

Earnings Plummet as Costs Outweigh Topline Growth

Stronger Demand Propels Topline Growth

The agricultural sector (with the livestock subsector inclusive) witnessed a strong recovery in 2021 (Agricultural GDP growth: 25.88%YoY, Livestock GDP growth: 1.71YoY%). In our opinion, the robust demand for animal feed by poultry and other livestock farmers underscored this growth in the livestock subsector. Hence, animal feed players such as Livestock Feeds Plc recorded strong revenue growth in the period. On a regional basis, the company benefitted significantly from the Southwestern market as it delivered the highest sales growth (+56.06% YoY), closely followed by revenue from the Eastern market (+22.35% YoY). This masked the lower topline recorded in the Northern market (-21.22% YoY). In our [9M:2021](#) report, we highlighted some of the challenges responsible for the consistent decline in sales from this region. On a cumulative note, the firm's topline came in at NGN14.64bn (vs NGN11.18bn in 2020FY). **For year 2022, we project a 13.00% YoY revenue growth to NGN16.54bn in 2022FY. We anticipate heightened demand of animal feeds, hinged on a strong demand for animal products, to drive this expansion in revenue. Albeit the lingering security challenges in the Northern market continues to pose a downside risk to our outlook for revenue growth in the region.**

Cost Pressures Subdue Profitability Metrics

During the year, the firm's production cost (+32.02%YoY) expanded faster than revenue. This heightened cost pressure can be attributed to dependence on importation of raw materials (wheat and maize), foreign exchange volatility and the high inflationary environment. Consequently, cost to sales ratio worsened to 89.22% (vs. 88.50% in 2020FY). Operating expenses also came in higher at NGN0.73bn in 2021FY (vs NGN0.69bn), attributable to the increase in administrative expenses (+39.05%YoY). The strong revenue growth bolstered the operating profit, as it expanded by 25.81% YoY to NGN0.86bn.

Finance cost increased significantly by 113.04% to NGN0.30bn, resulting in a contraction in the firm's interest coverage ratio to 2.89x (vs 4.90x in 2020FY). The surge in finance cost is attributable to the expansion (+273.84%) in the company's total debts to NGN7.45bn (from NGN1.99bn in 2020FY). Overall, Profit Before Tax (PBT) grew by 3.49% YoY to NGN0.57bn. On the other hand, the Profit After Tax (PAT) declined by 14.60% YoY to NGN0.43bn. This was as a result of the higher tax expense in the period. The company paid off some tax expenses from its minimum tax owed in previous years. **Going forward, we anticipate the high inflationary environment and the current volatility in the FX market to remain the major downside risks to earnings potential. Hence, we forecast a decline in the bottomline by -6.67% to NGN0.41bn in 2022FY.**

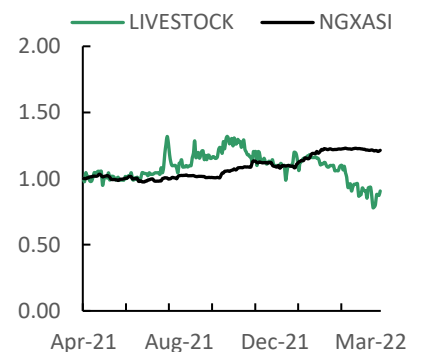
Increased Borrowings Impacts Firm's Leverage

In 2021FY, we note that the firm's cash position spiked to an all-time high of NGN0.34bn following proceeds from debt amounting to (NGN7.45bn) in the period. However, the cash ratio only improved slightly to 0.04x (vs 0.02x in 2020FY; African peers' average cash ratio: 0.24x). In our view, we consider the company to be highly levered when compared to African peers (LIVESTOCK's leverage ratio: 4.33x vs 3.12x in 2020FY; vs average of 2.42x of its African peers).

Recommendation

We project a 2022FY expected EPS of NGN0.13 and a target PE of 11.64x. This yields a target price of NGN1.56 and a downside potential of -9.53% based on the closing price on April 13, 2022. Hence, we rate the ticker a **HOLD**.

Company	LIVESTOCK
Valuation (Trailing)	
EPS	0.14
BVPS	0.83
P/E	15.45
P/BV	2.05
Target PE	11.64x
Dec-2022 Exp. EPS	0.13
Dec 2022 Target price	1.56
Current Price	1.72
Up/Downside Potential	-9.53%
Ratings	HOLD
Key metrics	
ROE	18.78%
ROA	4.97%
Net margin	2.94%
Asset Turnover	1.62x
Leverage	4.33x
Yr Hi	2.15
Yr Lo	1.42
YTD return	-20.93%
Beta	1.48
Adjusted Beta	1.32
Shares outstanding	3.00bn
Market cap [NGN]	5.10bn
Financial year end	December
Most Recent Period (MRP)	2021FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	0.39	
						Max	2.74	
		EPS						
		0.03	0.08	0.13	0.18	0.23		
Target PE	11.54x	0.39	0.97	1.54	2.12	2.70		
	11.59x	0.39	0.97	1.55	2.13	2.71		
	11.64x	0.39	0.97	1.56	2.14	2.72		
	11.69x	0.39	0.98	1.56	2.15	2.73		
	11.74x	0.40	0.98	1.57	2.16	2.74		

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026FY
Revenue	11.18	14.64	16.54	18.69	21.12	24.29	27.94
Cost of sales	9.74	12.90	14.75	16.96	19.26	22.05	25.25
Gross profit	1.44	1.74	1.80	1.73	1.87	2.24	2.69
Operating expense	0.68	0.73	0.78	0.83	0.88	0.93	0.99
Operating profit	0.69	0.86	0.89	0.78	0.86	1.18	1.56
Finance cost	0.14	0.30	0.36	0.38	0.39	0.59	0.89
PBT	0.55	0.57	0.53	0.41	0.47	0.60	0.69
PAT	0.50	0.43	0.40	0.33	0.34	0.42	0.46
<i>Balance Sheet</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026FY
Property, Plant and Equipment	0.84	0.78	0.76	0.75	0.75	0.74	0.73
Total Debt	1.99	7.45	3.83	3.09	2.47	1.87	1.26
Total Assets	6.47	10.83	7.22	6.55	6.06	5.66	5.33
Total Equity	2.07	2.50	2.39	2.32	2.28	2.48	2.23
Total Current Liabilities	4.40	8.28	4.78	4.18	3.73	3.37	3.06
Non-Current Liabilities	0.00	0.04	0.04	0.04	0.04	0.04	0.04
Total Liabilities	4.40	8.33	4.83	4.23	3.78	3.42	3.10
<i>Financial Ratios</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026FY
Gross Margin	12.88%	11.91%	10.86%	9.28%	8.84%	9.24%	9.63%
Operating Margin	6.14%	5.89%	5.39%	4.17%	4.07%	4.85%	5.60%
Net Margin	4.50%	2.94%	2.42%	1.76%	1.61%	1.72%	1.64%
Return on Asset	9.58%	4.97%	4.44%	4.77%	5.39%	7.14%	8.34%
Return on Equity	27.63%	18.78%	16.38%	13.92%	14.77%	18.48%	20.48%
Asset Turnover	1.29	1.62	2.40	2.97	3.60	4.42	5.24
Financial Leverage	3.12	4.33	3.02	2.82	2.66	2.52	2.39
Current Ratio	1.28	1.21	1.51	1.57	1.62	1.68	1.74
Quick Ratio	0.12	0.17	0.16	0.10	0.07	0.04	0.03

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

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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: Livestock Feeds Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-Nov-2021	2.19	2.71	2.33	SELL	BUY
12-Apr-2022	1.70	2.58	1.56	BUY	HOLD

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Livestock Feeds Plc	

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