

Revenue Touches 5-Year High

Price Hike Lifts Topline

In 2020FY, Livestock Feeds Plc. recorded substantial revenue growth (+12.30%), from NGN9.96bn in 2019FY to NGN11.18bn – representing the firm’s highest revenue on record since 2014FY. This growth stemmed from an increase in the product prices during the year, and robust demand from poultry farmers as feed-milling inputs became more expensive. Hence, formulating their own feed was no longer the cost effective route. This supported revenue growth for animal feed millers like Livestock Feeds Plc. On a regional basis, sales from Aba, Ikeja and Onitsha (West and Eastern Nigeria) saw the most improvement, up 24.45%, 11.98% and 77.37% YoY respectively. In contrast, sales slumped in the North (-11.27% YoY) – constrained, in our view, by the effect of the pandemic on the company’s supply chain and distribution channels. **Although local maize prices remain on the high side (due mainly to supply shortfalls), we expect the Federal Government’s intervention to crash maize (and feed) prices in the near term. Recall that the Central Bank of Nigeria (CBN) had in March commenced the disbursement of c. 300,000MT of maize under its Anchor Borrower’s Program (ABP) to bridge the domestic supply gap. It is on the back of this that we project slightly lower average feed prices over 2021FY. Thus, we forecast a 6.60% YoY growth in revenue to NGN11.92bn.**

Profitability Improved Despite Higher Finance Costs

Although cost of sales increased by 8.37% YoY to NGN9.89bn, cost to sales ratio improved from 91.70% to 88.50% due to faster revenue growth. As a result, gross margin improved to 11.50%, from 8.30% in the previous year. The firm’s sustained promotional efforts drove the 10.04% YoY increase in selling and distribution expenses. Administrative expenses also inched higher (+7.64% to NGN360.79mn) – as salaries and staff benefits jumped to NGN119.54mn, from NGN98.20mn (now 33.13% of total admin. costs). Nonetheless, the benefit from topline growth trickled down to operating income, with operating margin climbing to 6.14% (vs. 2.06% in 2019FY).

Finance costs grew significantly by 35.61% YoY to NGN104.09mn. This increase was due mainly to a new commercial loan obtained in tranches of NGN50mn, NGN250mn and NGN1.99bn from First Bank of Nigeria Plc. The company also paid down an outstanding NGN955.27mn on the Commercial Agricultural Credit Scheme (CACS) loan during the year. We think the company’s debt profile remains at sustainable levels, with interest coverage ratio improving to 4.90x as at year end 2020 (vs. 1.99x in 2019FY). Finally, both PBT and PAT surged by 384.84% and 373.13% YoY respectively to NGN546.07mn and NGN503.19mn (translating to a net margin of 4.50%).

Deterioration in Earnings Quality

In 2020FY, working capital improved to NGN1.24bn (vs. NGN0.71bn in 2019FY). However, a closer look reveals that the increase in working capital was driven by 77.67% YoY and 130.52% YoY growth in inventories and trade receivables respectively. This suggests poor earnings quality as trade receivables now constitutes c. 70.56% of net income (quality of earnings ratio: -1.46x).

Outlook and Recommendation

For 2021FY, we forecast an EPS of NGN0.11 and applied a target PE of 12.79x to arrive at our NGN1.48 target price. This implies a potential 19.57% downside when compared to its closing price as of April 26th, 2021. We therefore recommend as **SELL**.

Company	LIVESTOCK
Valuation	
EPS	0.17
BVPS	0.69
P/E	10.73x
P/BV	2.61x
Target PE	12.79x
Dec-2021 Exp. EPS	0.12
Dec 2021 Target price	1.48
Current Price	1.84
Up/Downside Potential	-19.57%
Ratings	SELL
Key metrics	
ROE	27.63%
ROA	9.58%
Net margin	4.50%
Asset Turnover	1.73x
Leverage	2.88x
Share/Share Price Statistics	
Yr Hi	NGN3.08
Yr Lo	NGN0.51
YTD return	33.09%
Beta	1.48
Adjusted Beta	1.32
52-wk average volume	3,645,699
Shares outstanding	3.00bn
Market cap [NGN]	5.79bn
Financial year end	December
Most Recent Period (MRP)	2020FY

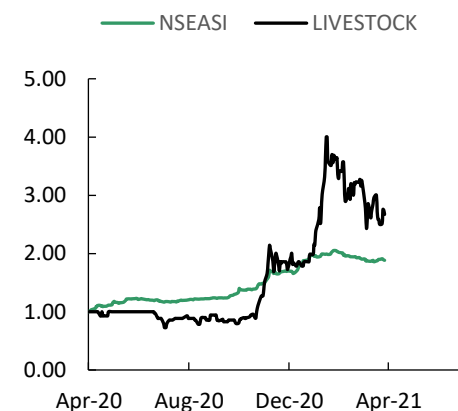


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	0.20			
						Max	2.98			
						EPS				
						0.02	0.07	0.12	0.17	0.22
Target P/E	12.24x	0.20	0.81	1.42	2.03	2.64				
	12.29x	0.20	0.81	1.43	2.04	2.65				
	12.79x	0.20	0.84	1.48	2.12	2.76				
	13.29x	0.21	0.88	1.54	2.21	2.87				
	13.79x	0.22	0.91	1.60	2.29	2.98				

Financial Highlights (NGN billion) Livestock Feeds Plc. 2020FY

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	11.18	9.96	12.30%
Cost of Sales	9.89	9.13	8.37%
Gross Profit	1.29	0.83	55.65%
Net Operating Expenses	0.60	0.62	-3.37%
Operating Profit	0.69	0.21	234.12%
Finance Income	0.00	0.01	-97.17%
Finance Cost	0.14	0.10	35.61%
PBT	0.55	0.11	384.14%
PAT	0.50	0.11	373.13%
<i>Balance Sheet</i>	2020FY	2019FY	y/y Growth
Inventories	5.10	2.87	77.67%
Trade and Other Receivables	0.36	0.15	130.52%
Cash and Bank	0.09	0.06	54.91%
Property and Equipment	0.84	0.86	-2.69%
Total Assets	6.47	4.03	60.49%
Shareholders' fund	2.07	1.57	32.06%
Trade and Other Payables	2.33	1.42	63.86%
Borrowings	1.99	0.96	108.67%
Total Liabilities	4.40	2.46	78.60%

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Movements in Price Target

Company Name: Livestock Feeds Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
26-Apr-2021	1.84	N/A	1.48	N/A	SELL

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Company	Disclosure
Livestock Feeds Plc	

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