

## Global Price Uptrend Bolsters Performance

### Interplay of Global and Local Factors Drive Revenue Growth

In the first half of 2021, Presco Plc's revenue increased by 59.49%YoY to a record high of NGN21.46bn. This revenue performance represents 76% of Management's guidance for 9M:2021 (NGN28.24bn). In our [Q1:2021's Earnings Update](#), we emphasized the global uptrend in the prices of Crude Palm Oil (CPO). The persistent supply crunch and higher biodiesel mandates in Indonesia and Malaysia (the global leaders in the oil palm industry) coupled with the higher prices of CPO substitutes (soybean oil, sunflower oil etc.) have been the catalyst behind the rally in global CPO prices. It is important to note that the uptrend continued into the second-quarter, giving local producers the leeway to adjust their prices upwards.

**In 2021FY, we still anticipate robust revenue growth based on favorable price levels. We project a top-line growth of 69.07% to NGN40.39bn in 2021FY. However, the cyclicity in CPO production, which results in increased inventory levels in the second half of the year (regular harvest season) poses a downside risk to this forecast.**

### Faster Revenue Growth Lifts Bottomline

Despite the 11.75% increase in direct costs, cost-to-sales ratio improved from 32.82% in H1:2020 to 22.99% in H1:2021, reflecting the fast-paced revenue growth. Consequently, gross margin improved to 77.01% from 67.18% in H1:2021. The firm's selling and distribution expenses increased by 65.96%YoY to NGN306.04mn, from a low base in 2020. In a similar vein, administrative expenses surged by 52.91% YoY to NGN2.90bn. Nonetheless, operating profit improved by 95.91% to NGN12.93bn following the strong revenue growth, representing an operating margin of 60.26% (vs. 49.06% in H1:2020).

Finance costs moderated significantly by 47.08% YoY to NGN440.15mn, driven by the 9.80% decline in total interest-bearing liabilities to NGN18.72bn in H1:2021 (from NGN20.76bn in 2020FY). Signaling the firm's improved ability to refinance its obligations, interest coverage ratio improved considerably to 29.39x H1:2021 (vs. 7.94x in H1: 2020). Overall, PBT and PAT surged by 124.32% and 130.68%YoY to NGN12.94bn and NGN10.93bn, respectively (translating to a net margin of 47.18% vs. 32.62% in H1:2020). **For 2021FY, we forecast an increase in bottom line to NGN14.15bn (vs. NGN5.26bn in 2020FY) as we expect the favorable pricing environment to bolster earnings amidst cost pressures (transportation of finished products, processing and packaging costs).**

### PRESCO's Proposed Acquisition

**PRESCO** recently announced its intentions to acquire a 100% equity stake in Siat Nigeria Limited (SNL) – a co-subsidiary of Siat s.a. As opined by the firm's Management Board, the acquisition is expected to result in significant capacity expansion (39% increase in total land area and combined milling capacity of 150 tons) as well as improved operational efficiencies. The proposition to acquire 7.33bn ordinary shares of SNL is for a cash consideration of NGN21bn, thus shareholders are not at risk of share dilution as the transaction does not involve the issuance of shares. In our opinion, this move will help **PRESCO** broaden its footprint across the oil palm value chain.

### Recommendation

Premised on our 2021FY expected EPS of NGN14.15 and a revised target PE of 7.70x, we arrived at our target price of NGN108.89. This implies an upside potential of 36.97% when compared to its closing price as of September 1<sup>st</sup>, 2021. We therefore recommend a **BUY** on the ticker.

Company	PRESCO
<b>Valuation</b>	
Trailing EPS	11.00
BVPS	34.89
P/E	7.23
P/BV	2.28
Target PE	7.70
Dec-2021 Exp. EPS	14.15
Dec 2021 Target price	<b>108.89</b>
Current Price	79.50
Up/Downside Potential	+36.97%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	33.36%
ROA	14.67%
Net margin	34.48%
Asset Turnover	0.43
Leverage	2.27
<b>Share Price Data</b>	
Year High	79.75
Year Low	49.00
YTD return	+12.05%
Beta	0.86
Adjusted Beta	0.91
Shares outstanding	1.00bn
Market cap [NGN]	79.50bn
Financial year end	December
Most Recent Period (MRP)	H1:2021

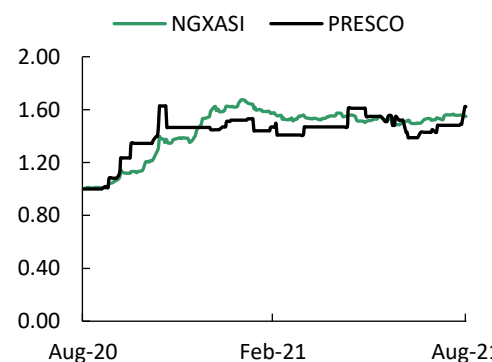


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021 Target Price to key model inputs						Min	100.40
						Max	123.91
						EPS	
		14.05	14.10	14.15	14.20	14.25	
Target PE	7.15x	100.40	100.76	101.11	101.47	101.83	
	7.20x	101.10	101.46	101.82	102.18	102.54	
	7.70x	108.12	108.51	<b>108.89</b>	109.28	109.66	
	8.20x	115.15	115.56	115.97	116.38	116.79	
	8.70x	122.17	122.60	123.04	123.47	123.91	

### Financial Highlights and Forecasts (NGN billion)

<i>Profit &amp; Loss Account</i>	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Revenue	13.46	21.46	40.39	36.36	34.52	40.60	43.24
Cost of sales	4.42	4.94	8.81	8.78	7.93	9.56	10.06
<b>Gross Profit</b>	<b>9.04</b>	<b>16.53</b>	<b>31.58</b>	<b>27.58</b>	<b>26.59</b>	<b>31.04</b>	<b>33.18</b>
OPEX	2.44	3.59	5.12	8.29	6.77	9.36	8.49
<b>Operating Profit</b>	<b>6.60</b>	<b>12.93</b>	<b>26.46</b>	<b>19.29</b>	<b>19.82</b>	<b>21.68</b>	<b>24.69</b>
Finance Cost	0.83	0.44	2.41	2.82	3.24	3.70	4.25
<b>PBT</b>	<b>5.77</b>	<b>12.94</b>	<b>22.45</b>	<b>14.75</b>	<b>14.96</b>	<b>16.36</b>	<b>18.81</b>
<b>PAT</b>	<b>4.39</b>	<b>10.13</b>	<b>14.15</b>	<b>9.29</b>	<b>9.43</b>	<b>10.31</b>	<b>11.85</b>

<i>Balance Sheet</i>	2020FY	H1:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	52.11	52.56	55.58	58.13	60.71	63.70	66.96
Total Debt	20.76	18.72	10.55	12.35	14.18	16.20	18.61
<b>Total Assets</b>	<b>73.77</b>	<b>76.22</b>	<b>106.04</b>	<b>115.44</b>	<b>126.20</b>	<b>145.31</b>	<b>164.17</b>
<b>Total Equity</b>	<b>31.05</b>	<b>34.89</b>	<b>43.07</b>	<b>50.42</b>	<b>57.86</b>	<b>66.14</b>	<b>75.96</b>
<b>Total Current Liabilities</b>	<b>25.26</b>	<b>23.80</b>	<b>36.72</b>	<b>38.37</b>	<b>40.67</b>	<b>47.05</b>	<b>52.66</b>
<b>Non-Current Liabilities</b>	<b>17.46</b>	<b>17.53</b>	<b>26.25</b>	<b>26.66</b>	<b>27.67</b>	<b>32.13</b>	<b>35.55</b>
<b>Total Liabilities</b>	<b>42.72</b>	<b>41.33</b>	<b>62.97</b>	<b>65.03</b>	<b>68.34</b>	<b>79.18</b>	<b>88.21</b>

<i>Financial Ratios</i>	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	65.50%	73.91%	78.19%	75.86%	77.03%	76.44%	76.74%
Operating Margin	45.56%	54.34%	61.36%	48.21%	52.08%	48.64%	52.40%
Net Margin	24.82%	34.48%	35.02%	25.55%	27.31%	25.39%	27.40%
Return on Asset	8.02%	14.67%	15.73%	8.39%	7.80%	7.59%	7.66%
Return on Equity	18.80%	33.36%	38.17%	19.87%	17.41%	16.63%	16.68%
Return on Invested Capital	5.97%	24.02%	19.94%	9.10%	8.27%	11.16%	9.21%
Asset Turnover	0.32	0.43	0.45	0.33	0.29	0.30	0.28
Financial Leverage	2.34	2.27	2.43	2.37	2.23	2.19	2.18
Debt to Asset Ratio	0.33	0.25	0.10	0.11	0.11	0.11	0.11
Debt to EBIT Ratio	1.89	0.95	0.43	0.70	0.79	0.82	0.82
Current Ratio	0.93	0.93	1.29	1.42	1.54	1.67	1.79
Quick Ratio	0.74	0.72	1.17	1.30	1.44	1.57	1.69

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

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### Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

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## Movements in Price Target

**Company Name:** Presco Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
26-May-2021	78.90	70.22	87.07	HOLD	BUY
02-Sep-2021	79.50	87.07	108.89	BUY	BUY

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Company	Disclosure
Presco Plc	

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