

# UAC Nigeria Plc

Nigeria | Equities | Conglomerates | August 11, 2015

PAC RESEARCH

## Weak operational performance impacts valuation

**1H2015 revenue declines by 7.2% y/y.** In the six months period to June 2015, UACN recorded revenue of ₦37.38billion, down by 7.2% compared with ₦40.26billion in the previous year. On a quarterly basis, the company's revenue of ₦19.65billion in 2Q2015 increased by 10.8% compared with ₦17.73billion in the first quarter to March 2015. On the contrary, the latest quarter's revenue is lower than ₦20.37billion in 2Q2014 by 3.5%; it is also lower than 8-quarter average of ₦20.55billion by 4.4%.

**Lower decline in cost of sales weighs on gross profit margins.** For the review period, UACN posted cost of sales (COS) of ₦28.98billion, down by 6.8% y/y against ₦31.08billion recorded in the corresponding period of the previous year. The lower decline in COS compared with revenue resulted in a marginal increase in COS/revenue ratio to 77.5% relative to 77.2% in 2014. Moreover, the COS of ₦15.44billion recorded in the latest quarter increased by 14.0% compared with ₦13.54billion in 1Q2015, but declined by 0.7% against ₦15.56billion in 2Q2014. Also, the COS is lower than 8-quarter average of ₦15.90billion by 2.9%. Furthermore, our analysis revealed that COS/revenue ratio of 78.6% in 2Q2015 is higher than 76.4% recorded in both the first of 2015 and the second quarter of 2014. Similarly, the COS/revenue ratio is higher than 8-quarter average of 77.4%. Therefore, gross profit declined by 8.5% to ₦8.39billion compared with ₦9.17billion in the previous year and gross profit margin fell to 22.5% relative to 22.8% in 2014.

**Increase in running costs impacts earnings significantly.** For the review period, the company posted operating expenses of ₦7.26billion, up by 35.0% compared with ₦5.38billion in the previous year. The rise in the operating expenses despite a decline in revenue led to an increase in operating expenses/revenue ratio to 19.4% relative to 13.4% in 2014. On a quarterly basis, the company's operating expenses of ₦4.82billion in the latest quarter is higher by 97.3% compared with ₦2.44billion in 1Q2015.

Fig. 1: Quarterly results highlights

	2Q2015	1Q2015	2Q2014	Q/q Δ	Y/y Δ
Revenue (₦mn)	19,646	17,729	20,367	+10.81%	-3.54%
Operating profit (₦mn)	-387	2,035	1,489	-119.02%	-125.99%
Net profit (₦mn)	-638	1,676	1,510	-138.07%	-142.25%

Source: NSE, PAC Research

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**Price:**

- Current	₦37.05*
- Target	₦36.44
<b>Recommendation:</b>	<b>HOLD</b>

\* As at Tuesday August 11, 2015

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	+8.82%/-39.34%
52-week range	₦26.22 - ₦61.00
Average daily vol./val.	2,008,333 / ₦86.632mn
Shares Outstanding (₦mn)	1,921
Market Cap. (₦mn)	69,631 (US\$353.46mn)
EPS, ₦- 12months trailing	4.13
DPS, ₦- FY2014	1.75
FCF, ₦- FY2014	n/a

Source: NSE, Company's Annual Reports, PAC Research

Fig. 3: Key ratios

	1H2015	1H2014
Gross profit margin	22.45%	22.78%
Net profit margin	2.77%	8.65%
Equity multiplier	1.80x	1.75x
Asset turnover	0.62x	0.66x

Source: NSE, PAC Research

Fig. 4: Valuations

	FY2014	FY2015E	FY2016F	FY2017F
P/Sales	0.90x	0.83x	0.89x	0.86x
P/E	7.20x	6.63x	12.87x	11.15x
PEG	0.07	0.39	n/a	1.11
EV/EBITDA	6.29x	12.40x	10.40x	8.08x
P/B	0.95x	0.91x	0.90x	0.88x
ROE	14.41%	7.07%	8.06%	9.30%
ROA	8.23%	4.20%	4.85%	5.60%
Div. Yield	4.73%	4.86%	5.41%	5.95%

Source: NSE, PAC Research

Fig. 5: UACN vs. NSE, 52-wk movement (rebased)



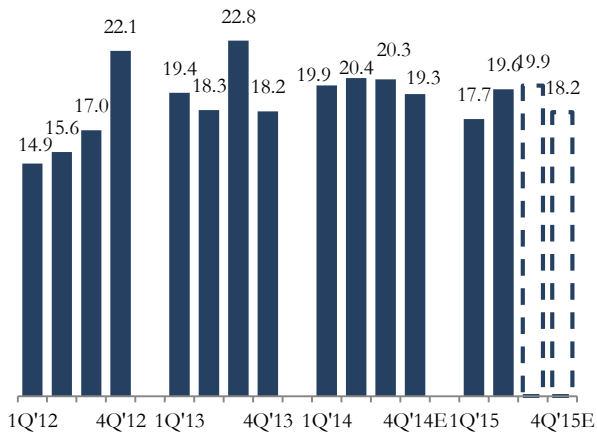
Source: Bloomberg, PAC Research

Also, the operating expenses in the quarter is higher than ₦2.86billion in 2Q2014 and the 8-quarter average of ₦2.71billion by 68.4% and 77.7% respectively. In line with expectation, the operating expenses/revenue ratio of 24.5% in 2Q2015 is higher than 13.8% and 14.0% recorded in 1Q2015 and 2Q2014 accordingly; it is also higher than 8-quarter average of 13.4%. Overall, total costs declined marginally by 0.6% to ₦36.24billion compared with ₦36.46billion in 2014; however, total costs/revenue ratio increased to 97.0% relative to 90.6% in the previous year. Therefore, operating profit declined by 55.6% to ₦2.34billion compared with ₦5.27billion in the preceding year, and operating profit margin stood at 6.3% in the review period relative to 13.1% in the previous year.

We are keen to highlight the decline of 30.9% y/y in interest expenses to ₦708million compared with ₦1.02billion in the previous year. The interest expenses declined despite an increase of 16.5% y/y in total borrowings in the review period compared with the corresponding period of the previous year. Short-term borrowings moved up by 26.4% to ₦24.02billion as at the end of 1H2015 compared with ₦19.00billion in the previous year. On the contrary, long-term borrowings declined by 3.1% to ₦9.28billion against ₦9.58billion as at June 2014, overall total borrowings increased by 16.5% to ₦33.30billion compared with ₦28.58billion in 2014. In addition, interest income declined by 37.2% y/y to ₦511million compared with ₦814million in 2014 in spite of an increase of 10.7% y/y in cash and cash equivalents to ₦9.65billion from ₦8.72billion in the previous year. Consequently, net profit declined by 70.2% to ₦1.04billion in the review period compared with ₦3.48billion in the corresponding period of the preceding year, and net profit margin fell to 2.8% relative to 8.7% in 2014.

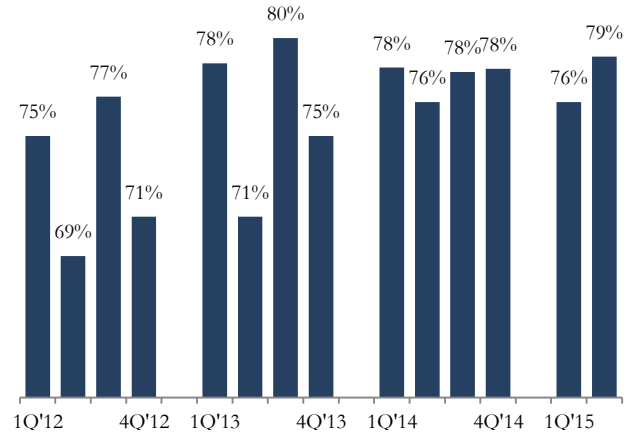
*“ Consequently, net profit declined by 70.2% to ₦1.04billion in the review period compared with ₦3.48billion in the corresponding period of the preceding year...”*

Fig. 6: Quarterly sales revenue (₦billion)



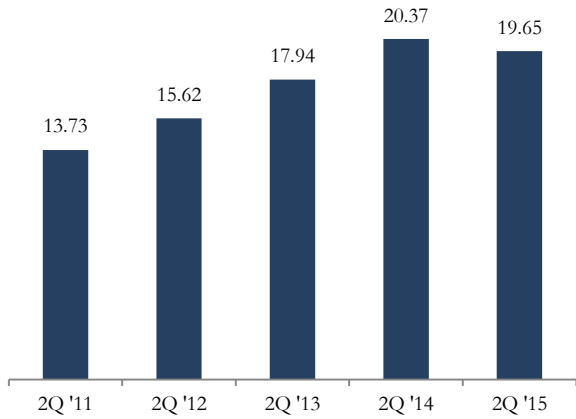
Source: NSE, PAC Research

Fig. 7: Quarterly COS/revenue ratio



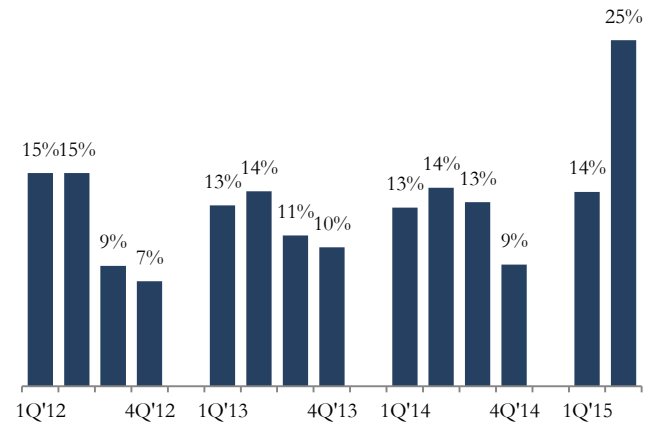
Source: NSE, PAC Research

Fig. 8: Second quarter sales revenue (₦billion)



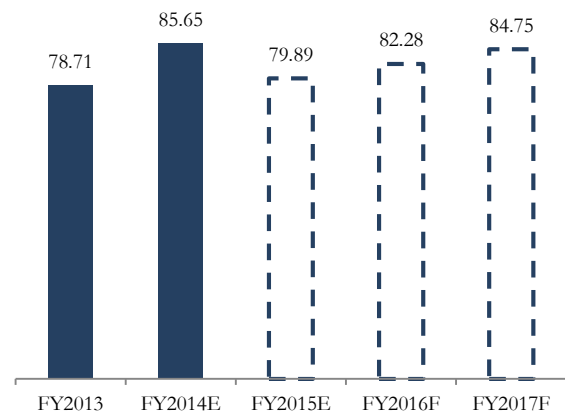
Source: NSE, PAC Research

Fig. 9: Quarterly operating expenses/revenue ratio



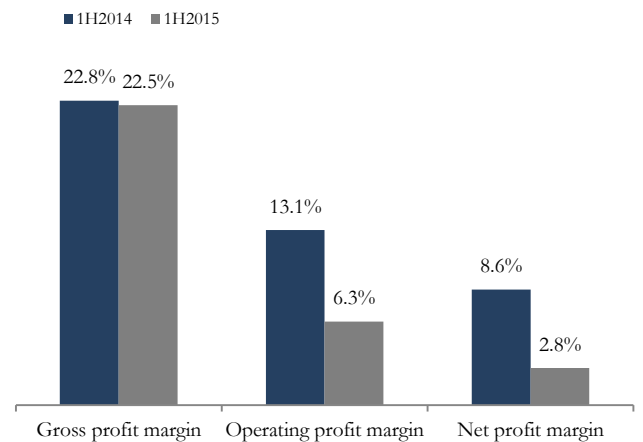
Source: NSE, PAC Research

Fig. 10: Annual sales revenue (₦billion)



Source: NSE, PAC Research

Fig. 11: Profit margins



Source: NSE, PAC Research

**UACN out-performs the broad market in the review period.** In the six months period to June 2015, UACN recorded total shareholders' returns (TSR) of +25.00% relative to -0.51% recorded by the equity market. On the contrary, the company under-performed the market in the same period of the previous year with TSR of -5.0% compared with the market returns of +6.2%. Similarly, UACN had 52-week returns of -32.6% against -24.6% posted by the broad market in the same period.

### Valuation

Our Valuation puts the target price of the stock of UACN Plc at ₦36.44. In arriving at the target price, we employed multiples of price/earnings, price/sales, price/book, and EV/sales. We also employed the discounted cashflow valuation methodology. Consequently, we recommend a HOLD on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the challenging operating environment in Nigeria, insecurity challenges in the northern part of the country, demographic factor, the strength of consumer spending and the intensity of competition in the market.

*“Our Valuation  
puts the target price  
of the stock of  
UACN Plc at  
₦36.44.”*

Fig. 12: Statement of Profit or Loss, ₦'mn

	FY2014	FY2015E	FY2016F	FY2017F
Revenue	85,654	79,887	82,284	84,752
Change		-6.73%	3.00%	3.00%
Cost of sales	66,472	61,912	63,852	65,768
Change		-6.86%	3.13%	3.00%
Gross profit	19,182	17,975	18,432	18,984
Change		-6.29%	2.54%	3.00%
Operating expenses	10,179	15,179	14,811	14,408
Change		49.12%	-2.42%	-2.72%
Other operating income	2,979	2,234	2,569	2,184
Change		-25.00%	15.00%	-15.00%
Operating profit	11,982	5,030	6,190	6,761
Change		-58.02%	23.05%	9.22%
Interest income	3,391	4,069	4,029	5,036
Change		20.00%	-1.00%	25.00%
Interest expenses	1,276	1,212	1,236	1,113
Change		-5.00%	2.00%	-10.00%
Profit before tax	14,097	7,887	8,982	10,683
Change		-44.05%	13.88%	18.94%
Income tax expenses	3,370	2,366	2,605	3,205
Change		-29.79%	10.08%	23.05%
Profit for the year	10,727	5,521	6,377	7,478
Change		-48.53%	15.51%	17.27%

Fig. 13: Statement of Financial Position, ₦'mn

	FY2014	FY2015E	FY2016F	FY2017F
<b>Non-Current Assets</b>				
Property, plant & equipment	36,613	37,345	38,839	40,393
Intangible assets	1,843	1,659	1,493	1,344
Other non-current assets	40,229	42,643	43,922	42,604
<b>Total non-current assets</b>	<b>78,685</b>	<b>81,647</b>	<b>84,254</b>	<b>84,341</b>
<b>Current Assets</b>				
Inventories	27,767	27,212	25,851	25,593
Trade & other receivables	15,950	15,791	14,527	15,689
Cash & cash equivalents	7,957	6,704	6,861	8,010
Total Current assets	51,674	49,706	47,239	49,292
<b>Total assets</b>	<b>130,359</b>	<b>131,353</b>	<b>131,493</b>	<b>133,633</b>
<b>Equity</b>	<b>74,451</b>	<b>78,134</b>	<b>79,165</b>	<b>80,433</b>
<b>Non-Current Liabilities</b>				
Deferred tax	4,477	2,366	2,605	3,205
Provisions	196	202	190	171
Loans and borrowings	7,951	5,910	5,910	5,910
<b>Total non-current fin. liab.</b>	<b>13,706</b>	<b>11,782</b>	<b>12,053</b>	<b>12,648</b>
<b>Current Liabilities</b>				
Trade & other payables	14,788	15,675	16,146	15,823
Current tax liabilities	4,477	2,366	2,605	3,205
Current financial liabilities	22,937	23,396	21,524	21,524
<b>Total current liabilities</b>	<b>42,202</b>	<b>41,437</b>	<b>40,274</b>	<b>40,552</b>
<b>Total equity and liabilities</b>	<b>130,359</b>	<b>131,353</b>	<b>131,493</b>	<b>133,632</b>

Fig. 14: Profitability &amp; return

	FY2014	FY2015E	FY2016F	FY2017F
Gross profit margin	22.39%	22.50%	22.40%	22.40%
Operating profit margin	13.99%	6.30%	7.52%	7.98%
Net profit margin	12.52%	6.91%	7.75%	8.82%
ROCE	14.54%	5.99%	7.28%	7.83%
ROE	14.41%	7.07%	8.06%	9.30%
ROA	8.10%	4.20%	4.85%	5.60%

Source: Company's Annual Reports, PAC Research

Fig. 15: DuPont Analysis

	FY2014	FY2015E	FY2016F	FY2017F
Total assets turnover	1.04x	0.95x	0.97x	0.98x
Operating profit margin	13.99%	6.30%	7.52%	7.98%
Equity multiplier	1.78x	1.68x	1.66x	1.66x
ROCE	14.54%	5.99%	7.28%	7.83%

Fig. 16: Efficiency ratios

	FY2014	FY2015E	FY2016F	FY2017F
Fixed assets turnover	1.09x	0.98x	0.98x	1.00x
Current assets turnover	1.66x	1.61x	1.74x	1.72x
Total assets turnover	1.04x	0.95x	0.97x	0.98x
Inventory turnover	2.36x	2.25x	2.41x	2.56x
Receivables turnover	n/a	n/a	n/a	n/a
Payables turnover	n/a	n/a	n/a	n/a
Days inventory outstanding	154	162	152	143
Days collection outstanding	n/a	n/a	n/a	n/a
Days payable outstanding	n/a	n/a	n/a	n/a
Operating cycle (days)	n/a	n/a	n/a	n/a

Fig. 17: Liquidity ratios

	FY2014	FY2015E	FY2016F	FY2017F
Working capital (₦'millions)	9,472	8,269	6,965	8,740
Current ratio	1.22	1.20	1.17	1.22
Quick ratio	0.57	0.54	0.53	0.58
Cash ratio	0.19	0.16	0.17	0.20

Fig. 18: Long-term solvency &amp; stability ratios

	FY2014	FY2015E	FY2016F	FY2017F
Gearing	9.65%	7.03%	6.95%	6.84%
Equity multiplier	1.78x	1.68x	1.66x	1.66x
Total debt-to-equity	0.75x	0.68x	0.66x	0.66x
Total debt-to-assets	42.24%	40.52%	39.80%	39.81%
Proprietary	56.25%	59.48%	60.20%	60.19%
Interest coverage	9.39x	4.15x	5.01x	6.08x
Cash coverage	n/a	n/a	n/a	n/a

Fig. 19: Shareholders' investment ratios

	FY2014	FY2015E	FY2016F	FY2017F
EPS, ₦	5.58	2.87	3.32	3.89
DPS, ₦	1.75	1.80	2.00	2.20
Payout	31.34%	62.63%	60.25%	56.51%
FCFPS, ₦	n/a	n/a	n/a	n/a

Source: Company's Annual Reports, PAC Research

**Equity research methodology employed in this report**

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

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