

## On A Strong Path to Recovery

### ARDOVA Bounces Back in Q2:2021

ARDOVA looks to have shrugged off drags induced by the pandemic last year. In its Q2:2021 financial scorecard, the company recorded a 27.00% (NGN44.78bn) growth in sales. This beat its pre-COVID 5-year average (2016 – 2020) for the quarter (NGN38.03bn) by 17.59%, reflecting better performance this year and not just growth due to a low base effect. This could be attributed to the uptick in products prices as well as higher sales volume in the quarter. However, this performance was not enough to deliver a year-on-year growth in H1:2021 as lower sales volume in the first quarter masked gains recorded in Q2:2021 to bring overall revenue down by 0.62%YoY to NGN86.77bn. We recall that earlier in the year, the industry was faced with constrained imports due to challenges in sourcing FX. This is seen clearly in PMS volumes which constitutes 84.03% of total volume – volumes declined by 28.20%YoY in H1:2021, dragging overall sales volume to 462.15 million liters (-33.28%YoY). We however note the strong recovery of Aviation Turbine Kerosene volumes, which grew by 172.99%YoY owing to upturn in the Aviation sector (a result of the resumption of air travel). Nevertheless, since this contributes only 4.75% to total volume, this had minimal impact to aggregate sales volume. By segment, all core revenue streams except fuel (-6.02%YoY) and solar (-22.34%YoY) posted strong growth numbers in revenue (LPG and cylinder sales: +228.38%, Lubricant and grease: +43.82%YoY). The company's haulage business acquired in Q4:2020 posted sales of NGN813.84mn for the period. **Going forward, the acquisition of 90 Enyo retail station (awaiting regulatory approval) would potentially increase the Group's topline. Also, the completion of six (6) new LPG plants in Q2:2021 would potentially revive sales for the segment, as revenue already reached a 3-year high of NGN11.35bn in H1:2021. Therefore, we project a total revenue growth of 7.33%YoY to NGN195.27bn for 2021FY.**

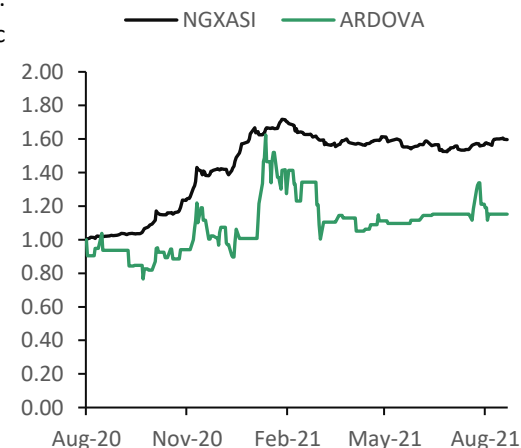
### Improvement in Net Margin, However Still Below Pre-Pandemic Levels

Despite topline declined for H1:2021, margins improved as cost-to-sales ratio dropped to 91.51% (vs 93.87% in H1:2020). Higher volume sold in Q2:2021 alongside operation of six (6) new LPG plants moderated cost markup for the period, especially for the LPG segment. OPEX also moderated to 5.49% when compared to its 3-year average (2018 – 2020) of 6.40%. However, this weakened year-on-year by 41.37bps owing to a much higher volume of product distributed, including generally inflated prices compared to last year. Nonetheless, EBIT margin improved to 3.05% (vs H1:2020: 1.74%) though falling below its 3-year average (H1:2018 – H1:2020) of 3.10%. Finance cost for the period dropped by 2.65%YoY to NGN489.03mn. The near maturity of the NGN9bn medium-term bond (balance now at NGN1.49bn with rate at 19.43%) as well as cheaper rates obtained on the new debt (NGN3.87bn with rate at 10%) moderated cost. ARDOVA's effective tax rate increased to 31.87% from 13.58%. Notwithstanding, net margin improved to 2.05% (vs H1:2020: 1.16%) - though still below pre-pandemic levels (H1:2019 Net Margin: 6.58%, NGN5.45bn). **For the year, we project a decline in finance cost (-2.31%) and a reduced cost-to-sale owing to improved volume. This should prop earnings for the year higher by 61.61%YoY**

### Interest Coverage Strengthens Despite Increased Financial Leverage

Though ARDOVA's leverage (Debt to equity) increased to 3.66x (vs peer average at 3.22x), interest coverage was better at 6.30x from 3.03x seen in H1:2020. This reflects the improved operating earnings as well as successfully securing a cheaper debt (interest rate at 10% and 11-month moratorium on principal repayment vs effective interest rate of 15.09% last year). **Looking at the possible acquisition of Enyo, which is likely to be financed by debt, we expect this to further raise the Group's leverage. However, the near expiration of the medium-term bond (rate at 19.43%), should keep leverage within comfortable bands (0.3x-1.5x).**

Company	ARDOVA
<b>Valuation</b>	
Trailing EPS	NGN1.42
BVPS	13.75
P/E	10.45x
P/BV	1.13x
Target PE	8.00x
Dec-2021 Exp. EPS	NGN2.29
Dec 2021 Target price	<b>NGN18.33</b>
Current Price	NGN15.50
Up/Downside Potential	<b>18.25%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	9.11%
ROA	2.49%
Net margin	2.05%
Asset Turnover	2.67
Leverage	3.66
Yr Hi	21.85
Yr Lo	13.50
YTD return	14.39%
Beta	0.61
Adjusted Beta	0.74
Shares outstanding	1.30bn
Market cap [NGN]	<b>19.34bn</b>
Financial year end	December
Most Recent Period (MRP)	H1:2021



## Recommendation

Based on projected EPS of NGN2.29 and target P/E of 8.00x, we project a Target Price of NGN18.33. This presents an upside potential of 18.25%. Hence, we recommend a **BUY**.

## Chart 1: Sensitivity Analysis

Sensitivity Analysis of H1:2021 Target Price to key model inputs						Min	17.31	
						Max	19.37	
		Target EPS						
		2.19	2.24	2.29	2.34	2.39		
Target PE	7.90x	17.31	17.70	18.10	18.49	18.89		
	7.95x	17.42	17.82	18.21	18.61	19.01		
	8.00x	17.53	17.93	18.33	18.73	19.13		
	8.05x	17.64	18.04	18.44	18.85	19.25		
	8.10x	17.75	18.15	18.56	18.96	19.37		

## Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Revenue	87.31	86.77	195.27	257.15	262.44	267.85	273.38
Cost of sales	81.97	79.40	180.24	239.35	243.82	248.47	254.01
<b>Gross Profit</b>	<b>5.35</b>	<b>7.37</b>	<b>15.04</b>	<b>17.79</b>	<b>18.62</b>	<b>19.39</b>	<b>19.37</b>
OPEX	4.43	4.76	11.02	13.45	13.89	14.31	14.73
Other Income	0.60	0.43	1.52	1.56	1.61	1.66	1.71
<b>Operating Profit</b>	<b>1.52</b>	<b>3.08</b>	<b>5.53</b>	<b>5.91</b>	<b>6.34</b>	<b>6.74</b>	<b>6.35</b>
Finance Cost	0.50	0.49	1.87	1.83	1.55	1.58	1.61
<b>PBT</b>	<b>1.17</b>	<b>2.61</b>	<b>4.06</b>	<b>5.15</b>	<b>5.07</b>	<b>5.48</b>	<b>5.05</b>
<b>PAT</b>	<b>1.01</b>	<b>1.78</b>	<b>3.00</b>	<b>3.72</b>	<b>3.51</b>	<b>3.91</b>	<b>3.60</b>

Balance Sheet	2020A	H1:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	15.22	16.61	20.56	21.55	21.90	22.17	22.36
Total Debt	8.96	12.33	12.06	8.64	8.18	8.11	7.31
<b>Total Assets</b>	<b>64.85</b>	<b>71.63</b>	<b>70.51</b>	<b>72.26</b>	<b>72.78</b>	<b>74.03</b>	<b>74.17</b>
<b>Total Equity</b>	<b>18.02</b>	<b>19.55</b>	<b>18.35</b>	<b>22.07</b>	<b>21.89</b>	<b>22.16</b>	<b>22.05</b>
<b>Total Current Liabilities</b>	<b>45.61</b>	<b>50.99</b>	<b>50.93</b>	<b>49.11</b>	<b>49.79</b>	<b>50.76</b>	<b>51.22</b>
<b>Non-Current Liabilities</b>	<b>1.21</b>	<b>1.09</b>	<b>1.23</b>	<b>1.08</b>	<b>1.10</b>	<b>1.11</b>	<b>0.89</b>
<b>Total Liabilities</b>	<b>46.83</b>	<b>52.08</b>	<b>52.16</b>	<b>50.19</b>	<b>50.89</b>	<b>51.87</b>	<b>52.12</b>

Financial Ratios	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	6.13%	8.49%	7.70%	6.92%	7.10%	7.24%	7.08%
Operating Margin	1.05%	3.05%	2.83%	2.30%	2.42%	2.52%	2.32%
Net Margin	1.16%	2.05%	1.54%	1.45%	1.34%	1.46%	1.32%
Return on Asset	2.23%	2.49%	4.26%	5.15%	4.82%	5.28%	4.85%
Return on Equity	5.89%	9.11%	16.37%	16.88%	16.04%	17.64%	16.32%
Return on Invested Capital	5.56%	5.66%	10.35%	10.29%	10.78%	12.03%	11.08%
Asset Turnover	1.93x	1.21x	2.89x	3.60x	3.62x	3.65x	3.69x
Financial Leverage	2.64x	3.66x	3.84x	3.27x	3.32x	3.34x	3.36x
Debt to Asset Ratio	0.14x	0.17x	0.17x	0.12x	0.11x	0.11x	0.10x
Current Ratio	1.22x	1.01x	0.91x	0.96x	0.96x	0.96x	0.95x

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## Investment Ratings

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### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

### Target Price Estimate

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## Movements in Price Target

**Company Name:** Ardova Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
26-Aug-2021	15.50	16.19	18.33	HOLD	BUY
18-Mar-2021	14.85	18.44	16.19	BUY	HOLD

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Company	Disclosure
Ardova Plc	

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