

Cost Pressures Weigh In On Performance

Notable Growth Momentum in the Lubricant Segment

Eterna's topline performance improved in 2021FY by 39.99%YoY as revenue reached NGN82.20bn in the period. This performance was driven by the fuel and lubricant segments of the business, achieving a growth of 42.19%YoY and 104.85%YoY respectively. We attribute this to the expansion of the company's retail outlet now totaling about 66 stations. Also, we do not rule out the impact of product price uptick, especially for deregulated petroleum commodities. For the bulk trading business, growth was marginal compared to other key income segments, up by a little above 4% (NGN1.08bn).

However, we are concerned about the future growth of the segment which is strongly tied to the nation's upstream sector. As crude theft edges higher, export volumes in general are reduced, negatively affecting the bulking trading (crude export activities) business. For the fuel segment, the issue of the fuel scarcity experienced in Q1: 2022 further paints a bleak outlook for revenue, worse off with ETERNA's thin market footprint. On this note, revenue is projected to decline by 1.64%YoY to NGN80.85bn for 2022FY.

Profitability Succumbs to Cost Pressures

Due to ETERNA's sparse retail outlet and exposure to dwindling crude production, the company falls at a disadvantage in achieving economies of scale, especially with the growing inflationary pressures. For the year, cost-to-sales rose to 94.81% from 90.62% seen in 2020FY. While delivery costs stayed the same so far since 2018, material costs rose by 47.26%YoY, bringing cumulative cost upward to NGN77.93bn (+46.47%YoY). As a result, gross margin from 9.38% realized last year declined to 5.19%, reversing the record high margin achieved in the previous financial year. Operating profit followed in the same path, declining materially by 84.60%YoY to NGN0.24bn. **We believe the company's tactic to give the business a facelift through marketing campaigns, in addition to a growing staff cost raised the company's OPEX.** From the financials, we observed an increase in marketing spend by 71.35%YoY, bringing absolute terms to NGN0.36bn from previous spend of NGN0.21bn. Furthermore, ETERNA debt cost grew by 16.29% due to a 68.95%YoY increment in its debt profile. However, this attracted a much lower effective interest rate at 6% compared to a charge of 8% incurred the previous financial year. Hence, earnings reversed to a loss position of **NGN1.1bn**, falling by 217.02%YoY. **For 2022FY, we project earnings to improve by 87%YoY, however still reporting a loss of NGN0.15bn for the year.**

Surging Crude Oil Prices Inspires Inventory Build Up

The increase in inventory value by 220.53%YoY to a peak height of NGN5.14bn indicates a strategic attempt to stock up, given the upsurge in crude oil prices which filters into product prices. **This in turn would increase ETERNA's gross earnings in 2022FY as lower cost-to-sales ratio is expected. This would potentially filter into the company's earnings, hence reason for our earnings projection for 2022FY.**

Recommendation and Outlook

In arriving at our 2022FY target price, we project an EBITDA of NGN2.07bn and an EV/EBITDA of 9.41x. After adjusting for an expected net debt of NGN11.91bn, we arrived at a target price of NGN5.79, an upside potential of 15.80% when compared to its closing price as at April 6, 2022. Hence, we rate the counter as **BUY**.

Company	ETERNA
Valuation	
EV/EBITDA	18.88
BVPS	NGN9.29
EBITDA	NGN1.42bn
P/BV	0.54x
Target EV/EBITDA	9.41x
Dec-2022 Exp. EBITDA	NGN2.07bn
Dec 2022 Target price	5.79
Current Price	5.00
Up/Downside Potential	+15.80%
Ratings	BUY
Key metrics	
ROE	-9.08%
ROA	-2.39%
Net margin	-1.34%
Asset Turnover	2.01
Leverage	1.74
Yr Hi	6.35
Yr Lo	4.99
YTD return	-0.99%
Beta	1.02
Adjusted Beta	1.01
Shares outstanding	1.30bn
Market cap [NGN]	6.52bn
Financial year end	December
Most Recent Period (MRP)	2021FY

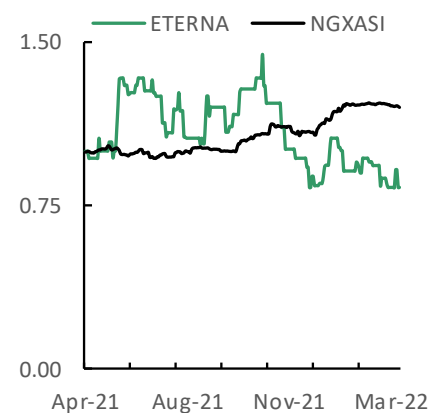


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	4.80
EBITDA per share						Max	6.81
		0.52	0.57	0.62	0.67	0.72	
Target EV/EBITDA	9.31x	4.80	5.27	5.73	6.20	6.66	
	9.36x	4.83	5.30	5.76	6.23	6.70	
	9.41x	4.85	5.32	5.79	6.27	6.74	
	9.46x	4.88	5.35	5.83	6.30	6.77	
	9.51x	4.91	5.38	5.86	6.33	6.81	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2020FY	2021FY	2022F	2023F	2024F	2025F	2026F
Revenue	58.72	82.20	80.85	83.24	85.71	88.24	90.86
Cost of sales	53.21	77.93	75.62	77.86	80.17	82.55	85.00
Gross Profit	5.51	4.26	5.23	5.38	5.53	5.69	5.85
OPEX	4.04	4.47	4.52	4.56	4.61	4.66	4.71
Other Income	0.42	0.23	0.24	0.26	0.27	0.28	0.30
Operating Profit	1.54	0.24	0.95	1.07	1.19	1.31	1.44
Finance Cost	1.02	1.18	1.10	0.98	0.86	0.82	0.71
PBT	0.55	(0.94)	(0.12)	0.11	0.36	0.52	0.76
PAT	0.94	(1.10)	(0.09)	0.08	0.27	0.39	0.57

<i>Balance Sheet</i>	2020FY	2021FY	2021F	2022F	2023F	2024F	2025F
Oil and Gas properties	11.40	12.40	12.30	12.20	12.11	12.03	11.94
Total Debt	12.50	21.12	8.64	8.99	10.83	10.56	10.72
Total Assets	35.77	46.08	39.62	38.14	38.30	37.86	36.84
Total Equity	13.35	12.12	11.92	11.89	12.05	12.33	12.78
Total Current Liabilities	20.46	31.63	25.93	24.75	24.94	24.34	23.01
Non-Current Liabilities	1.96	2.33	1.78	1.50	1.31	1.20	1.05
Total Liabilities	22.42	33.96	27.71	26.25	26.25	25.54	24.06

<i>Financial Ratios</i>	2020FY	2021FY	2021F	2022F	2023F	2024F	2025F
Gross Margin	9.38%	5.19%	6.46%	6.46%	6.45%	6.45%	6.44%
Operating Margin	2.61%	0.29%	1.18%	1.28%	1.39%	1.49%	1.58%
Net Margin	1.60%	-1.34%	-0.11%	0.10%	0.31%	0.44%	0.63%
Return on Asset	2.63%	-2.39%	-0.22%	0.22%	0.70%	1.03%	1.55%
Return on Equity	7.05%	-9.08%	-0.75%	0.70%	2.22%	3.15%	4.46%
Return on Invested Capital	2.63%	-2.39%	-0.22%	0.22%	0.70%	1.03%	1.55%
Asset Turnover	1.83x	2.01x	2.04x	2.18x	2.24x	2.33x	2.47x
Financial Leverage	0.94x	1.74x	1.53x	1.38x	1.18x	1.11x	0.92x
Debt to Asset Ratio	0.35x	0.46x	0.46x	0.43x	0.37x	0.36x	0.32x
Debt to EBIT Ratio	8.14x	89.30x	19.17x	15.33x	12.02x	10.41x	8.18x
Current Ratio	1.06x	0.98x	0.95x	0.94x	0.95x	0.96x	0.97x
Quick Ratio	0.72x	0.60x	0.67x	0.64x	0.64x	0.63x	0.63x

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Company Name: Eterna Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
6/4/2021	5.00	-	5.79	-	BUY

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Company	Disclosure
Eterna Plc	

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