

Soaring Costs Undermines Topline Growth

Topline Maintains Growth Momentum

In 2020FY, Berger Paints Plc. (**BERGER**) sustained its growth momentum despite the challenges faced during the year. The company was able to manage the situation through a combination of initiatives. According to management, key production raw materials and components previously sourced from China and other high risk (COVID-19 risk) countries were sourced from alternative suppliers during the year. Other initiatives include the deliberate improvement in production and outbound logistics processes. Thus, the paint maker only suffered minimal impact on its operations in the second half of the year and was able to realize a total revenue of NGN3.87bn at the end of the year – an improvement of 7.05% YoY. By segment, sales of paints remain a key contributor to topline, accounting for 94.61% of total revenue for the year (NGN3.60bn) while contract services and lease of Investment property made up for the rest (NGN206.79mn). **For 2021FY, we expect the company's operations to remain stable as the environment becomes more conducive for economic activities (due to progress in combating COVID-19). Also, we note the company's drive to capture market share through its aggressive marketing and discounting initiatives as a key tailwind. We thus project a revenue of NGN4.18bn for 2021FY – an increase of 8.89% YoY.**

Profitability Buckles Under Cost Pressure

The FX devaluations during the year had dire cost consequence for the paint maker. Raw materials and consumables cost were notably higher (+23.20%) and thus pushed cost-to-sales ratio to 63.02% (vs 53.57% in 2019FY). Hence, the company's gross profit slid by 14.74% to NGN1.42bn (vs NGN1.66bn in 2019FY). In a similar vein, an uptick in operating expenses (+8.65%), mainly caused by higher personnel expenses (+17.71%), added to the cost pressures and pushed operating profit to a record low of NGN194.95mn (a decline of 61.99% from NGN512.93mn recorded in 2019FY). Furthermore, Interest obligations on lease liabilities and payment of accrued interest on its Bank of Industry loan resulted in an interest expense of NGN61.95mn in 2020FY (244.30% higher than NGN17.99mn in 2019FY). Consequently, the company's bottom-line took a beating, with Profit before tax declining by 61.59% YoY to NGN211.85mn and profit after tax down by 67.46% YoY to NGN146.03mn. **The persistent FX devaluation pressures remain a key risk to raw material cost and we envisage that this will keep cost-to-sales ratio elevated (should there be further devaluations during the year). However, in our view, a 40.10% decline in finance cost (following matured debts and payments of accrued interests in 2020) will be the major driver of earnings in 2021. We thereby project a 56.58% growth in profit after tax to NGN228.65mn for 2021FY.**

Shareholder's Return at Record Low

The decline in net margin vividly pared returns to shareholders. At the end of the year, ROE stood at 4.64% (its lowest in 6 years). While Net margin tanked to 3.81% (vs 12.52% in 2019FY), the moderation in Financial Leverage (1.58x vs 1.65x in 2020FY) exacerbated the deterioration in ROE. However, there was an improvement in asset turnover from 0.71x in 2019 to 0.77x in 2020.

Recommendation

For 2021FY, we project an EPS of NGN0.79 and P/E ratio of 10.47x to arrive at our December 2021 target price of NGN8.27, an upside potential of 27.23% when compared to its opening price of NGN6.50 on April 15, 2021. Hence, we rate the counter as a **BUY**.

Company	BERGER
Valuation	
EPS	0.50
BVPS	10.86
P/E	12.90x
P/BV	0.60x
Target P/E	10.47x
Dec-2021 Exp. EPS	0.84
Dec 2021 Target price	8.27
Current Price	6.50
Up/Downside Potential	+27.23%
Ratings	BUY
Key metrics	
ROE	4.64%
ROA	2.94%
Net margin	3.81%
Asset Turnover	0.77x
Leverage	1.58x
Share/Share Price Statistics	
Yr Hi	NGN8.05
Yr Lo	NGN5.50
YTD return	-11.56%
Beta	0.31
Adjusted Beta	0.54
52-wk average volume	109,607
Shares outstanding	289.82mn
Market cap [NGN]	1.88bn
Financial year end	Dec
Most Recent Period (MRP)	2020FY

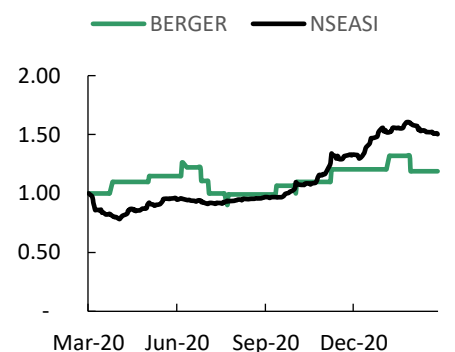


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	7.16
						Max	9.41
						EPS	
						0.69	0.74
						0.79	0.84
						0.89	
Target P/E	10.37x	7.16	7.67	8.19	8.71	9.23	
	10.42x	7.19	7.71	8.23	8.75	9.27	
	10.47x	7.22	7.75	8.27	8.79	9.32	
	10.52x	7.26	7.78	8.31	8.84	9.36	
	10.57x	7.29	7.82	8.35	8.88	9.41	

Financial Highlights (NGN million) 2020FY

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	3,585	3,838	7.05%
Cost of Sales	1,920	2,419	25.93%
Gross Profit	1,664	1,419	-14.74%
Investment Income	57	79	39.24%
Other Income	51	47	-7.69%
Operating Expense	(1,164)	(1,265)	8.65%
Finance cost	18	62	244.30%
PBT	552	212	-61.59%
PAT	449	146	-67.46%
<i>Balance Sheet</i>	2019FY	2020FY	
Inventories	812	702	-13.52%
Trade and Other Receivables	331	317	-3.98%
Cash and bank	217	357	64.57%
Property, Plant and Equipment	2,824	2,757	-2.36%
Other Assets	883	838	-5.09%
Total Assets	5,066	4,972	-1.87%
Shareholders' fund	3,073	3,147	2.39%
Trade and Other Payables	805	704	-12.46%
Tax Liabilities	72	31	-57.19%
Total Liabilities	1,993	1,825	-8.44%

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Movements in Price Target

Company Name: Berger Paints Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-Apr-2021	6.50	3.02	8.27	SELL	BUY
27-Aug-2020	6.05	5.97	3.02	SELL	SELL
12-Jun-2020	7.45	4.87	5.97	SELL	SELL

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Berger Paints Plc	

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