

A Noteworthy Performance

Lubricant Sales Attain Record High

CONOIL recorded an impressive topline performance in 9M:2020, as revenue surged by 14.62%YoY to NGN100.9bn in the period. The stellar performance reflected the significant growth in product sales from all business segments as both white product (PMS, ATK, AGO, HHK) and lubricant grew by 14.03% and 23.63%, respectively. Highlighting the third quarter, revenue also expanded when compared to the corresponding period last year (+8.80%YoY), albeit suffering a contraction of 3.49%QoQ. **We take note of the rise in economic activities which has supported the demand for petroleum product, thus translating to an increase in sales volume for the company.** White product sales amounted to NGN94.27bn in the first nine months posting a growth of 14.03%YoY. Similarly, revenue from lubricant sales also gained traction, now at a record high of NGN6.71bn in 9M:2021 (23.63%YoY) - a CAGR of 24.03% between 2017 and 2021. The company continues to take advantage of its expansive retail presence, with over 300+ filling stations sited across the nation. We however worry about the LPG (cooking gas) business which remains dormant till date. Considering the recent surge in gas prices wherein industry players have raked in topline gains, CONOIL's inactivity in that space leaves "low hanging value on the table". **However, based on improved volumes arising from increased demand compared to last year, we project a revenue growth of 14.73%YoY to pitch at NGN134.77bn for the financial year.**

CONOIL Financial Obligations Tapers

The substantial increase in oil prices had its dire consequences for petroleum marketers as production cost for all business segment climbed higher in the nine-month period. Cost derived from both fuel and lubricant sales increased significantly by 14.03% to NGN94.27bn and 23.63% to NGN6.71bn, respectively. Overall direct cost outpaced revenue, increasing by 15.94%YoY to NGN92.94bn (vs. NGN80.16bn in 9M:2020) in 9M:2021. This raised the cost-to-sales ratio of the business to 92.04% from 90.98% recorded in 9M:2020. Notwithstanding, operating efficiency moved upward during the period to 5.27% (vs. 6.47% in 9M:2020), resulting from a decline in administrative expense by 9.13%YoY (*the final litigation fee paid in 2020FY moderated administrative expense Year-to-Date*). CONOIL's continues to benefit from the lower effective interest rate renegotiated at the start of the year (14% from 15.00% obtained in 2020FY.) with debt cost declining to NGN0.48bn from NGN0.83bn (-41.96%YoY) paid in 9M:2020. Total debt remains one of the lowest in the industry at NGN7.31bn compared to downstream industry average of NGN8.70bn. Profit before tax in turn improved by 43.54%YoY to NGN2.34bn. Tax on profit amounted to NGN0.75bn with effective tax rate remaining the same at 32%. Net profit also increased to 43.54%YoY to NGN1.59bn with net margin improving by 32bp to 1.58% (vs. 1.26% seen in 9M:2020). The resulted to shareholders reaping more value from their investment as ROE improved to 7.55% from 5.40% seen in 9M:2020. **On this note, we still maintain our full year projection for earnings to reach NGN2.24bn, up by 55.72%YoY which would be driven by improved sales turnover as well as lower debt cost.**

Recommendation

Based on the projected earnings for 2021FY, EPS estimated at NGN3.23 and target P/E of 8.20x. This implies a target price of NGN26.50 thus presenting an upside of 22.12%. Hence, we recommend a **BUY**.

Company	CONOIL
Valuation	
Trailing EPS	2.77
BVPS	30.43
P/E	7.83
P/BV	0.71
Target PE	8.20x
Dec-2021 Exp. EPS	3.23
Dec 2021 Target price	NGN26.50
Current Price	NGN21.70
Up/Downside Potential	22.12%
Ratings	BUY
Key metrics	
ROE	9.11%
ROA	3.94%
Net margin	1.58%
Asset Turnover	2.07x
Leverage	2.31x
Share Price Data	
Year High	25.50
Year Low	17.00
YTD return	4.08%
Beta	1.18
Adjusted Beta	1.12
Shares outstanding	0.69bn
Market cap [NGN]	15.06bn
Financial year end	December
Most Recent Period (MRP)	9M:2021

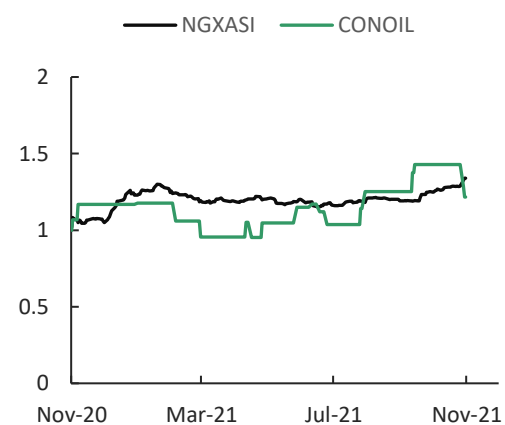


Chart 1: Sensitivity Analysis

Sensitivity Analysis of H1:2021 Target Price to key model inputs						Min	25.37
						Max	27.65
						EPS	
		3.13	3.18	3.23	3.28	3.33	
Target PE	8.10x	25.37	25.77	26.18	26.58	26.99	
	8.15x	25.52	25.93	26.34	26.75	27.15	
	8.20x	25.68	26.09	26.50	26.91	27.32	
	8.25x	25.84	26.25	26.66	27.07	27.49	
	8.30x	25.99	26.41	26.82	27.24	27.65	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	9M:2020	9M:2021	2021F	2022F	2023F	2024F	2025F
Revenue	88.10	100.98	134.77	147.73	150.68	153.69	156.77
Cost of sales	80.16	92.94	123.53	134.19	134.70	137.39	140.14
Gross Profit	7.94	8.04	11.25	13.54	15.98	16.30	16.63
OPEX	5.70	5.32	7.64	8.79	8.91	8.97	9.20
Other Income	0.21	0.10	0.20	0.18	0.20	0.20	0.21
Operating Profit	2.25	2.72	3.80	4.92	7.27	7.53	7.64
Finance Cost	0.83	0.48	0.59	0.91	1.21	1.21	0.61
PBT	1.63	2.34	3.29	4.11	6.06	6.33	7.03
PAT	1.11	1.59	2.24	2.81	4.16	4.34	4.81

Balance Sheet	2020FY	9M:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	2.30	1.49	1.51	1.94	1.86	1.77	2.26
Total Debt	0.19	6.03	5.03	2.03	6.03	3.03	1.03
Total Assets	48.86	48.83	59.37	71.40	74.83	75.28	78.10
Total Equity	19.52	21.11	20.37	21.79	24.56	27.52	30.94
Total Current Liabilities	28.38	26.75	38.03	48.63	49.29	46.78	46.18
Non-Current Liabilities	0.96	0.96	0.97	0.97	0.97	0.98	0.98
Total Liabilities	29.34	27.71	39.00	49.60	50.27	47.76	47.16

Financial Ratios	9M:2020	9M:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	9.02%	7.96%	8.35%	9.16%	10.61%	10.61%	10.61%
Operating Margin	2.55%	2.69%	2.82%	3.33%	4.82%	4.90%	4.87%
Net Margin	1.26%	1.58%	1.66%	1.90%	2.76%	2.82%	3.07%
Return on Asset	2.95%	3.94%	3.78%	3.93%	5.56%	5.77%	6.16%
Return on Equity	7.38%	9.11%	11.01%	12.88%	16.93%	15.77%	15.54%
Return on Invested Capital	0.00x	0.00x	0.11x	0.14x	0.18x	0.17x	0.17x
Earnings Per Share	1.60x	2.30x	3.23x	4.05x	5.99x	6.26x	6.93x
Asset Turnover	1.80x	2.07x	2.27x	2.07x	2.01x	2.04x	2.01x
Financial Leverage	2.50x	2.31x	2.91x	3.28x	3.05x	2.74x	2.52x
Debt to Asset Ratio	0.00x	0.12x	0.08x	0.03x	0.08x	0.04x	0.01x
Debt to EBIT Ratio	0.08x	2.22x	1.32x	0.41x	0.83x	0.40x	0.13x
Current Ratio	1.55x	1.67x	1.45x	1.38x	1.43x	1.52x	1.59x
Quick Ratio	1.28x	1.43x	1.27x	1.18x	1.28x	1.32x	1.42x

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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: Conoil Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
11-Nov-2021	21.70	26.50	26.50	BUY	BUY
16-Sep-2021	22.35	24.24	26.50	HOLD	BUY

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Company	Disclosure
Conoil Plc	

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