

## Costs Pressures Undermine Top-line Growth

### Western Revenue Maintains Growth Momentum

NASCON Allied Industries PLC (**NASCON**)'s Management effort to intensify its marketing activities in the Western region yielded significant benefits in the first half of 2021. Despite the intense competition from other brands, the firm recorded a 53.87% revenue expansion in the Western region. The company also leveraged the brand loyalty it enjoys from the Northern region (*c.61% of total revenue*), delivering a topline expansion of 9.08% to NGN10.81bn (vs. NGN9.90bn) in that market. This helped offset the revenue decline of 16.15% witnessed in the Eastern region. Cumulatively, revenue for the first-half period increased by 20.93%YoY to NGN17.57bn (vs. NGN14.53bn in the corresponding period). It is important to note that the firm's revenue performance has been solely upheld by the sale of salt and seasoning since Q1:2020. **We expect the firm's relatively discounted pricing strategy for its seasoning product, improved demand in the B2B segment, as well as the steady demand for salt to sustain revenue performance for the rest of the year. We, however, view the intensely competitive environment in the salt market from both local and international players as a downside risk to this projection. On a balance of these factors, we have revised our 2021FY revenue projection to NGN31.00bn, implying a 10.69%YoY growth.**

### Increased Cost Stifle Margins

Raw materials cost increased by 24.13%YoY to NGN8.93bn in H1:2021, driving overall production costs up by 22.09%. Notwithstanding, the cost-to-sales ratio remained flat at 60.51% (vs. 59.94% in H1:2020), supported by the growth in revenue. Operating margins buckled under the weight of higher cost, contracting to 12.13% (vs. 16.70% in the corresponding period last year).

Led by the reduction in interest-bearing liabilities to NGN3.55bn (vs. NGN5.26bn in H1:2020), finance costs dipped markedly by 84.84%. As a result, the interest coverage ratio expanded to 84.59x from 14.60x in H1:2020. Earnings, however, reflected the impact of cost pressures, as Profit Before Tax (PBT) and Profit After Tax (PAT) dipped by 6.37% and 2.52% to settle at NGN2.13bn and NGN1.45bn, respectively. Expectedly, Net margin, ROA, and ROE came lower at 8.26%, 5.79%, and 20.28% (from 10.24%, 8.50%, and 29.62%, respectively). **For 2021FY, we expect costs to remain elevated, premised on the company's exposure to exchange rate fluctuation and rising haulage costs. However, we expect net income to increase by 18.23% to NGN3.18bn based mainly on our topline projection.**

### Earnings Quality Wanes

Earnings quality declined during the period as cash generated from operations lagged net income, resulting in a positive net operating accrual of NGN479.45mn (from a negative net operating accrual of NGN4.16bn in H1:2020). It is also essential to highlight that trade payables constitutes a significant portion of the firm's liabilities (75.27% in H1:2021)- a reflection of the firm's flexible trade terms with its related parties who make up most of the trade payables. Overall, the firm's current ratio stayed flat at 0.99x while the quick ratio declined to 0.79x from 0.82x.

### Recommendation

We project a 2021FY target price of NGN15.60 based on our EPS forecast of NGN1.20 and target P/E ratio of 13.0x. This represents a 6.48% upside based on the closing price on the 24<sup>th</sup> of August 2021. Hence we rate the ticket "HOLD".

Company	NASCON
<b>Valuation (Trailing)</b>	
Trailing EPS	1.00
BVPS	5.07
P/E	14.8x
P/BV	2.9x
Target PE	13.00x
Dec-2021 Exp. EPS	1.20
Dec 2021 Target price	<b>15.60</b>
Current Price	14.65
Up/Downside Potential	+6.48%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	20.28%
ROA	5.79%
Net margin	8.26%
Asset Turnover	0.38
Leverage	3.52
<b>Share Price Data</b>	
Year High	17.55
Year Low	13.00
YTD return	+1.03%
Beta	1.03
Adjusted Beta	1.02
Shares outstanding	2.65bn
Market cap [NGN]	38.81bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021

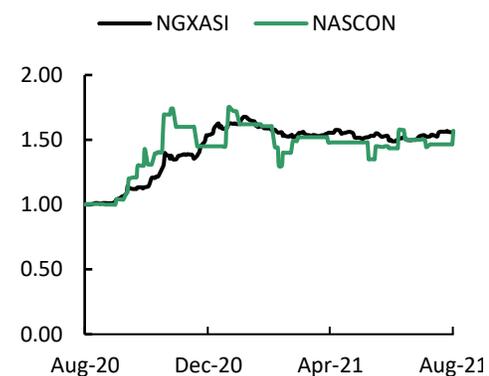


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	13.88	
						Max	17.45	
		EPS						
		1.11	1.15	1.20	1.25	1.29		
Target PE	12.5x	13.88	14.43	15.00	15.57	16.16		
	12.8x	14.16	14.72	15.30	15.88	16.48		
	13.0x	14.44	15.01	15.60	16.19	16.81		
	13.3x	14.71	15.30	15.90	16.50	17.13		
	13.5x	14.99	15.58	16.20	16.82	17.45		

Financial Highlights and Forecasts (NGN billion)

<i>Profit &amp; Loss Account</i>	H1:2020A	H1:2021A	2021F	2022F	2023F	2024F	2025F
Revenue	14.53	17.57	31.00	33.95	37.17	38.87	42.76
Cost of sales	8.71	10.63	18.47	20.45	22.74	21.90	25.18
Gross profit	5.82	6.94	12.53	13.50	14.43	16.97	17.58
Operating expense	3.79	34.65	5.52	6.87	7.49	7.87	8.66
Net FX gain/ (loss)	0.39	0.16	0.00	0.00	0.01	0.00	0.01
Operating profit	2.43	2.13	7.37	7.08	7.53	9.57	9.56
Finance cost	-0.17	0.03	0.04	0.04	0.03	0.03	0.03
PBT	2.28	2.13	4.68	3.59	3.71	5.69	5.17
PBT	1.49	1.45	3.18	2.44	2.52	3.87	3.52
<i>Balance Sheet</i>	2020AA	H1:2021A	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	16.70	15.71	20.06	22.27	23.09	24.74	28.61
Total Debt	0.04	0.04	0.04	0.04	0.04	0.04	0.04
<b>Total Assets</b>	<b>44.31</b>	<b>45.66</b>	43.05	47.41	51.70	54.86	60.92
<b>Total Equity</b>	<b>12.72</b>	<b>13.11</b>	14.84	16.14	17.47	20.15	22.08
<b>Total Current Liabilities</b>	<b>25.52</b>	<b>26.41</b>	21.75	24.28	26.56	26.38	29.73
<b>Non-Current Liabilities</b>	<b>7.50</b>	<b>6.14</b>	6.46	6.99	7.66	8.32	9.11
<b>Total Liabilities</b>	<b>31.59</b>	<b>32.55</b>	28.21	31.27	34.22	34.71	38.85
<i>Financial Ratios</i>	2020A	H1:2021A	2021F	2022F	2023F	2024F	2025F
Gross Margin	40.06%	39.49%	40.42%	39.76%	38.82%	43.65%	41.11%
Operating Margin	16.70%	12.13%	14.38%	9.78%	9.26%	12.99%	10.52%
Net Margin	10.24%	8.26%	10.26%	7.19%	6.79%	9.96%	8.23%
Return on Asset	8.50%	5.79%	7.03%	4.92%	4.73%	6.69%	5.77%
Return on Equity	29.62%	20.28%	20.53%	14.52%	13.41%	18.34%	15.93%
Return on Invested Capital	15.46%	12.99%	20.78%	13.64%	13.29%	16.92%	13.53%
Asset Turnover	0.66	0.38	0.71	0.75	0.75	0.73	0.74
Financial Leverage	3.48	3.52	3.17	2.92	2.95	2.83	2.74
Current Ratio	0.94	0.99	0.88	0.86	0.91	0.96	0.94
Quick Ratio	0.73	0.80	0.63	0.63	0.68	0.74	0.72

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year) (F- Forecast)

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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.

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## Movements in Price Target

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**Company Name:** NASCON Allied Industries Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
07-May-21	14.80	13.00	15.21	HOLD	HOLD
25-August-21	14.65	15.21	15.60	HOLD	HOLD

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NASCON Allied Industries Plc	

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