

Staying Resilient at All Cost

ETERNA Revises Business Operations to Remain Afloat

Following a significant pushback in trading activities (crude lifting), **ETERNA's** topline contracted by 74.39% YoY, to hit a 5-year low of NGN58.72bn for 2020FY (vs. NGN229.27bn in 2019FY). Revenue from the trading segment (*now contributing 2% to total revenue from 72% in 2019FY*) declined by 99.37% YoY, on account of the company's decision to amend its crude lifting contract with clients. During the year, **ETERNA** acted as an agent to transactions, receiving commission as revenue. **From our assessment, we suspect the drop in crude oil demand alongside FX risk, would have initiated this new policy.** Nevertheless, **ETERNA** still recorded a significant FX loss of NGN354.06mn in 2020FY, compared to gain of NGN33.25mn realized in the previous year. Similarly, Fuel and Lubricant sales dipped by 15.46% YoY and 16.75% YoY respectively, in contrast to the growth (Fuel: 5.43% YoY and Lubricant: 54.77% YoY) reported in 2019FY. Both segments suffered decline in sales volume, stemming from movement restrictions ensuing from the pandemic, as well as the company's low retail presence (*less than 30 stations nationwide*). **With the fuel segment now accounting for 77% of total revenue, management would need to expand its retail presence to spur topline growth going forward. Given this backdrop, we expect the fuel segment to drive revenue growth in the coming year (supported by price and volume increase) - as we envisage that the new trading policy would continue. Hence, topline is projected to grow by 19.80%YoY to NGN70.34bn for 2021FY.**

Revised Strategy Improves Margins

Cost-to-sales fell significantly by 722bps to 90.62% for 2020FY (vs. a 5-year average of 96.19%). The improved markup came largely from the revised trading policies made with clients during the year, which pulled material costs down by 76.58% YoY. Delivery costs however remained unchanged, bringing cost of sales to NGN53.21bn (-76.28% YoY) for 2020FY. In contrast, operating expenses grew by 18.20% YoY, owing to increased depreciation expense (+17.03% YoY), as well as an uptick in employee benefits (+621.30% YoY). Notwithstanding, EBIT margin still edged higher by 2.61%. Finance income plunged by 87.72% YoY, due to the low interest environment. However, this reflected positively on finance costs, which dropped by 39.77% YoY, thereby supporting profit before tax growth (+391.88% YoY) to NGN548. We highlight that **ETERNA** utilized tax credits totaling NGN167.75mn and deferred tax of up to NGN398.09mn, thereby resulting in a net tax credit of NGN392.90mn for the period. This further amplified bottom line growth by 752.19% YoY, to NGN941.04mn – lifting net margin to 1.60%, from -0.06% in 2019FY (5-year average at 0.85%). ROE also strengthened by 845bps to 7.31%.

Lenient Credit Terms Dampen Operating Cash flow

Cash conversion cycle went up 2x to 66 days during the financial year, arising from longer receivable days (69 days vs. 32 days over 2019FY). This subsequently impacted cash flow from operation, which dipped by 86.76% YoY to NGN1.26bn for 2020FY. **Our assessment suggests lenient credit terms were extended to customers, considering the headwinds encountered in the industry. However, we expect a gradual return to normalcy in 2021FY, which should bring receivables lower and improve cashflows.**

Recommendation and Outlook

For 2021FY we project an EPS of **NGN0.79** and P/E ratio of **7.56x**. This brings our target price to NGN5.97 – an implied downside potential of 0.46%, when compared to its current price. We therefore recommend a **HOLD** on the ticker.

Company	ETERNA
Valuation	
EPS	0.72
BVPS	10.24
P/E	8.33x
P/BV	0.59x
Target PE	7.56x
Dec-2021 Exp. EPS	0.79
Dec 2021 Target price	5.97
Current Price	6.00
Up/Downside Potential	-0.46%
Ratings	HOLD
Key metrics	
ROE	7.31%
ROA	2.93%
Net margin	1.60%
Asset Turnover	1.83
Leverage	2.68x
Share/Share Price Statistics	
Yr Hi	6.35
Yr Lo	4.62
YTD return	17.65%
Beta	0.61
Adjusted Beta	0.74
52-wk average volume	939,539
Shares outstanding	1.30bn
Market cap [NGN]	7.12bn
Financial year end	December
Most Recent Period (MRP)	2020FY

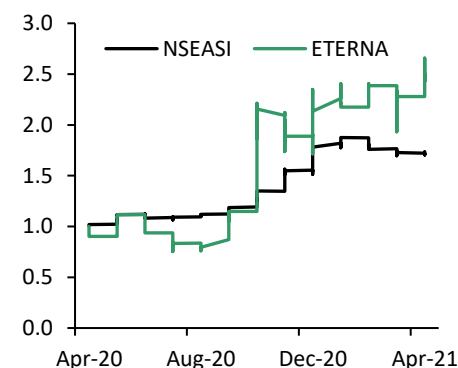


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	5.15			
						Max	6.82			
						EPS				
						0.69	0.74	0.79	0.84	0.89
Target PE	7.46x	5.15	5.52	5.89	6.27	6.64				
	7.51x	5.18	5.56	5.93	6.31	6.68				
	7.56x	5.22	5.59	5.97	6.35	6.73				
	7.61x	5.25	5.63	6.01	6.39	6.77				
	7.66x	5.29	5.67	6.05	6.43	6.82				

Financial Highlights (NGN Million) ETERNA Plc.2020FY Audited Results

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	58,716	229,275	-74.39%
Cost of Sales	53,208	224,325	-76.28%
Gross Profit	5,508	4,950	11.27%
Other Income	425	100	324.21%
Operating Expense	3,831	3,240	-1.40%
Finance cost	1,016	1,686	18.20%
PBT	548	111	391.88%
PAT	941	-144	752.19%
<i>Balance Sheet</i>	2020FY	2019FY	y/y Growth
Inventories	6,900	5,296	30.26%
Trade and Other Receivables	12,613	9,445	33.53%
Cash and bank	2,056	1,171	75.59%
Property, Plant and Equipment	11,398	9,772	16.65%
Other Assets	2,800	2,848	14.88%
Total Assets	35,768	28,533	25.35%
Shareholders' fund	13,349	12,408	7.58%
Trade and Other Payables	8,291	4,952	67.45%
Tax Liabilities	1,282	2,031	-36.84%
Total Liabilities	22,419	16,126	39.03%

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Movements in Price Target

Company Name: Eterna Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
29-Apr-2021	6.00	-	5.97	-	HOLD

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Company	Disclosure
Eterna Plc.	

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