain good in the near term as United Capital's business expands. We, however, believe that the rising concentration and exposure to parties related to erstwhile parent – UBA Plc – will continue to put a strain on asset quality. We also believe that the Issuer's capitalisation will require strengthening to support business growth while the liquidity and funding profile will remain good in the near to medium term.

We hereby attach a “**stable**” outlook to the rating.

*This report should be read in conjunction with Agusto & Co.’s 2021 United Capital Plc’s rating report.*

## FINANCIAL SUMMARY

| STATEMENT OF FINANCIAL POSITION AS AT               | 31-Dec-20          |              | 31-Dec-19          |             | 31-Dec-18          |             |
|-----------------------------------------------------|--------------------|--------------|--------------------|-------------|--------------------|-------------|
|                                                     | ₦'000              |              | ₦'000              |             | ₦'000              |             |
| <b>Assets</b>                                       |                    |              |                    |             |                    |             |
| Cash                                                | 7,719,204          | 3.5%         | 2,778,065          | 2%          | 844,615            | 1%          |
| Treasury bills                                      | 11,763,585         | 5.3%         | 7,429,334          | 5%          | 8,466,411          | 6%          |
| Money Market Placement & Instruments                | 63,325,928         | 28.4%        | 27,354,034         | 18%         | 34,341,542         | 23%         |
| <b>Short Term Investments</b>                       | <b>82,808,717</b>  | <b>37.2%</b> | <b>37,561,433</b>  | <b>25%</b>  | <b>42,807,953</b>  | <b>29%</b>  |
| FGN Bonds                                           | 8,669,811          | 3.4%         | 12,969,434         | 9%          | 11,848,293         | 8%          |
| State Government & Corporate Bonds                  | 38,216,772         | 17.4%        | 33,548,368         | 22%         | 31,590,267         | 21%         |
| Discounted Note                                     | -                  |              | -                  |             | 20,865,895         | 14%         |
| Direct Loans & Advances                             | 48,854,522         | 21.9%        | 51,433,001         | 34%         | 8,304,083          | 6%          |
| Less: Cumulative Provision                          | (1,455,453)        | -1%          | (1,212,025)        | -1%         | (1,221,097)        | -1%         |
| <b>Fixed Income Investments</b>                     | <b>94,285,652</b>  | <b>42%</b>   | <b>96,738,778</b>  | <b>64%</b>  | <b>71,387,441</b>  | <b>48%</b>  |
| Collective Investment Schemes                       | 18,590,133         | 10%          | 3,018,927          | 2%          | 3,264,321          | 2%          |
| Equity - Quoted                                     | 5,476,050          | 2.5%         | 3,501,042          | 2%          | 3,339,320          | 2%          |
| Equity - Unquoted                                   | 11,664,822         | 6%           | 4,922,790          | 3%          | 23,530,922         | 16%         |
| Less: Cumulative Provision                          | (880,099)          | 0%           | (888,394)          | -1%         | (1,666,807)        | -1%         |
| <b>Non-Fixed Income Investments</b>                 | <b>34,850,906</b>  | <b>18%</b>   | <b>10,554,365</b>  | <b>7%</b>   | <b>28,467,756</b>  | <b>19%</b>  |
| Total Other Assets                                  | 5,552,161          | 2%           | 5,208,598          | 3%          | 4,887,947          | 3%          |
| Total Fixed Assets & Intangibles                    | 891,533            | 0%           | 401,201            | 0%          | 301,351            | 0%          |
| <b>Total Assets</b>                                 | <b>222,748,295</b> | <b>100%</b>  | <b>150,464,375</b> | <b>100%</b> | <b>148,697,063</b> | <b>100%</b> |
| Share Capital                                       | 3,000,000          | 1%           | 3,000,000          | 2%          | 3,000,000          | 2%          |
| Share Premium                                       | 683,611            | 0%           | 683,611            | 0%          | 683,611            | 0%          |
| Revaluation Surplus                                 | (858,932)          | 0%           | (888,394)          | -1%         | (1,666,807)        | 0%          |
| Revenue Reserve                                     | 21,601,800         | 10%          | 16,790,622         | 11%         | 13,817,203         | 9%          |
| <b>Shareholders' Equity</b>                         | <b>24,426,479</b>  | <b>11%</b>   | <b>19,585,839</b>  | <b>13%</b>  | <b>15,834,007</b>  | <b>11%</b>  |
| Short Term Borrowings -O/D                          | 3,804              | 0%           | 100,540            | 0%          |                    | 0%          |
| Long Term Borrowings                                | 72,661,645         | 33%          | 50,876,737         | 34%         | 49,163,296         | 33%         |
| <b>Interest Bearing Borrowings</b>                  | <b>72,665,449</b>  | <b>33%</b>   | <b>50,977,277</b>  | <b>34%</b>  | <b>49,163,296</b>  | <b>33%</b>  |
| Managed Funds                                       | 116,019,077        | 52%          | 72,379,297         | 48%         | 75,685,719         | 51%         |
| Creditors and Accruals                              | 1,642,791          | 1%           | 1,077,495          | 1%          | 1,124,164          | 1%          |
| Customer Deposit                                    | 2,222,054          | 1%           | 2,136,265          | 1%          | 1,072,817          | 1%          |
| Other liabilities                                   | 3,814,659          | 2%           | 2,086,334          | 1%          | 2,649,424          | 2%          |
| Tax liabilities                                     | 1,957,786          | 1%           | 2,221,869          | 1%          | 3,167,637          | 2%          |
| <b>Total Other Liabilities</b>                      | <b>9,637,290</b>   | <b>4%</b>    | <b>7,521,963</b>   | <b>5%</b>   | <b>8,014,042</b>   | <b>5%</b>   |
| <b>Total Liabilities</b>                            | <b>198,321,816</b> | <b>89%</b>   | <b>130,878,537</b> | <b>87%</b>  | <b>132,863,057</b> | <b>89%</b>  |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>222,748,295</b> | <b>100%</b>  | <b>150,464,376</b> | <b>100%</b> | <b>148,697,064</b> | <b>100%</b> |

| INCOME STATEMENT AS AT               | 31-Dec-20         |              | 31-Dec-19        |              | 31-Dec-18        |              |
|--------------------------------------|-------------------|--------------|------------------|--------------|------------------|--------------|
|                                      | ₦'000             |              | ₦'000            |              | ₦'000            |              |
| Securities Trading & Dealing         | 4,352,920         | 21.3%        | 3,183,914        | 19.4%        | 4,549,277        | 25.6%        |
| Financial Advisory                   | 901,788           | 4.1%         | 782,440          | 5.2%         | 819,992          | 4.6%         |
| Fees & Commissions                   | 2,569,609         | 11.5%        | 1,180,636        | 7.9%         | 1,084,042        | 6.1%         |
| Other Income                         | 387,605           | 5.3%         | 690,721          | 10.0%        | 2,048,612        | 11.5%        |
| <b>Investment Income</b>             | <b>8,211,922</b>  | <b>42.2%</b> | <b>5,837,711</b> | <b>42.6%</b> | <b>8,501,923</b> | <b>47.9%</b> |
| Interest Income                      | 18,408,301        | 0.0%         | 9,794,474        | 0.0%         | -                | 0.0%         |
| Interest Expense                     | (13,746,327)      | 0.0%         | (7,040,256)      | 0.0%         | -                | 0.0%         |
| Net Interest Income                  | 4,461,974         | 15.7%        | 2,754,218        | 14.9%        | 757,475          | 4.3%         |
| <b>Net Earnings</b>                  | <b>12,873,896</b> | <b>57.8%</b> | <b>8,591,929</b> | <b>50.0%</b> | <b>9,259,398</b> | <b>52.1%</b> |
| Staff Costs                          | (1,351,050)       | -6.1%        | (1,631,612)      | -9.5%        | (1,638,970)      | -9.2%        |
| Depreciation Expense                 | (286,525)         | -1.3%        | (135,115)        | -0.8%        | (115,854)        | -0.7%        |
| Other Operating Expenses             | (3,288,652)       | -14.8%       | (1,875,482)      | -10.9%       | (1,283,328)      | -7.2%        |
| Total Operating Expenses             | (4,926,227)       | -22.1%       | (3,642,209)      | -21.2%       | (3,038,152)      | -17.1%       |
| <b>Profit (Loss) Before Taxation</b> | <b>7,947,669</b>  | <b>35.7%</b> | <b>4,949,720</b> | <b>28.8%</b> | <b>6,221,246</b> | <b>35.0%</b> |
| Tax (Expense)/Benefit                | (136,492)         | -0.6%        | 23,699           | 0.1%         | (1,883,257)      | -10.6%       |
| <b>Profit (Loss) After Taxation</b>  | <b>7,811,177</b>  | <b>35.1%</b> | <b>4,973,419</b> | <b>28.9%</b> | <b>4,337,989</b> | <b>24.4%</b> |

| KEY RATIOS                                    | 31-Dec-20   | 31-Dec-19   | 31-Dec-18   |
|-----------------------------------------------|-------------|-------------|-------------|
| <b>Profitability</b>                          |             |             |             |
| Operating Profit Margin                       | 35.7%       | 33.1%       | 35.0%       |
| Operating Expenses/ Net Earnings              | 38.3%       | 42.4%       | 32.8%       |
| Return On Average Equity (Pre-Tax)            | 36.1%       | 27.9%       | 38.2%       |
| Return On Average Assets (Pre-Tax)            | 4.3%        | 3.3%        | 4.4%        |
|                                               |             |             |             |
| <b>Liquidity &amp; Funding</b>                |             |             |             |
| Liquid Assets (₦'000)                         | 156,220,846 | 106,232,746 | 109,173,422 |
| Liquid Assets/Total Assets                    | 70%         | 71%         | 73%         |
|                                               |             |             |             |
| <b>Capital &amp; Leverage</b>                 |             |             |             |
| Shareholders' Funds (Excluding Revaluation)   | 24,426,479  | 19,585,839  | 15,834,007  |
| Adjusted Capital/Risk Weighted Assets         | 12%         | 14%         | 12%         |
| Gearing Ratio (Total Debt/Shareholders Funds) | 3.37        | 2.99        | 3.61        |
|                                               |             |             |             |
| <b>Staff Information</b>                      |             |             |             |
| Average Number of Employees                   | 94          | 99          | 89          |
| Staff Cost Per Employee (₦'000)               | 14,373      | 16,481      | 18,415      |
| Net Earnings Per Staff (₦'000)                | 136,956     | 86,787      | 104,038     |
| Staff Cost/Net Income                         | 10%         | 19%         | 18%         |
| Staff Costs/Operating Expenses                | 27%         | 45%         | 54%         |

## RATING DEFINITIONS

|            |                                                                                                                                                                                                                                                                                                                                |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Aaa</b> | This is the highest rating category. The Bond is adjudged to offer highest safety of timely payment of interest and principal.                                                                                                                                                                                                 |
| <b>Aa</b>  | The Bond is adjudged to offer high safety of timely payment of interest and principal.                                                                                                                                                                                                                                         |
| <b>A</b>   | The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.                                                                                                                  |
| <b>Bbb</b> | The Bond is adjudged to offer sufficient safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for bonds in higher rated categories.                                                     |
| <b>Bb</b>  | The Bonds is adjudged to carry inadequate safety of timely payment of interest and principal; while they are less susceptible to default than other speculative grade bonds in the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments. |
| <b>B</b>   | The Bond is adjudged to have greater susceptibility to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.                                                                                    |
| <b>C</b>   | The Bond is adjudged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favourable circumstances continue.                                                                                                                                             |
| <b>D</b>   | The Bond is in default and in arrears of interest or principal payments or are expected to default on maturity.                                                                                                                                                                                                                |

### Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.



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