

PRESCO Bounces Back Strong

Burgeoning Local Demand Drives Topline Growth

PRESCO, in its 2020FY financial scorecard posted strong double-digit growth in revenue (+21.13% YoY) to NGN23.89bn (vs. 2019FY: NGN19.72bn) - recovering from a 7.59% YoY decline in the prior year. Despite supply chain disruption and other logistic challenges thrown up by the pandemic, revenue climbed to its highest level in six years as the firm benefited from an improvement in sales; a consequence of the restriction placed by the CBN on access to foreign exchange for Crude Palm Oil (CPO) imports. Another policy directive with unintended benefits for the palm oil producer was the Federal Government's decision to close the land borders, which effectively shut out smuggled alternatives and encouraged patronage of locally made products. This provided local players with the latitude to increase product prices. Both directives, coupled with the company's prior capital investments (*including the construction of a 350 tons per day palm kernel crushing plant and 30 tons palm kernel shell boiler in 2019*) supported the improvement in sales over 2020FY. **For 2021FY, we envisage robust local demand for CPO and its derivatives against the backdrop of a gradual pick-up in economic activities. We also see support coming from the CBN's decision to discourage CPO imports by withholding FX, as well as expectations of a much higher crude oil price environment in the year. On risks to our outlook, we do not consider the reopening of the land borders a significant downside risk, given that the FG's protection on local palm oil producers remains firmly in place. Thus, we project a 11.91% growth in 2021FY revenue to NGN26.74bn (vs. 2020FY: NGN23.89bn).**

Profitability Metrics Remain Promising

The company's profitability metrics (ROE: 17.86%, net margin: 22.02%) remain quite attractive despite moderate increases in both direct (2020FY: NGN7.80bn vs. 2019FY: NGN7.00bn) and net operating expenses (2020FY: NGN7.38bn vs. 2019FY: NGN6.43bn) during the year.

Total interest-bearing liabilities declined to NGN20.76bn from NGN25.37bn in the prior year as the firm paid down a portion of its debt. As a result, finance expenses fell by c. 10% to NGN1.92bn while interest coverage ratio expanded to 5.50x (from 3.81x as at 2019FY). Also noteworthy is the CBN's decision to reduce interest rates on its loans to 5% per annum effective March 2021. This is expected to last for a year. **We believe this would serve to moderate the company's finance costs as these loans represent c. 37.11% of PRESCO's total borrowings in 2020FY.**

Finally, the company recognized a NGN1.85bn gain on biological asset revaluation, further strengthening its bottom line. Both PBT and PAT eventually settled higher – up by 43.41% and 37.07% YoY to NGN8.69bn and NGN5.26bn respectively.

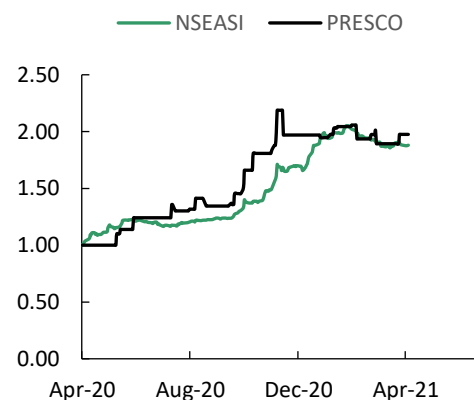
Return on Equity Lags its Major Peer Company

While an improvement from last year, **PRESCO's** annualized ROE (17.86%) lags that of its peer (**OKOMUOIL**: 23.17%) - mainly as a result of a weaker net margin (22.02% vs. **OKOMUOIL**: 33.23%) and asset turnover (0.33x vs. **OKOMUOIL**: 0.47x). **PRESCO's** liquidity metrics also pose a serious concern, with current ratio of 0.79x, which is way below the industry average of 2.94x.

Outlook and Recommendation

For 2021FY, based on positive industry outlook as well as modest improvement in macroeconomic conditions, we project an EPS of NGN6.21 applied a P/E ratio of 11.30x to arrive at our target price

Company	PRESCO
Valuation	
EPS	5.26
BVPS	31.05
P/E	13.68x
P/BV	2.32x
Target PE	11.30x
Dec-2021 Exp. EPS	6.21
Dec 2021 Target price	70.22
Current Price	72.00
Up/Downside Potential	-2.48%
Ratings	HOLD
Key metrics	
ROE	17.86%
ROA	7.28%
Net margin	22.02%
Asset Turnover	0.33x
Leverage	2.45x
Share/Share Price Statistics	
Yr Hi	NGN79.75
Yr Lo	NGN40.05
YTD return	+1.48%
Beta	0.70
Adjusted Beta	0.80
52-wk average volume	481,929
Shares outstanding	1.00bn
Market cap [NGN]	72.00bn
Financial year end	December
Most Recent Period (MRP)	2020FY



of NGN70.22. This implies a downside potential of 2.48% when compared to its closing price as of April 21st, 2021. We therefore recommend a **HOLD** on the ticker.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	65.72
						Max	77.66
						EPS	
						6.11	6.16
						6.21	6.26
						6.31	
Target PE	10.75x	65.72	66.26	66.80	67.34	67.87	
	10.80x	66.03	66.57	67.11	67.65	68.19	
	11.30x	69.09	69.65	70.22	70.78	71.35	
	11.80x	72.14	72.73	73.32	73.91	74.50	
	12.30x	75.20	75.82	76.43	77.05	77.66	

Financial Highlights (NGN billion) Presco Plc. 2020FY Audited Results

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	23.89	19.72	21.13%
Cost of Sales	7.80	7.00	11.45%
Gross Profit	16.09	12.72	26.46%
Net Operating Expenses	7.38	6.43	14.88%
Operating Profit	10.55	8.13	29.82%
Finance Income	0.06	0.07	-12.04%
Finance Cost	1.92	2.13	-10.10%
Gain/(Loss) on Biological Asset Revaluation	1.85	1.83	0.73%
PBT	8.69	6.06	43.41%
PAT	5.26	3.84	37.07%
<i>Balance Sheet</i>	2020FY	2019FY	y/y Growth
Inventories	3.55	3.23	9.99%
Trade and Other Receivables	6.96	6.76	3.01%
Cash and Bank	2.59	5.21	-50.40%
Biological Assets	6.94	5.09	36.24%
Property and Equipment	52.11	48.21	8.08%
Total Assets	73.77	70.73	4.29%
Shareholders' fund	31.05	27.89	11.34%
Trade and Other Payables	11.54	8.18	41.08%
Deferred Tax Liabilities	9.06	6.78	33.48%
Total Liabilities	42.72	42.84	-0.30%

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
olatunjifaniyi@meristemng.com (+234 803 446 3118)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.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

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
emekaikpechukwu@meristemng.com (+234 803 791 5731)
info@meristemng.com

Client Services

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

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: Presco Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-Apr-2021	72.00	70.67	70.22	HOLD	HOLD

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
Presco Plc	

- 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 2021 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.