

Reaping Gains of Restructuring

Strong Performance Across Segments Hoists Group Topline

UACN delivered a momentous topline performance in the just concluded financial period. The company recorded strong double-digit growth (+43.27%YoY), bringing revenue to NGN24.48bn (vs. NGN17.08bn in Q2:2020). This represents its highest Q2 performance on record. Product price increases (particularly in the Animal Feed and Packaged food segment), a generally strong domestic demand, and a stellar performance from the QSR business (+62.03% topline growth) all contributed to the group's impressive outing. **However, we recognize that the revenue performance in the quarter was flattered by the 2020 low base. In comparison to a 4-year second-quarter average, Q2:2021 was only better by 28.84%.** Cumulatively, H1:2021 revenue grew by 26.93% to NGN46.50bn (from NGN36.63bn in H1:2020). On a segment basis, the Animal Feed and Other Edibles segment, which accounts for c.60% of the group's revenue, grew by 13.39%, owing to improved sales in the poultry (+12% YoY) and fish feed (+53%) segments. Similarly, the Paint segment recorded a strong rebound with a 59.40%YoY growth in revenue. For the Packaged food segment, revenue growth (+45.51%YoY) was driven by improved volumes stemming from additional spring water capacity to meet teeming demand, enhanced distribution, and market capture through the introduction of new snack variants (Gala spicy and Gala Classic). The performance of the Quick Service Restaurant (QSR) segment however stood out with the highest topline expansion of 62.03% YoY in H1:2021, from NGN625mn to NGN1.01bn in H1:2020. The QSR revenue growth was supported by higher royalties from franchises, as well as increased volume sales from the company's corporate store and central kitchen. **We are optimistic about revenue generation going forward, given that the company is on course to solidify its footing in the industry with its restructuring initiative. This is expected to drive an expansion of its QSR business footprint, introduce new spring water capacity and rebrand the packaged food business. For the rest of the year, we expect improved consumer demand (discretionary and non-discretionary) to support performance across its segment. Hence, we project a 10.06% growth in sales to NGN89.54bn in 2021FY from NGN84.61bn in 2020FY.**

Topline Expansion Gives Earnings a Facelift

In the period, the costs to sales ratio inched higher to 82.10% compared to 80.91% in H1:2020. This was due mainly to higher recognition of inventory and work in progress costs (+33.08%) which typically represents the highest (86.21% in H1:2021) constituent of production costs. Similarly, operating expenses rose by 8.35%, led by the increase in Administrative and Selling expenses (reflective of the company's effort to drive sales further). The increase in revenue and other income – *partly attributable to gain on sale of land by CAP Plc* – was however sufficient to offset the increase in operating expenses, driving operating margin slightly higher to 3.66% in H1:2021 from 2.26% in the corresponding period.

There was a notable increase of 83.92% in finance cost to NGN674.69mn from NGN366.85mn in H1:2020 representing an effective interest rate of 3.90% vs 8.65% in H1:2020. The higher finance cost reflects additional short term debt financing for working capital requirements across its subsidiaries. Nonetheless, profit before tax and profit after tax expanded by 25.35% (from NGN1.03bn to NGN1.30bn) and 257.65% (from NGN213mn to NGN764mn in H1:2021) respectively. **This crystallized into a net margin of 1.64% (vs. 0.58% in H1:2020). Although we expect the inflationary environment to keep costs elevated, we are optimistic on earnings performance. We thus project a 19.73% growth in profit after tax to NGN4.14bn for 2021FY.**

Profitability Reflects on Shareholders Return

We note that the company's annualized ROE improved to 6.94% from 5.63% in 2020FY. This was primarily driven by improved net margin and asset turnover from (Annualized - 4.25% and 0.88x in 2020FY) to (Annualized - 4.39% and 0.94x), respectively.

Outlook and Recommendation

We project a 2021FY expected EPS of NGN1.44 and a target PE of 7.58x. This yields a target price of NGN10.90, and an implied 8.96% upside potential based on the closing price on August 12th, 2021. Hence, we rate the ticker a HOLD.

Company	UACN
Valuation (Trailing)	
EPS	1.39
BVPS	20.05
P/E	7.19x
P/BV	0.50x
Target PE	7.58x
Dec-2021 Exp. EPS	1.44
Dec 2021 Target price	NGN10.90
Current Price	NGN10.00
Up/Downside Potential	+8.96
Ratings	HOLD
Key metrics (Trailing)	
ROE	6.94%
ROA	3.96%
Net margin	4.39%
Asset Turnover	0.94x
Leverage	1.75x
Share Price Data	
Year High	NGN11.40
Year Low	NGN7.10
YTD return	-37.72%
Beta	1.12
Adjusted Beta	1.08
Shares outstanding	2.88bn
Market cap [NGN]	28.52bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021

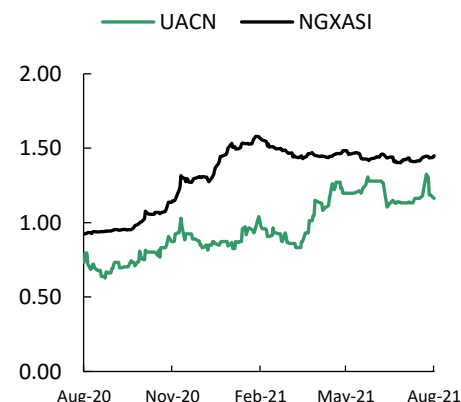


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	7.35
							Max	11.65
		EPS						
Target PE	10.90	1.34	1.39	1.44	1.49	1.54		
	5.50x	7.35	7.63	7.90	8.18	8.45		
	5.60x	7.49	7.77	8.05	8.33	8.61		
	7.58x	10.14	10.52	10.90	11.28	11.65		
	6.00x	8.02	8.32	8.62	8.92	9.22		
	6.10x	8.16	8.46	8.77	9.07	9.38		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020	H1:20201	2021F	2022F	2023F	2024F	2025F
Revenue	36.63	46.50	89.54	95.39	101.69	108.47	115.73
Cost of sales	29.64	38.18	71.62	75.85	81.02	86.38	92.20
Gross Profit	6.99	8.32	20.05	21.94	23.39	24.95	26.62
OPEX	6.47	7.01	13.74	14.61	15.71	16.84	17.81
Other Income	0.31	0.39	2.16	2.00	2.46	2.57	2.69
Operating Profit	0.83	1.70	4.18	4.93	4.96	5.26	5.72
Finance Cost	0.37	0.67	1.33	0.00	0.00	0.00	0.00
PBT	1.03	1.30	6.09	8.03	8.55	8.99	9.61
PAT	0.21	0.76	4.14	5.46	5.81	6.11	6.53

Balance Sheet	2019FY	2020FY	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	18.92	21.01	22.75	24.50	26.53	28.51	30.65
Total Debt	7.44	4.73	7.41	8.65	9.41	10.53	11.27
Total Assets	107.60	92.17	125.49	129.88	136.10	136.93	142.94
Total Equity	60.54	61.37	68.23	70.85	76.00	78.96	82.73
Total Current Liabilities	25.94	24.09	34.26	34.47	37.98	34.49	35.70
Non-Current Liabilities	6.46	6.66	5.43	5.73	5.79	5.68	5.93
Total Liabilities	47.05	30.79	57.26	59.03	60.10	57.97	60.21

Financial Ratios	2019FY	2020FY	2021F	2022F	2023F	2024F	2025F
Gross Margin	23.96%	22.14%	22.40%	23.00%	23.00%	23.00%	23.00%
Operating Margin	7.63%	5.62%	7.10%	7.80%	7.64%	7.56%	7.68%
Net Margin	6.75%	4.25%	4.62%	5.73%	5.72%	5.63%	5.64%
Return on Asset	4.97%	3.75%	3.30%	3.91%	3.97%	4.14%	4.24%
Return on Equity	8.83%	5.63%	6.07%	7.16%	7.10%	7.18%	7.32%
Return on Invested Capital	10.11%	7.38%	7.05%	9.08%	8.81%	7.43%	8.22%
Asset Turnover	0.74x	0.88x	0.54x	0.54x	0.54x	0.54x	0.54x
Financial Leverage	1.78x	1.50x	1.84x	1.83x	1.79x	1.73x	1.73x
Debt to Asset Ratio	0.07x	0.05x	0.06x	0.07x	0.07x	0.08x	0.08x
Debt to EBIT Ratio	2.07x	1.89x	1.77x	1.75x	1.90x	2.00x	1.97x
Current Ratio	1.74x	2.11x	1.81x	1.79x	1.68x	1.82x	1.81x
Quick Ratio	1.11x	1.28x	1.08x	1.04x	1.04x	1.06x	1.05x

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

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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: United Africa Company of Nigeria

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
08-April-21	9.75	8.80	10.00	-	HOLD
12-Aug-21	10.00	10.00	10.90	HOLD	HOLD

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Company	Disclosure
United Africa Company of Nigeria	

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