

Top-line Improves Across Regions

Volume Growth Props Top-line

NASCON, in its Q2:2020 financial scorecard, recorded strong double-digit growth (+24.34% YoY) in revenue to NGN7.65bn (vs. NGN6.15bn in Q2:2019). The performance was supported by a marked improvement in sales across its regional markets: North (+5.17%), East (+10.95%) and West (+35.85%), relative to last year. On this note, the cumulative revenue for the first-half settled at NGN14.53bn, indicating a 11.98% YoY growth. We also observed that no revenue was generated from freight deliveries during the six-month period; a tell-tale of the impact of *COVID-19* on the firm's freight operations. We find it instructive to highlight the quarter on quarter uptick in revenue across its regional markets, particularly in the saturated Western market (QoQ: +12.60%, to NGN3.70bn), attributed to increased demand for food by Households, Social Organizations and the Government (*a call we made in our Q1:2020 update*). **We remain upbeat in our outlook for the rest of the year, envisaging that growth would be driven by strong volumes supported by discretionary spending, lingering land border closure and a likely resumption of freight deliveries in the second half of the year. Thus, we retain our forecast of a 12.00% growth in topline to NGN30.79bn by 2020FY.**

Net Foreign Exchange Gain Sustains Operating profit

NASCON recorded an increase in production costs relative to the H1:2019 period, as raw material (26.58% YoY) and employee related expenses (1.94% YoY) drove cost of sales to NGN8.71bn - a 13.18% YoY climb from NGN7.69bn in the corresponding period. Thus, both cost to sales ratio and gross margin came in flat at 59.94% (vs. 59.30% in H1:2019) and 40.06% (vs. 40.70% in H1:2019) respectively. OPEX provided no respite, surging by 170.14% to NGN3.79bn (vs. NGN1.40bn in the comparable period last year). The uptick was driven collectively by a 551.53% rise in distribution costs to NGN2.74bn and a 6.63% rise in administrative costs to NGN1.05bn. However, it should be noted that the reclassification of external haulage costs as an indirect expense, drove the uptick in distribution expenses. Amidst the mounting cost pressures, the company recorded a net FX gain of NGN393.98mn, which upheld operating profit at NGN2.43bn (14.20% higher than in the corresponding period of 2019).

PAT Improves Despite Cost Pressures

On the back of significantly reduced borrowing, finance costs was down 25.40% to NGN166.21mn from NGN222.81mn as at 2019FY while investment income fell by 74.51% YoY to NGN18.23mn, mirroring the depressed yield environment. Despite rising cost pressures and a higher effective tax rate of 34.69% (vs. 32% in H1:2019), the growth in revenues and fall in interest expense provided support to earnings, resulting in a marginal increase of 2.66% YoY to NGN1.49bn. Net margin, however, contracted to 10.24% from 11.17% in H1:2019. **For 2020FY, we adjust our initial forecast for net profit by 6.29% to NGN2.98bn (implying a net margin of 9.67%).**

During the half-year period and relative to 2019FY, interest bearing liabilities dipped from NGN7.08bn to NGN6.04bn, due to a 38.94% decrease in borrowings. Thus, Debt-to-equity ratio fell to 0.48x (vs. 0.64x) as improved retained earnings buffered shareholders equity. Debt-to-EBITDA on the other hand rose to 1.55x (vs. 1.38x) as EBITDA dropped to NGN3.90bn in H1:2020.

Outlook and Recommendation

Our target price for 2020FY has been reviewed downwards to NGN11.20 from NGN13.20 on the back of a target P/E of 10.00x and an expected EPS NGN1.12. This represents a 16.67% upside to its closing price of NGN9.60 on the 5th of August, 2020. Thus, we rate the ticker as **BUY**.

Company	NASCON
Valuation	
Trailing EPS	0.71
BVPS	4.75
P/E	13.52x
P/BV	2.02x
Target PE	10.00x
Dec-2020 Exp. EPS	1.12
Dec 2020 Target price	11.20
Current Price	9.60
Up/Downside Potential	16.67%
Ratings	BUY
Key metrics	
ROAE	15.90%
ROAA	4.58%
Net margin	10.24%
Asset Turnover	0.67
Leverage	3.46
Share/Share Price Statistics	
Yr Hi	15.70
Yr Lo	8.50
YTD return	-38.85%
Beta	1.05
Adjusted Beta	1.03
Shares outstanding	2.65mn
Market cap [NGN]	25.44bn
Financial year end	December
Most Recent Period	

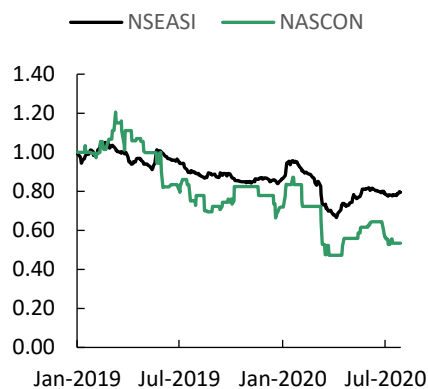


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	9.85	
						Max	12.67	
		EPS						
		1.04	1.08	1.12	1.16	1.21		
Target PE	9.5x	9.85	10.24	10.64	11.04	11.46		
	9.8x	10.11	10.51	10.92	11.33	11.77		
	10.0x	10.36	10.77	11.20	11.63	12.07		
	10.3x	10.62	11.04	11.48	11.92	12.37		
	10.5x	10.88	11.31	11.76	12.21	12.67		

Financial Highlights (NGN billion) NASCON PLC H1:2020 Unaudited Financial Results

<i>Profit & Loss Account</i>	H1:2020	H1:2019	y/y Growth
Revenue	14.53	12.97	11.98%
Cost of Sales	8.71	7.69	13.18%
Gross Profit	5.82	5.28	10.23%
OPEX	3.79	1.40	170.14%
Operating Profit	2.43	2.12	14.20%
Other Income	0.00	0.01	-55.23%
Finance Costs	0.17	0.06	157.55%
PBT	2.28	2.13	6.88%
PAT	1.49	1.45	2.66%
<i>Balance Sheet</i>	H1:2020	FY: 2019	
Property, Plant and Equipment	16.41	15.17	8.12%
Inventories	4.08	4.43	-7.96%
Trade and other Receivables	11.82	10.54	12.10%
Cash and Cash Equivalents	5.06	3.66	38.13%
Other Assets	6.18	4.86	27.04%
Total Assets	43.53	38.67	12.58%
Shareholders' fund	12.58	11.09	13.42%
Trade and Other Payables	20.17	15.59	29.39%
Tax Liabilities	2.08	2.08	0.00%
Total Liabilities	30.96	27.58	12.25%

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)

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

Client Services

blissingogwuche@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

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

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
05-Aug-2020	NGN9.60	NGN13.20	NGN11.20	BUY	BUY

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
NASCON	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2020 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.