

Bottom-line Pressured by Surge in OPEX

Northern Revenue Improves

NASCON, in its Q1:2020 financial scorecard reported a marginal uptick (+0.83%) in revenue to NGN6.88bn (vs. NGN6.82bn in Q1:2019). This performance was solely propelled by a 19.99% growth in revenue from salt and seasoning products to NGN6.88bn, amidst the mounting competition in the market for seasonings. However, during the period, the company recorded no revenue from freight deliveries which typically accounts for 16.56% (five-year average) of total revenue, possibly signifying the impact of COVID-19 on the firm's freight operations. **As a positive, we note the improvement in the North where the company's sales grew by +16.35% Y-o-Y to NGN4.67bn, offsetting the fall off recorded in the East (-27.93%) and West (-19.48%).** We anticipate an improvement in sales volume by the end of the financial year on the back of the statewide lockdown and increased spending on food items by Household, Social Organizations and the Government. **We project a 2020FY topline growth of 12.00% particularly fueled by an increase in volumes in the second and third quarter. However, weak disposable income, and a reopening of the land borders without addressing smuggling and dumping activities pose significant downside risks to this projection.**

Moderation in Direct Costs Support Margins

NASCON's production costs declined by 5.96% Y-o-Y to NGN4.79bn from NGN5.09bn in Q1:2019. This led to an improvement in cost to sales ratio to 69.63% (vs. 74.66%), as both manufacturing and loading expenses fell by 29.71% and 27.28%. Flowing from this, gross margin expanded to 30.37% (from 25.34% in Q1:2020). During the period, the firm reclassified external haulage cost as an indirect expense, resulting in a 325.16% surge in distribution cost to NGN939.50mn from NGN220.98mn in Q1:2019. Administrative expense also increased by 4.95% to NGN533.62m, due to higher staff related costs and management expenses. A net foreign exchange gain of NGN393.98mn, however, upheld operating profit at NGN1.01bn, implying an operating margin of 14.70%, up from 14.65% in Q1:2019. We expect OPEX to inch higher by 2020FY, fueled by increased selling and distribution costs. However, the anticipated growth in top-line should cushion the impact of the estimated increase in OPEX.

In Q1:2020, interest bearing obligations settled higher at NGN7.22bn from NGN38.57mn on the back of an increase in lease liabilities. Consequently, finance costs rose by 407.12% to NGN95.55mn from NGN18.84mn in Q1:2019. PBT therefore settled 9.68% lower at NGN923.17mn pressured by the surge in OPEX and finance costs. In the same vein, earnings contracted by 9.66%, to NGN627.76mn, implying a net margin of 9.13% (vs. 10.19% in Q1:2019). In 2020FY, we project a net profit of NGN3.18bn (net margin of 10.32%).

ROE Maintains Downward Trajectory

The downtrend in NASCON's ROE remains a cause for concern with the Trailing Twelve Month (TTM) ROE pegged at 15.18% - a significant discount from the 5-year historical average of 31.97%. This decline is due to the contraction in net margin and asset turnover, which have both slumped from a high of 13.02% and 0.99x in 2015 to 6.46% and 0.62x as at Q1:2020 (on a trailing basis). Financial leverage, however maintained an uptrend, settling at 3.82x in 2019FY (vs. 2.55x in 2018FY). While this implies a higher ROE for the firm, it also elevates its financial risk.

Outlook and Recommendation

Our target price for 2020FY has been reviewed downwards slightly to NGN13.20 from NGN13.60 on the back of a target P/E of 11.00x and an expected EPS NGN1.20. This represents a 25.71% upside to its closing price of NGN10.05 on 28th April 2020. Thus, we rate the ticker a **"BUY"**.

Company	NASCON
Valuation	
Trailing EPS	0.67
BVPS	4.42
P/E	14.98x
P/BV	2.27x
Target PE	11.00x
Dec-2020 Exp. EPS	1.20
Dec 2020 Target price	13.20
Current Price	10.05
Upside Potential	25.71%
Ratings	BUY
Key metrics	
ROAE	15.59%
ROAA	4.26%
Net margin	9.13%
Asset Turnover	0.62
Leverage	3.82
Share/Share Price Statistics	
Yr Hi	15.70
Yr Lo	8.50
YTD return	-45.86%
Beta	1.05
Adjusted Beta	1.03
Shares outstanding	2.65mn
Market cap [NGN]	26.63bn
Financial year end	December
Most Recent Period (MRP)	Q1:2020

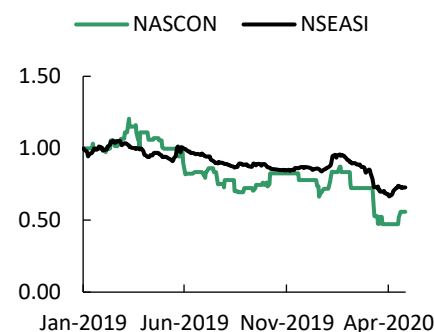


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	11.66
EPS						Max	14.87
Target PE		1.11	1.15	1.20	1.25	1.29	
	10.5x	11.66	12.12	12.60	13.08	13.58	
	10.8x	11.94	12.41	12.90	13.39	13.90	
	11.0x	12.22	12.70	13.20	13.70	14.22	
	11.3x	12.49	12.99	13.50	14.01	14.55	
	11.5x	12.77	13.28	13.80	14.32	14.87	

Financial Highlights (NGN billion) NASCON PLC Q1:2020 Unaudited Financial Results			
<i>Profit & Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Revenue	6.88	6.82	0.83%
Cost of Sales	4.79	5.09	-5.96%
Gross Profit	2.09	1.73	20.83%
OPEX	1.47	0.73	101.95%
Operating Profit	1.01	1.00	1.19%
Other Income	0.00	0.00	703.32%
Finance Costs	0.10	0.02	407.12%
PBT	0.92	1.02	-9.68%
PAT	0.63	0.69	-9.66%
<i>Balance Sheet</i>	Q1:2020	FY: 2019	
Property, Plant and Equipment	16.41	15.17	8.15%
Inventories	4.65	4.43	4.98%
Trade and other Receivables	12.87	10.54	22.11%
Cash and Cash Equivalents	3.42	3.66	-6.66%
Other Assets	7.43	4.86	52.87%
Total Assets	44.78	38.67	15.81%
Shareholders' fund	11.72	11.09	5.66%
Trade and Other Payables	20.41	15.59	30.92%
Tax Liabilities	2.08	2.08	0.00%
Total Liabilities	33.07	27.58	19.89%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com	(+234 905 569 0627)
abisoyeoludipe@meristemng.com	(+234 708 000 7861)
contact@meristemng.com	

Investment Banking/Corporate Finance

seunlijofi@meristemng.com	(+234 808 536 5766)
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Wealth Management

damilolahassan@meristemng.com	(+234 803 613 9123)
www.meristemwealth.com	
Tel: +234 01 738 9948	

Registrars

muboolasoko@meristemregistrars.com	(+234 803 324 7996)
martinaosague@meristemregistrars.com	(+234 802 303 1783)
www.meristemregistrars.com	
Tel: +23401-280 9250	

Group Business Development

saheedbashir@mersitemng.com	(+234 802 454 6575)
ifeomaogalue@meristemng.com	(+234 802 3942967)

Client Services

omosolapeakinpelu@meristemng.com	(+234 803 694 3034)
blessingogwuiche@meristemng.com	(+234 706 896 5173)

Investment Research

ahmedjinad@meristemng.com	(+234 809 183 9487)
research@meristemng.com	

Corporate websites:	www.meristemng.com	www.meristemwealth.com	www.meristemregistrars.com
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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: NASCON Allied Industries Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
29-April-2020	NGN10.05	NGN13.60	NGN13.20	BUY	BUY

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Company	Disclosure
NASCON	

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