

Bracing for Growth Through Restructuring

Animal Feed Segment Remains the Major Contributor to Topline Growth

In its recently concluded 2020FY, United Africa Company of Nigeria (**UACN**) reported a slowdown in revenue growth, posting an increase of 2.72%YoY to NGN81.35bn (vs. 2019FY: NGN79.20bn). While three of the firm's four product divisions witnessed improvement in revenue despite the challenging macroeconomic environment, the group's overall performance lagged that of 2019FY (where revenue grew by strong double digits: 12.39% YoY). The Animal Feed and Other Edibles division, which accounts for the bulk of total revenue (c. 60%), witnessed a 5.22% uptick, influenced by a combination of higher volumes and higher product prices. On the other hand, the Packaged Food and Beverages segment (+1.52%), and Quick Service Restaurant (+1.77%) both recorded sluggish revenue growths, while revenue from the paints segment declined (-6.14%). For the latter, its weak performance was due largely to a significant decline in demand during the pandemic-induced lockdown. **To expand its capacity and create room to maximize economies of scale, Management announced its intention to merge CAP and Portland Paints making the new combined entity the largest player in Nigeria's Paints Industry. Similarly, we note Management's renewed efforts at growing its QSR business division - by opening up new stores and investing in its distribution network. For 2021FY, we expect topline performance to be driven by the firm's expansion initiatives and the improvement in its distribution networks. Hence, we project a 2021FY revenue of NGN84.20bn (growth rate of 3.49% compared to 2020FY).**

Production Costs Maintain Upward Trend

Cost to sales rose slightly from 79.01% in 2019FY to 80.35% in 2020FY, driving gross margin down to 19.65% (from 2019FY: 20.99%). Operating profit declined by 36.52%, on the back of a significantly high base year figure (profit from the sale of investment property & PPE) resulting in an operating margin of 4.42% from 7.15% in 2019FY. **UACN** recorded a decline in finance cost following the repayment of a portion of its debts and the restructuring of UPDC. **Ultimately, the combination of slow growth in topline and significant cost pressures resulted in a 35.30% contraction in bottom-line, from NGN5.34bn to NGN3.46bn.** However, the recognition of profit from discontinued operation bolstered overall earnings by 142.43% to NGN3.92bn, a significant improvement on the NGN9.25bn loss recorded in 2019FY. **The firm's restructuring efforts so far is expected to bode well on earnings as the finance cost pressure from UPDC eases and it realizes the benefit of economies of scale from consolidating its position in the paints market. Against this backdrop, we project a net margin of 5.80% and an implied EPS of NGN1.70 vs. NGN1.20 in 2020FY.**

UPDC Restructuring Improves Earnings Position

In 2020FY, UAC's 51% interest in UPDC worth NGN6.59bn was divested to Custodian Investment Plc. Also, **UACN** 24.34% interest in UPDC Real Estate Investment Trust (649 million units valued at NGN3.6bn) was unbundled to **UACN** shareholders. UPDC previously accounted for the largest portion of **UACN's** borrowings and the divestment from the business further strengthened earnings (lower finance cost) in 2020FY and we expect this to continue into 2021FY.

Recommendation

Premised on an Expected EPS of NGN1.70 and a Target P/E ratio of 5.87x, we arrived at a 2021FY target price of NGN10.00. This represents an upside potential of 2.56% from its current price of NGN9.75 (as at 7th April 2021). Hence, we recommend a **HOLD** on the counter.

Company	UACN
Valuation	
EPS	1.20
BVPS	21.30
P/E	8.12x
P/BV	0.14x
Target PE	5.87x
Dec-2021 Exp. EPS	1.70
Dec 2021 Target price	10.00
Current Price	9.75
Up/Downside Potential	+2.60%
Ratings	HOLD
Key metrics	
ROE	5.63%
ROA	3.75%
Net margin	4.25%
Asset Turnover	0.81
Leverage	9.38
Share/Share Price Statistics	
Yr Hi	NGN9.90
Yr Lo	NGN7.10
YTD return	-28.28%
Beta	1.05
Adjusted Beta	1.03
Shares outstanding	2.88bn
Market cap [NGN]	28.52bn
Financial year end	December
Most Recent Period (MRP)	2020FY

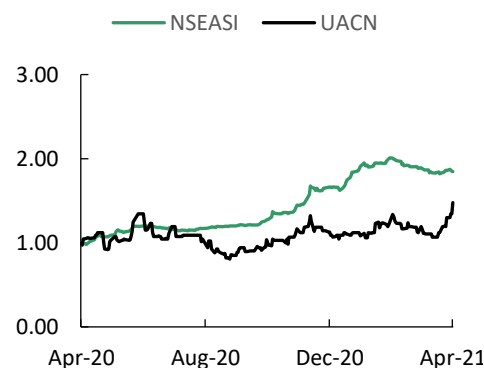


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	8.82
						Max	11.00
						EPS	
Target PE	10.00	1.60	1.65	1.70	1.75	1.80	
	5.50x	8.82	9.10	9.37	9.65	9.92	
	5.60x	8.98	9.26	9.54	9.82	10.10	
	5.87x	9.42	9.71	10.00	10.30	10.59	
	6.00x	9.62	9.92	10.22	10.52	10.82	
	6.10x	9.78	10.09	10.39	10.70	11.00	

Financial Highlights (NGN million) UACN 2020FY Audited Results

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	81,358	79,202	2.72%
Cost of Sales	65,368	62,575	4.46%
Gross Profit	15,990	16,627	-3.83%
Investment income	1,052	2,781	-62.17%
Other income	1,238	2,362	-47.60%
Operating Expense	13,631	13,323	2.31%
Finance Cost	502	504	-0.44%
PBT	5,121	7,456	-31.32%
PAT	3,458	5,345	-35.30%
<i>Balance Sheet</i>	2020FY	2019FY	
Inventories	20,123	16,290	23.53%
Trade and other Receivables	6,500	5,015	29.61%
Cash and bank	24,272	23,891	1.60%
Property, Plant and Equipment	21,012	18,920	11.06%
Other Assets	20,259	43,479	-53.40%
Total Assets	92,167	107,595	-14.34%
Shareholders' fund	61,372	60,541	-1.35%
Trade and Other Payables	9,830	9,760	-0.71%
Tax Liabilities	1,735	1,851	6.64%
Total Liabilities	30,795	47,054	-34.55%

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Movements in Price Target

Company Name: UACN Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
08-Apr-21	9.75	8.08	10.00	HOLD	HOLD

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