

## Lockdown Measures Taint Half-Year Performance

### Pandemic Containment Measures Leaves Its Mark on Topline

The performance of Chemical and Allied Products Plc. (CAP) in the second quarter expectedly showed the effect of the shutdown of economic activities in major States of the Federation to stem the spread of the Coronavirus. Hence, revenue for the quarter dropped significantly by 35.10% to NGN1.18bn (vs. NGN1.81bn in Q2:2019). This represents a NGN635.78mn loss in revenue - the company's worst quarterly performance since the recession in 2016. Although the company grew topline by 10.37% in Q1:2020, the decline in Q2:2020 overshadowed the growth in the first quarter, with overall half year revenue dropping by 10.71% to NGN3.49bn (vs NGN3.91bn in H1:2019). *In subsequent quarters, we expect performance to be supported by the pick-up in economic activities, also by the company's own drive to grow volumes. More so, the company has hinted on delivering functional product lines to diversify its product offerings. This is expected to bode well for topline growth. Hence, we project a 2020FY revenue of NGN8.84bn (growth of 5.07% compared to 2019FY).*

### Cost to Sales Ratio Remain Largely Unchanged

Despite the sharp drop in revenue, cost to sales remain largely unchanged at 52.45% in H1:2020 (vs 52.41% in H1:2019) as variable costs dropped in line with reduced production. EBITDA margin was, however, lower at 24.03% (vs 28.41% in H1:2019), portraying the effect of the slump in topline and higher OPEX (+9.51% - due to higher admin expenses) on profitability. Similarly, profit after tax declined by 30.03% to NGN607.33mn (vs. NGN868.04mn in H1:2019). This brought net margin down to 17.41% (vs 22.22% in H1:2019). *Going forward, we expect an increase in prices of the company's import requirements (as a result of the CBN's FX adjustment) to push direct costs higher, we also anticipate continued marketing efforts to grow volumes as stated in the company's "five must-win battles". The drive for higher volumes is expected to push OPEX higher by 5.64% in 2020FY. Hence, we expect 2020FY earnings at NGN1.76bn – 1.20% higher than the NGN1.74bn in 2019FY.*

### Liquidity Management in Q2:2020 Preserves Balance Sheet Health

CAP Plc. maintains an unlevered balance sheet with impressive returns to shareholders (annualized ROE of 47.34% in H1:2020) driven by a robust net margin (18.54%- trailing 12 months) and a decent asset turnover- 1.04x (trailing 12 months). The high returns have been a major highlight of the company as an investment case. Amid the crisis, the company's liquidity remained strong, evinced by an improvement in working capital – NGN2.46bn in H1:2020 (vs NGN1.80bn in 2019FY). This was a result of working capital management and cash preservation through a reduction in CAPEX. We note a 14.14% inventory build-up and a sluggish conversion rate (239 days- Inventory outstanding days) in H1:2020. However, the company enjoys sufficient terms on its payables (361 days outstanding) thereby ensuring a short operating cycle (-36 days), albeit longer than -99days recorded in H1:2019. Although cash from operations declined to NGN184.92mn from NGN351.87mn in 2019FY), total cash balance edged higher by 6.51%. The company's current and cash ratios thereby stood at 1.56x and 1.05x, respectively. In our view, a combination of effective working capital management and sufficient cash buffers should keep liquidity level firmly in the region of safety.

### Recommendation

For 2020FY, we project an EPS of NGN2.52 and P/E ratio of 9.50x to arrive at our price target of NGN23.93 (an upside potential of 39.94%). Hence, we maintain our **BUY** rating on the counter.

Company	CAP
<b>Valuation</b>	
EPS	2.12
BVPS	4.47x
P/E	8.95x
P/BV	4.24x
Target P/E	9.50x
Dec-2020 Exp. EPS	2.52
Dec 2020 Target price	<b>23.93</b>
Current Price	17.10
Up/Downside Potential	+39.94%
<b>Ratings</b>	
<b>BUY</b>	
<b>Key metrics</b>	
ROE	47.34%
ROA	19.33%
Net margin	18.54%
Asset Turnover	1.04x
Leverage	0.00x
Yr Hi	27.50
Yr Lo	17.10
YTD return	-28.75%
Beta	0.22
Adjusted Beta	0.48
52-Week average volume ('000)	276.78
Shares outstanding	700.00mn
Market cap [NGN]	<b>13.27bn</b>
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020

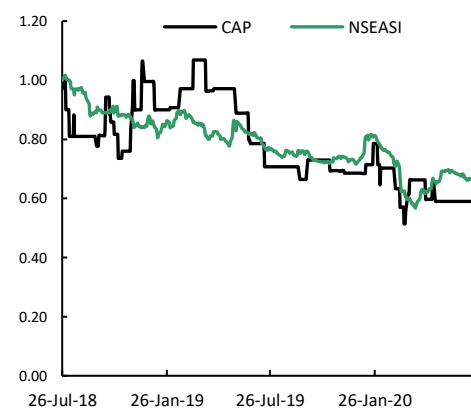


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	22.51
						Max	25.38
						EPS	
		2.44	2.48	2.52	2.56	2.59	
Target P/E	9.22x	22.51	22.86	23.21	23.56	23.90	
	9.36x	22.86	23.21	23.57	23.92	24.27	
	9.50x	23.21	23.57	<b>23.93</b>	24.29	24.64	
	9.64x	23.56	23.92	24.29	24.65	25.01	
	9.79x	23.90	24.27	24.64	25.01	25.38	

Financial Highlights (NGN million) H1:2020 Financial result

<i>Profit &amp; Loss Account</i>	H1:2020	H1:2019	y/y Growth
Revenue	3,488.37	3,906.83	-10.71%
Cost of Sales	1,829.81	2,047.71	-10.64%
Gross Profit	1,658.56	1,859.12	-10.79%
Investment Income	127.99	237.39	-46.08%
Other Income	43.84	35.90	22.12%
Operating Expense	936.83	855.44	9.51%
Finance Cost	0.43	0.43	0.00%
PBT	893.13	1,276.54	-30.03%
PAT	607.33	868.04	-30.03%
<i>Balance Sheet</i>	H1:2020	2019FY	
Inventories	1,198.64	1,050.10	14.14%
Trade and other Receivables	822.85	371.70	121.38%
Cash and bank	4,604.62	4,322.99	6.51%
Property, Plant and Equipment	822.11	869.67	-5.47%
Other Assets	0.34	0.12	194.83%
<b>Total Assets</b>	<b>7,664.18</b>	<b>6,760.96</b>	<b>13.36%</b>
Shareholders' fund	3,129.01	2,521.68	24.08%
Trade and Other Payables	1,811.30	1,801.55	0.54%
Tax Liabilities	1,051.75	765.94	37.31%
Total Liabilities	4,535.17	4,239.28	9.08%

## Contact Information

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### Brokerage and Retail Services

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

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### 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

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### 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)

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### Client Services

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

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### Investment Research

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

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**Corporate websites:** [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

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## Movements in Price Target

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**Company Name:** Chemical and Allied Products Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
03-August-2020	17.10	23.93	23.93	BUY	BUY

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