

Performance Augmented by Low Q2:2020 Base

Topline Advances to New High

Berger Paints Plc. (**BERGER**) realized a total revenue of NGN2.32bn in H1:2021 – an improvement of 26.92%YoY and its highest first half turnover on record. The performance was largely driven by the 50.63%YoY growth in Q2:2021 revenue, reflective of the impact of a better business environment in the period, compared to Q2:2020, when the company lost seven weeks of sales to COVID-19 lockdown restrictions. Across segments, the paint maker recorded an increase in sales of paints and allied products (+28.80%YoY), and a modest uptick in revenue from contract services (+3.34%YoY) rendered during the period. **For the rest of the year, we hold a positive outlook for the company's performance. Our optimism stems from our expectations of a sustained recovery in the domestic real estate sector and a stable macroeconomic environment. Also, the gradual improvement in global supply chain (relative to 2020) bodes well for the company in terms of sourcing its key raw materials. However, a possible downside risk to this outlook would be the re-introduction of fresh lockdowns in select countries (especially if they are source countries for the company) to contain the spread of the delta strain of COVID-19. On a balance of factors, we project a turnover of NGN4.43bn in 2021FY – an improvement of 15.51% from 2020FY.**

Profitability Boosted by Lower Finance Cost

The company recorded an increase of 56.59%YoY in raw material cost for the period. **Our view is that this was a result of the domestic inflationary pressures and the Naira devaluation in the first quarter of the year.** Thus, total production costs edged higher by 30.61%YoY, outpacing the growth in topline for the period. Gross margin therefore declined to 37.33% (vs. 5-year average of 42.52%). Although the company's operating expenses for the period increased by 16.19%YoY, the impact on operating profit was moderated by a 29.51%YoY expansion in other income. With an operating profit of NGN146.44mn (vs 93.14mn in H1:2020), the paint maker's operating margin was 6.31% for H1:2021 (vs 5.09% in H1:2020). Furthermore, the company's net finance cost declined by 33.29%YoY due to lower debt repayment obligations in the period. As a result, profit before tax and profit after tax for the period advanced by 106.23%YoY and 106.23%YoY to NGN124.63mn and NGN84.75mn, respectively.

Although, the company's trailing net margin (4.38%) remains lower than its 5-year average of 8.48%, a combination of an increased effort at sweating its assets - evident in an asset turnover of 0.87x (the highest since 2014) - and a slightly better financial leverage of 1.59x (vs (1.58x in 2020FY) resulted in an improvement in the company's annualized ROE to 6.09% (vs 4.64% in 2020FY). **For 2021FY, we revise our forecast for Profit after tax to NGN267.27mn (previously NGN228.65mn). Our projection is anchored on our expectation of a stable foreign exchange rate and lower net finance cost for the rest of the year.**

Recommendation

Premised on our expectations of a slightly better turnover and profitability, we revise our EPS forecast for 2021FY to NGN0.92. Adopting a P/E of 12.99x results in our 2021FY target price of NGN11.98. This implies an upside potential of 34.62% from the stock's closing price on August 25, 2021. Thus, we maintain our **BUY** rating on the counter.

Company	BERGER
Valuation	
Trailing EPS	0.65
BVPS	10.75
P/E	13.60x
P/BV	0.83x
Target P/E	12.99x
Dec-2021 Exp. EPS	0.92
Dec 2021 Target price	11.98
Current Price	8.90
Up/Downside Potential	+34.62%
Ratings	BUY
Key metrics	
ROE	6.09%
ROA	3.83%
Net margin	3.65%
Asset Turnover	0.87x
Leverage	1.59x
Yr Hi	9.85
Yr Lo	6.05
YTD return	+21.09%
Beta	0.28
Adjusted Beta	0.52
Shares outstanding	289.82mn
Market cap [NGN]	2.58bn
Financial year end	December
Most Recent Period (MRP)	H1:2021

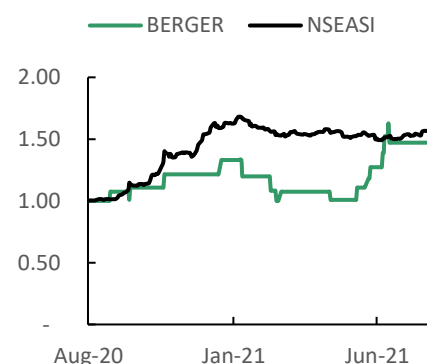


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	10.59
							Max	13.40
EPS								
		0.82	0.87	0.92	0.97	1.02		
Target P/E	12.88x	10.59	11.24	11.88	12.52	13.17		
	12.93x	10.63	11.28	11.93	12.57	13.22		
	12.99x	10.68	11.33	11.98	12.63	13.28		
	13.05x	10.73	11.38	12.04	12.69	13.34		
	13.11x	10.78	11.44	12.09	12.75	13.40		

Financial Highlights and Forecasts (NGN billion)							
Profit & Loss Account	H1:2021	H1:2020	2021F	2022F	2023F	2024F	2025F
Revenue	2.32	1.83	4.43	4.83	5.17	5.52	5.91
Cost of sales	1.45	1.11	2.66	2.80	3.07	3.27	3.48
Gross Profit	0.87	0.71	1.77	2.03	2.10	2.26	2.43
OPEX	0.74	0.64	1.48	1.61	1.71	1.83	1.96
Other Income	0.02	0.02	0.06	0.06	0.07	0.07	0.08
EBIT	0.15	0.09	0.35	0.48	0.45	0.50	0.55
Net Finance Cost	(0.02)	(0.03)	0.04	0.05	0.05	0.06	0.07
PBT	0.12	0.06	0.39	0.53	0.50	0.56	0.61
PAT	0.08	0.04	0.27	0.36	0.34	0.38	0.42

Balance Sheet	H1:2021	2020A	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	4.95	2.76	2.79	2.86	2.94	3.02	3.12
Total Debt	0.22	0.29	0.18	0.11	0.07	0.04	0.02
Total Assets	4.95	4.97	5.27	5.49	5.75	6.12	6.46
Total Equity	3.12	3.15	3.30	3.51	3.70	3.91	4.15
Total Current Liabilities	1.38	1.33	1.50	1.50	1.56	1.71	1.78
Non-Current Liabilities	0.46	0.50	0.48	0.48	0.49	0.51	0.54
Total Liabilities	1.84	1.82	1.97	1.98	2.05	2.22	2.31

Financial Ratios	H1:2021	2020A	2021F	2022F	2023F	2024F	2025F
Gross Margin	37.33%	36.98%	40.00%	42.00%	40.55%	40.85%	41.13%
Operating Margin	6.31%	5.08%	7.92%	9.92%	8.69%	9.01%	9.29%
Net Margin	3.65%	3.81%	6.03%	7.39%	6.52%	6.84%	7.07%
Return on Asset	3.83%	2.94%	5.07%	6.51%	5.86%	6.17%	6.46%
Return on Equity	6.09%	4.64%	8.10%	10.17%	9.11%	9.66%	10.07%
Return on Invested Capital	3.60%	6.08%	8.76%	11.55%	10.36%	10.75%	11.27%
Earnings Per Share	0.65	0.50	0.92	1.23	1.16	1.30	1.44
Asset Turnover	0.87x	0.77x	0.84x	0.88x	0.90x	0.90x	0.91x
Financial Leverage	1.59x	1.58x	1.60x	1.56x	1.55x	1.57x	1.56x
Debt to Asset Ratio	0.05x	0.06x	0.03x	0.02x	0.01x	0.01x	0.00x
Debt to EBIT Ratio	1.53x	3.08x	0.51x	0.22x	0.15x	0.08x	0.04x
Current Ratio	1.33	1.32	1.29	1.35	1.38	1.41	1.46
Quick Ratio	0.60	0.80	0.73	0.76	0.76	0.80	0.84

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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: Berger Paints Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-Aug-2021	8.90	8.27	11.98	BUY	BUY
15-Apr-2021	6.50	3.02	8.27	SELL	BUY
27-Aug-2020	6.05	5.97	3.02	SELL	SELL

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Berger Paints Plc.	

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