

Improved Sales Volume Anchors Performance.

Topline Improves Across Regions

NASCON recorded a significant increase of 21.24% in its Q1:2021 revenue to NGN8.34bn (vs. NGN6.88bn in Q1: 2020). Notably, revenue from all the company's geographical locations increased during the review period. The highest increase was recorded in the West (+48.69%). Revenue performance of the Northern and Eastern regions trailed behind, inching upwards by 11.96% and 11.74% respectively. Considering that the domestic market for salt and seasoning products is highly competitive, we expect the re-opening of the land borders to intensify the competitive nature of the space. In addition, the consistent spike in inflation and its impact on consumers' disposable income poses a downside risk to our outlook. **Premised on the foregoing, we forecast a moderate top-line growth of 7.58% to NGN30.13bn in 2021FY driven primarily by improved demand in the B2B segment.**

Earnings Undeterred by Increased Cost

The firm's production cost grew at a slower rate relative to revenue, rising by 12.86% to NGN4.92bn (vs. NGN4.36bn in Q1:2020) mainly influenced by an increase of 11.69% in raw materials cost. Despite the increase in cost, cost-to-sales declined to 59.07% (vs. 63.45% in Q1:2020) leading to an improvement in gross margin to 40.93% (vs. 36.55% in Q1:2020). Similar to direct costs, operating expenses rose by 23.99% to NGN2.35bn on the back of a significant rise in delivery expenses during the period. Operating profit, however, improved by 5.13% to NGN1.06bn implying an operating margin of 12.75% in Q1:2021.

The company's finance cost declined by 86.04% following the full repayment of the loan (NGN3.30bn) obtained in 2019FY. On this note, the firm's interest coverage ratio expanded to 79.70x from 10.58x. In a similar vein, PAT increased significantly by 15.20% to NGN723.20mn at the end of the period. Overall, net margin contracted to 8.67% from 9.13% as the increase in revenue outpaced the growth in earnings. For the rest of the financial year, we anticipate an uptrend in costs on the back of general inflationary pressures and our expectation of increased sales volume. **We project a net profit of NGN3.11bn for 2021FY, implying a net margin of 10.32%.**

Working Capital Slumps after Debt Repayment

Following the repayment of its debt in 2020FY, the company reported a negative working capital for the first time in five years, which continued into Q1:2021. The negative working capital of - NGN586.38mn (vs. NGN42.31mn in Q1:2020) was particularly driven by a significant increase of 18.92% in trade payables. While the company does not have a demonstrated history of taking on debts frequently, we expect Management to make efforts towards buffering its working capital position in order to meet its short-term operational needs.

Recommendation

We forecast an EPS of NGN1.17 and target P/E of 13.0x in 2021FY, resulting in a target price of NGN15.21. This represents a upside of 2.77% based on the closing price on the 6th of May 2021. Hence, we rate the ticker **"HOLD"**.

Company	NASCON
Valuation	
Trailing EPS	1.05
BVPS	5.07
P/E	14.08x
P/BV	2.92x
Target PE	13.0x
Dec-2021 Exp. EPS	1.17
Dec 2020 Target price	15.21
Current Price	14.80
Up/Downside Potential	2.77%
Ratings	HOLD
Key metrics	
ROE	21.30%
ROA	1.58%
Net margin	8.67%
Asset Turnover	0.18
Leverage	3.52x
Share/Share Price Statistics	
Yr Hi	17.55
Yr Lo	13.00
YTD return	+2.07%
Beta	0.94
Adjusted Beta	0.96
Shares outstanding	26.43b
Market cap [NGN]	39.21bn
Financial year end	Dec
Most Recent Period (MRP)	Q1: 2021

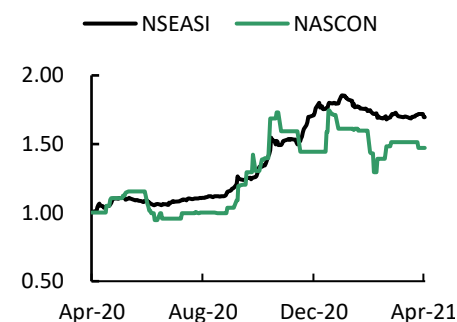


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	13.53
EPS						Max	17.02
Target PE		1.08	1.13	1.17	1.21	1.26	
	12.5x	13.53	14.07	14.63	15.18	15.76	
	12.8x	13.81	14.35	14.92	15.48	16.07	
	13.0x	14.08	14.63	15.21	15.79	16.39	
	13.3x	14.35	14.91	15.50	16.09	16.70	
	13.5x	14.62	15.19	15.80	16.40	17.02	

Financial Highlights (NGN billion) NASCON Allied Industries PLC Q1:2021

Profit & Loss Account	Q1: 2021	Q1: 2020	y/y Growth
Revenue	8.34	6.88	21.24%
Cost of sales	4.92	4.36	12.86%
Gross profit	3.41	2.51	35.77%
Operating expense	2.35	1.90	23.99%
Finance costs	0.01	0.10	-86.04%
PBT	1.06	0.92	15.20%
PAT	0.72	0.63	15.20%
Balance Sheet	Q1: 2021	2020FY	y/y Growth
Property, Plant and Equipment	16.32	16.70	-2.29%
Inventories	4.20	5.16	-18.63%
Trade and Other Receivables	14.85	13.36	11.12%
Cash and Cash Equivalents	3.42	2.60	-0.27%
Other Assets	8.60	6.49	32.59%
Total Assets	47.37	44.31	6.92%
Shareholders' fund	13.44	12.72	5.69%
Trade and Other Payables	25.18	23.10	8.96%
Tax Liabilities	1.13	0.79	43.23%
Total Liabilities	33.93	31.59	7.41%

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- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

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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: NASCON Allied Industries PLC

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
07-May-2021	14.80	13.00	15.21	HOLD	HOLD

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Company	Disclosure
NASCON Allied Industries PLC	

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