

## NASCON's Revenue Hit Record High

### Double Digit Growth Across All Regions

NASCON Allied Industries Plc (**NASCON**) reported a 18.81%YoY topline expansion in its 2021FY financial period. The firm's topline increased to NGN33.28bn (vs. NGN28.01bn in 2020FY). Despite the stiff competition prevalent in the region, the Western region continues to deliver solid double-digit growth increasing by 34.48%YoY to NGN9.69bn in 2021FY (from NGN7.21bn in 2020FY). Revenue from the Eastern region and Northern region (which constitutes c.63% of revenue) also expanded 34.82% and 11.13%, respectively. The salt and seasoning segment continue to be the anchors of topline performance – *expanding by 17.43% and 31.95%, respectively*. **We anticipate a strong demand in the salt & seasoning segment in 2022 despite the intense competition in the space due to the firm's discounted pricing strategy. Premised on this, we model a 12.08% growth in topline to NGN37.30bn.**

### Margins Knuckle Under Cost Pressures

Production costs (+29.63%YoY) expanded faster than revenue during the period – *mainly influenced by higher raw materials cost (+33.76%YoY)* – increasing to NGN18.01bn in 2021FY (from NGN13.47bn in 2020FY). This led its cost to sales ratio higher to 64.08%, (vs. 58.72% in 2020FY). Owing to the 52.20%YoY jump in haulage costs (c.48% of OPEX), operating expenses surged by 15.97%YoY to NGN9.49bn in 2021FY (vs. NGN8.19bn in 2020FY). Operating margins buckled under the weight of cost pressures as it declined to 12.97% in 2021FY from 14.38% in 2020FY.

We note the 130.08%YoY reduction in finance cost to NGN130.16.03mn in 2021FY (vs. NGN171.89mn in the corresponding period), occasioned by lower interest-bearing liabilities (-38.10%YoY). As a result, interest cover improved to 33.16x from 23.43x. Profit after tax ticked up by 10.43%YoY to NGN2.97bn in 2021FY (from NGN2.69bn in 2020FY). Shareholders return on equity trended downwards to 21.73% (from 38.10%) on the back of the decline in net margin to 8.93% (vs. 9.60%) and financial leverage to 3.10x (from 3.49x). Asset turnover however improved to 0.78x from 0.66x in 2020FY. **We project a 12.47%YoY improvement in earnings to NGN3.34bn for 2022FY hinged on our optimistic projection for revenue performance.**

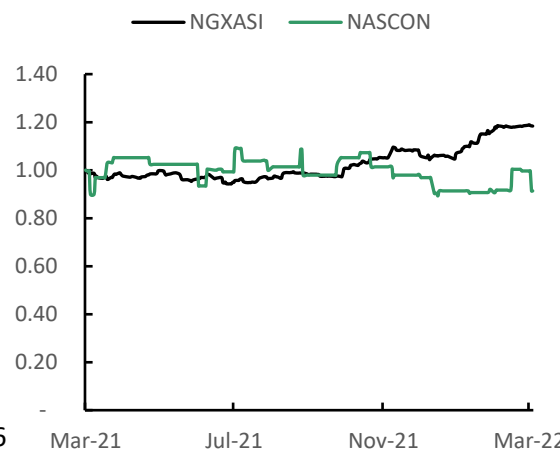
### Divestment Boosts Liquidity Position

**NASCON's** vegetable oil plant located in Ota, was disposed during the year to the tune of NGN2.25bn (yielding a gain on disposal of NGN745.70mn) which significantly boosted its cash position (+170.89%). This accompanied with the reduction in trade receivables (26.70%) trade payables (39.00%) and inventories (16.82%) positively impacted the firm's liquidity conditions. Current and quick improved to 1.12x and 0.92x (from 0.94x and 0.73x in 2020FY). We also note that the company has recorded no sales from the disposed vegetable oil plant since 2020, thereby justifying the disposal.

### Recommendation

We project a 2022FY target price of NGN15.80 based on our EPS forecast of NGN1.26 and target P/E ratio of 12.54x. This represents a 19.70% upside based on the closing price on the 4<sup>th</sup> of March 2022. Hence, we rate the ticket "**BUY**".

Company	NASCON
<b>Valuation (Trailing)</b>	
Trailing EPS	1.12
BVPS	5.52
P/E	11.8x
P/BV	2.4x
Target PE	12.54x
Dec-2021 Exp. EPS	1.26
Dec 2021 Target price	<b>15.80</b>
Current Price	13.20
Up/Downside Potential	+19.70%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	21.73%
ROA	7.00%
Net margin	8.93%
Asset Turnover	0.78
Leverage	3.10
Yr Hi	14.50
Yr Lo	13.05
YTD return	0.00%
Beta	0.96
Adjusted Beta	0.97
Shares outstanding	2.65bn
Market cap [NGN]	34.97bn
Financial year end	Dec
Most Recent Period (MRP)	2021FY



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	14.04
						Max	17.70
						EPS	
		1.17	1.21	1.26	1.31	1.36	
Target PE	12.0x	14.04	14.59	15.17	15.75	16.35	
	12.3x	14.33	14.90	15.49	16.07	16.68	
	12.5x	14.62	15.20	15.80	16.40	17.02	
	12.8x	14.91	15.50	16.12	16.73	17.36	
	13.0x	15.21	15.81	16.43	17.05	17.70	

**Financial Highlights and Forecasts (NGN billion)**

<b>Profit &amp; Loss Account</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	28.01	33.28	37.30	43.94	48.99	53.81	62.42
Cost of sales	16.45	21.32	21.10	26.58	30.02	32.84	37.62
Gross profit	11.56	11.96	16.20	17.36	18.97	20.98	24.80
Operating expense	8.19	9.49	9.44	10.24	11.40	12.59	14.54
Net FX gain/ (loss)	0.05	0.02	0.02	0.02	0.02	0.03	0.03
Operating profit	4.03	4.32	7.48	7.95	8.52	9.29	11.31
Finance cost	0.05	-0.13	0.10	0.04	0.04	0.04	0.04
PBT	3.91	4.24	4.91	4.55	4.72	5.60	6.99
PBT	2.69	2.97	3.34	3.10	3.21	3.81	4.76
<b>Balance Sheet</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	16.70	14.06	18.52	21.99	24.86	26.78	33.74
Total Debt	28.70	17.77	0.04	0.04	0.04	0.04	0.04
Total Assets	44.31	40.52	44.90	55.49	60.64	65.61	73.14
Total Equity	12.72	14.63	15.00	16.96	18.97	21.59	24.76
Total Current Liabilities	25.52	20.22	24.03	32.54	35.63	37.81	42.01
Non-Current Liabilities	6.07	5.67	5.86	5.99	6.04	6.21	6.37
Total Liabilities	31.59	25.89	29.90	38.53	41.67	44.01	48.38
<b>Financial Ratios</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	41.28%	35.94%	43.44%	39.51%	38.72%	38.98%	39.73%
Operating Margin	14.38%	12.97%	20.05%	18.08%	17.40%	17.26%	18.12%
Net Margin	9.60%	8.93%	8.96%	7.05%	6.55%	7.08%	7.62%
Return on Asset	10.93%	7.00%	6.66%	5.33%	5.08%	5.49%	6.50%
Return on Equity	38.10%	21.73%	20.91%	17.23%	15.82%	16.43%	19.21%
Return on Invested Capital	25.66%	18.22%	22.31%	20.17%	15.87%	15.17%	14.74%
Asset Turnover	0.66	0.78	0.87	0.88	0.84	0.85	0.90
Financial Leverage	3.49	3.10	2.88	3.14	3.23	3.11	2.99
Current Ratio	0.94	1.12	0.92	0.89	0.86	0.88	0.81
Quick Ratio	0.73	0.92	0.72	0.70	0.66	0.68	0.60

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

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## Movements in Price Target

**Company Name:** NASCON Allied Industries Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
07-May-21	14.80	13.00	15.21	HOLD	HOLD
25-August-21	14.65	15.21	15.60	HOLD	HOLD
04-Feb-22	13.20	15.60	15.80	HOLD	BUY

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NASCON Allied Industries Plc	

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