

Ardova Reaffirms Position as Major Downstream Player

Stronger Product Supply Boosts Topline Performance Amid Industry Headwinds

ARDOVA's topline expanded to NGN52.05bn in Q1:2020 (+22.31% YoY). The growth was off the back of a 24.61% increase in fuel sales in the quarter to NGN47.80bn (vs. NGN38.36bn in Q1:2019). The stronger petroleum products sales performance was driven by higher volumes and stronger market penetration in the period, with PMS sales rising by 34.0% since last year. The fuel business contributed 91.83% of total revenue, as the company leveraged on its wide retail network to boost sales. Sales of lubricants and greases, which constituted 8.15% of total revenue inched higher YoY by 1.44% to NGN4.24bn (vs. NGN4.18bn in Q1:2019). **ARDOVA's resilient topline performance in Q1:2020 despite the continued regulation of the PMS market was supported by recent partnerships with aviation lines as Aviation Turbine Kerosene (ATK) sales grew by 276%.** Given plans to spread its arms further across the energy value chain, we expect a more diversified revenue stream, supporting the drive towards the company's goal of having 20% contribution from renewables and higher-margin products by 2024. We however do not expect these plans to have much impact on revenue in the short term. In 2020, we expect that the company will continue to take advantage of Prudent Energy and Services' logistics to sustain the improved supply of white products across its retail stations. We thereby forecast that topline will come in at NGN192.67bn in 2020FY.

Higher Direct Costs Weaken Margins

Costs of sales rose significantly by 24.74% YoY to NGN49.26bn in Q1:2020, thereby lowering gross profit by 9.00% YoY. Gross margin thus came in lower at 5.36% (vs. 7.20% in Q1:2019). Fuels segment was the most expensive with a cost to sales ratio of 96.89% (vs. 94.55% in Q1:2019). The Lubricants and greases business, which contributed 46.86% of total Gross profit had the lowest Cost-to-Sales ratio at 69.20% (vs. 76.68% in Q1:2019). Overall Cost-to-Sales at 94.64% (vs. 92.80% in Q1:2019) compares unfavorably to those of other players like TOTAL (88.96%) and ETERNA (92.71%). **This is one of the key considerations driving the company's strategy to increase supply of white products across its retail stations with less reliance on third-party distributors.** With the increase in OPEX by 12.22% to NGN2.60bn, EBIT dipped by 80.54% to NGN0.74bn (vs. NGN3.78bn in Q1:2019) – 33.50% if adjusted for the NGN2.67bn realized from discontinued operations which boosted EBIT in Q1:2019. Net finance costs fell by 76.15% YoY to NGN0.16bn (vs. NGN0.65bn in Q1:2019). Pre-tax earnings and net income consequently settled at NGN0.58bn and NGN0.50bn respectively.

Net Margin Drags Return on Equity

On a standalone basis, ARDOVA's Return on Equity in Q1:2020 was 2.99%, compared to 20.57% in Q1:2019. It is worth restating that the exaggerated fall in ROE was due to the higher net margin from discontinued operations a year ago. Despite higher Leverage (3.39x) and stable Asset Turnover (0.92x), the 0.96% (from 7.81% in Q1:2019) dip in Net Margin was the main drag to the return on equity.

Outlook and Recommendation

Although we are concerned about ARDOVA's direct cost-to-sales, the company is positioned to boost supply of white products across its 450 retail stations. Our 2020FY expected EPS is NGN2.68, and with a target PE of 6.88x, we arrived at a target price of NGN18.44. This implies an upside potential of 56.94% to the current share price of NGN11.75. We therefore recommend as **BUY**.

Company	ARDOVA
Valuation	
Trailing EPS	0.83
BVPS	12.71
P/E	17.35x
P/BV	1.13x
Target PE	6.88x
Dec-2020 Exp. EPS	2.68
Dec 2020 Target price	18.44
Current Price	11.75
Up/Downside Potential	56.94%
Ratings	BUY
Key metrics	
ROAE	6.63%
ROAA	2.10%
Net margin	0.95%
Asset Turnover	0.92x
Leverage	3.39x
Yr. Hi	20.60
Yr. Lo	11.20
YTD return	-27.90%
Beta	0.38
Adjusted Beta	0.58
Shares outstanding	1.31bn
Market cap [NGN]	18.86bn
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020

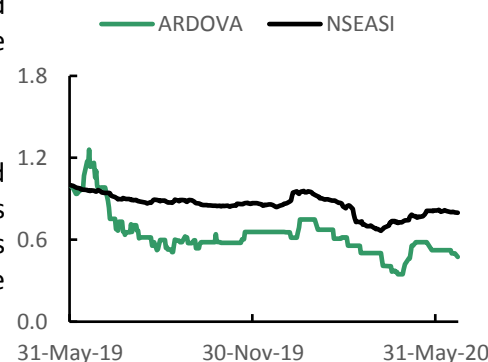


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	15.24
						Max	22.31
Target EPS							
		2.44	2.56	2.68	2.81	2.95	
Target PE	6.25	15.24	16.00	16.76	17.60	18.44	
	6.57	16.00	16.80	17.60	18.48	19.36	
	6.88	16.76	17.60	18.44	19.36	20.28	
	7.22	17.60	18.48	19.36	20.33	21.30	
	7.57	18.44	19.36	20.28	21.30	22.31	

Financial Highlights (NGN billion) ARDOVA PLC Q1:2020 Unaudited Results

Profit & Loss Account			
	Q1:2020	Q1:2019	y/y Growth
Revenue	52.05	42.56	22.30%
Cost of Sales	49.26	39.49	24.74%
Gross Profit	2.79	3.07	-9.09%
OPEX	2.60	2.32	12.22%
Operating Profit	0.74	3.78	-80.56%
Finance cost	0.26	0.85	-69.02%
Other income	0.55	3.02	-81.94%
PBT	0.58	3.13	-81.45%
PAT	0.50	3.32	-85.05%
Balance Sheet			
	Q1:2020	FY2019	y/y Growth
Property, plant and equipment	10.17	11.12	-8.52%
Trade and Other Receivables	21.88	16.68	31.20%
Deferred Tax Assets	0.71	0.78	-9.71%
Inventories	11.35	12.83	-11.55%
Cash and Cash Balances	8.41	1.98	323.84%
Other Assets	3.97	3.62	9.69%
Total Assets	56.49	47.02	20.15%
Shareholders' fund	16.66	16.16	3.07%
Trade and Other payables	31.92	22.82	39.87%
Total Liabilities	39.83	30.86	29.10%

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Movements in Price Target

Company Name: Ardova Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
29-Jun-2020	NGN11.94	NGN19.66	NGN18.44		BUY

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Company	Disclosure
Ardova Plc.	

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