

Rising Prices Bode Well For Topline

ARDOVA Maintains Topline Growth in Q3:2021

ARDOVA continued to perform impressively considering the remarkable topline growth in Q2:2021. Revenue grew by 21.68%YoY to NGN49.33bn in Q3:2021 – the highest quarterly growth on record. The stellar performance was across all product segments especially revenue from LPG (cooking gas) and gas cylinders (+330.41%YoY). **The rise in global prices of natural gas and the resulting rise in the price of cooking gas has been a major support to the segment.** Lubricant and grease sales was also better in the quarter, up by +66.19%YoY to NGN7.17bn. As it stands, revenue from the segment surpasses pre-COVID levels. **We attribute this to the general uptick in demand for petroleum product and upward revision product price.** For the fuel segment (PMS, ATK, AGO, HHK) which remains the major driver of the group's topline (c. 86%), ARDOVA continues to reap value from owning a wide range of retail outlets. Revenue from fuel sales grew strongly by 16.40%YoY to NGN42.54bn in Q3:2021, though marginally (+1.04%YoY) when analyzed cumulatively for the 9-month period. Other segments such as the solar (+75.69%YoY) and haulage business (NGN0.42bn) also posted good numbers for the quarter. However, despite an improved performance in the quarter, aggregate revenue grew by 6.18%YoY (NGN136.10bn) for 9M:2021 reflecting an underwhelming Q1:2021 (-19.34%YoY, NGN41.99bn). **We have maintained our forecast for revenue to grow by 7.33%YoY to NGN195.27bn for 2021FY as we expect Enyo to come on stream in 2022FY.**

Finance Cost Spikes Suppressing Profit Margin

Cost-to-sales ratio moderated slightly in the period to 92.53% from 93.02% recorded in 9M:2020. This was owing to a reduction in cost-to-sales seen across all business segments save for Lubricant and LPG business which expanded due to significantly higher cost of product sales (Direct cost: lubricant – 77.62%YoY and LPG – 378.90%YoY in 9M:2021) recorded in the period. OPEX also increased by 9.43%YoY driven mostly by freight cost (+30.87%YoY) incurred from more volume marketed in the period compared to last year. OPEX-to-sales ratio also pitched higher at 5.39% from 5.23% attained in 9M:2020, reflecting the increased operating cost. Notwithstanding, both operating profit (up by 23.40%YoY to NGN2.77bn) and margin (2.04% from 1.75% recorded in 9M:2020) improved in the period. Interest expense however increased significantly by 21.38%YoY in 9M:2021, suppressing profit achieved from operating activities. This stemmed from increased interest obligation due to additional financial liabilities although effective interest rate was lower at 7.45% (vs 16.80%). Nonetheless, interest coverage remained strong, increasing further to 3.17x (vs. 3.12x in 9M:2020) on account of improved operating earnings. However, profit after tax declined sharply by 34.31%YoY to NGN1.24bn (vs NGN1.89bn in 9M:2020) as well as net margin, plunging to 0.91% (vs. 1.47% in 9M:2020) - the lowest recorded since 2018. **Based on our outlook for finance cost given the new bond issuance of the company (NGN60bn with no moratorium on interest payment), we revised our full year PAT of NGN1.50bn from NGN3.00bn.**

Recommendation

We project an EPS of NGN1.15 and target P/E of 10.45x, thus our target Price is pegged at NGN11.97. This presents a downside potential of -11.68%. Hence, we recommend a **SELL**.

Company	ARDOVA
Valuation	
Trailing EPS	NGN0.92
BVPS	NGN14.51
P/E	14.62x
P/BV	0.93x
Target PE	10.45x
Dec-2021 Exp. EPS	NGN1.15
Dec 2021 Target price	NGN11.97
Current Price	NGN13.55
Up/Downside Potential	-11.68%
Ratings	SELL
Key metrics	
ROE	6.37%
ROA	1.66%
Net margin	0.91%
Asset Turnover	1.87
Leverage	3.83
Yr Hi	21.85
Yr Lo	13.50
YTD return	0.00%
Beta	0.63
Adjusted Beta	0.75
Shares outstanding	1.30bn
Market cap [NGN]	17.65bn
Financial year end	December
Most Recent Period (MRP)	9M:2021

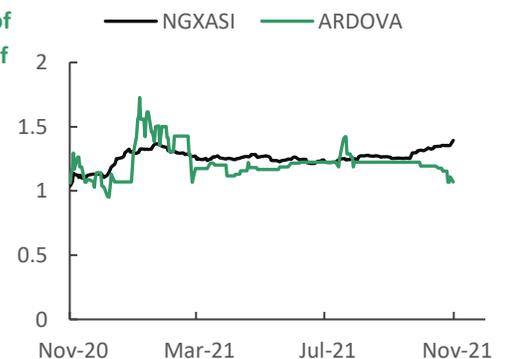


Chart 1: Sensitivity Analysis

Sensitivity Analysis of H1:2021 Target Price to key model inputs						Min	10.82	
						Max	13.14	
		Target EPS						
		1.05	1.10	1.15	1.20	1.25		
Target PE	10.35x	10.82	11.33	11.85	12.37	12.89		
	10.40x	10.87	11.39	11.91	12.43	12.95		
	10.45x	10.92	11.44	11.97	12.49	13.01		
	10.50x	10.97	11.50	12.02	12.55	13.07		
	10.55x	11.03	11.55	12.08	12.61	13.14		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	9M:2020	9M:2021	2021F	2022F	2023F	2024F	2025F
Revenue	128.18	136.10	195.27	257.15	262.44	267.85	272.59
Cost of sales	119.23	125.93	180.43	237.86	242.76	246.42	250.78
Gross Profit	8.95	10.17	14.84	19.29	19.68	21.43	21.81
OPEX	6.70	7.33	11.02	13.45	13.89	14.31	14.73
Other Income	0.67	0.20	0.44	0.45	0.47	0.48	0.50
Operating Profit	2.25	2.77	4.26	6.29	6.26	7.60	7.58
Finance Cost	0.72	0.87	2.24	2.98	2.60	3.27	2.45
PBT	2.42	1.94	1.92	3.42	3.89	4.55	5.38
PAT	1.89	1.24	1.51	2.50	2.75	3.29	3.86

Balance Sheet	2020A	9M:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	10.01	17.33	20.56	21.55	21.90	22.17	22.35
Total Debt	6.50	11.17	14.96	14.84	16.62	12.12	10.15
Total Assets	45.34	72.77	71.77	75.51	78.06	74.88	74.66
Total Equity	17.18	19.01	16.85	19.34	19.04	19.37	20.16
Total Current Liabilities	25.57	52.70	53.70	55.09	57.92	54.41	53.60
Non-Current Liabilities	2.59	1.05	1.23	1.08	1.10	1.11	0.89
Total Liabilities	28.17	53.75	54.93	56.17	59.01	55.51	54.50

Financial Ratios	9M:2020	9M:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	6.98%	7.47%	7.60%	7.50%	7.50%	8.00%	8.00%
Operating Margin	1.75%	2.04%	2.18%	2.45%	2.39%	2.84%	2.78%
Net Margin	1.47%	0.91%	0.77%	0.97%	1.05%	1.23%	1.42%
Return on Asset	4.10%	1.66%	2.11%	3.32%	3.53%	4.40%	5.18%
Return on Equity	10.82%	6.37%	8.97%	12.94%	14.45%	17.01%	19.17%
Return on Invested Capital	0.08x	0.05x	0.05x	0.07x	0.08x	0.10x	0.13x
Earnings Per Share	1.44x	0.95x	1.15x	1.91x	2.10x	2.51x	2.95x
Asset Turnover	2.83x	1.87x	2.72x	3.41x	3.36x	3.58x	3.65x
Financial Leverage	2.64x	3.83x	4.26x	3.90x	4.10x	3.87x	3.70x
Debt to Asset Ratio	0.14x	0.15x	0.21x	0.20x	0.21x	0.16x	0.14x
Debt to EBIT Ratio	2.89x	4.03x	3.51x	2.36x	2.65x	1.59x	1.34x
Current Ratio	1.22x	0.98x	0.89x	0.92x	0.91x	0.91x	0.92x
Quick Ratio	0.84x	0.62x	0.66x	0.68x	0.68x	0.66x	0.66x

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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: Ardova Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
09-Nov -2021	13.55	18.33	11.97	BUY	SELL
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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