

LIVESTOCK Delivers Impressive Return on Equity

Topline Growth Sustained

LIVESTOCK reported a 34.20%YoY growth in revenue to NGN10.72bn in 9M:2021 (from NGN7.99bn in 9M:2020). Whilst sales in the Southwestern (+54.44% YoY) and Eastern (+43.77%YoY) markets continued to reflect the general rebound in economic activities, revenue from the Northern markets dipped further by 23.11%YoY at the end of the third quarter.

Although maize prices moderated slightly during the harvest season (September/October), the downtrend was short-lived as the persistent insecurity challenges in the country's Northern region (key producing region for maize and wheat) hampered logistics and distribution to other parts of the country. Thus, the supply of critical inputs (maize and wheat) used for animal feed production drastically reduced, triggering a surge in price. As a result, demand for processed animal feeds increased significantly (as opposed to traditional feeds), influencing the revenue growth recorded by LIVESTOCK in 9M:2021.

So far in the year, sales from the Northern markets have waned significantly. We attribute this decline to the firm's weak brand presence in the region, persistent insecurity challenges, and distribution and transportation hiccups plaguing the Northern region. For the rest of the year, while we expect this downtrend in Northern sales to persist, we project heightened demand for animal feed products in the other markets to drive expansion in revenue. Thus, we maintain our growth projection of 31.56%YoY in 2021FY revenue to NGN14.71bn (vs NGN11.18bn in 2020FY).

Inputs Costs Significantly Pressure Margins

In 9M:2021, direct costs surged by 35.40%YoY (*higher than the revenue growth: +34.20%YoY*). This was mainly driven by the high costs of raw materials and foreign exchange volatility, considering the firm's import dependence on raw materials such as wheat and maize. Consequently, gross margin contracted to 10.80% from 11.60% in 9M:2020.

While net operating expenses increased by 8.08%YoY to NGN0.52bn, operating profit shot up by 43.41%YoY to NGN0.64bn owing to the substantial increase in topline. This represents an operating margin of 6.32% from 4.66% in 9M:2020.

Finance cost increased by 54.26%YoY to NGN0.18bn, resulting in a slight contraction in the firm's interest coverage ratio to 3.62x (vs 3.89x in 9M:2020). However, we note that the increase in finance cost variance with the drop-in interest-bearing liabilities (3.95% decline from NGN1.91bn in 9M:2021 vs NGN1.99bn in 2020FY). As a result, its solvency ratios declined (debt to equity ratio: 0.77x vs 0.96x, total debt ratio: 0.37x vs 0.31x in 2020).

Overall, PBT and PAT grew by 39.54%YoY and 87.08%YoY to NGN0.46bn and NGN0.42bn, respectively, implying a net margin of 5.02% (vs 3.24% in 9M:2020). **While we expect continued cost pressures (especially considering the FX volatility and the unabating security challenges in the food-producing regions of the country), we maintain our bottom-line growth projection of 43.39%YoY to NGN0.72bn in 2021FY, based on our revenue outlook.**

Higher Net Margin Spurs Improvement in ROE

In 9M:2021, the company delivered an impressive return on equity (Trailing ROE: 30.61% vs 27.63% in 2020FY higher than its cost of equity of 22.38%). This was mainly on the back of the higher net margin recorded during the period (Net margin: 5.02% vs 2.58% in 9M:2020). In the same vein, we observed an improvement in ROA to 11.96% from 9.58% in 2020FY, owing to an improvement in earnings.

Recommendation

Premised on our 2021FY expected EPS of NGN0.24 and revised target PE of 9.70x, we arrived at a target price of NGN2.33. This represents a 6.30% upside compared to the ticker's closing price as of 14th November 2021. Hence, we recommend a **HOLD** on the ticker

Company	LIVESTOCK
Valuation	
Trailing EPS	0.23
BVPS	0.83
P/E	9.40
P/BV	2.64
Target PE	9.70x
Dec-2021 Exp. EPS	0.24
Dec 2021 Target price	2.33
Current Price	2.19
Up/Downside Potential	6.30%
Ratings	HOLD
Key metrics	
ROE	30.61%
ROA	11.96%
Net margin	5.02%
Asset Turnover	2.38
Leverage	2.56
Share Price Data	
Year High	3.08
Year Low	0.89
YTD return	+52.52%
Beta	1.23
Adjusted Beta	1.15
Shares outstanding	3.00bn
Market cap [NGN]	6.57bn
Financial year end	December
Most Recent Period (MRP)	9M:2021

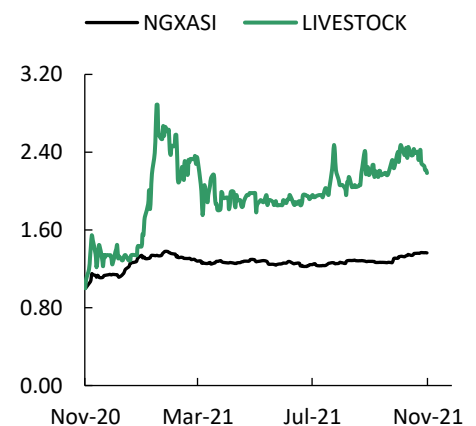


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021 Target Price to key model inputs						Min	1.22	
						Max	3.64	
		EPS						
		0.14	0.19	0.24	0.29	0.34		
Target PE	8.70x	1.22	1.65	2.09	2.52	2.96		
	9.20x	1.29	1.75	2.21	2.67	3.13		
	9.70x	1.36	1.84	2.33	2.81	3.30		
	10.20x	1.43	1.94	2.45	2.96	3.47		
	10.70x	1.50	2.03	2.57	3.10	3.64		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	9M:2020	9M:2021	2021F	2022F	2023F	2024F	2025F
Revenue	7.99	10.72	14.71	16.62	18.83	21.31	24.14
Cost of sales	7.06	9.56	12.87	14.52	16.47	18.63	21.10
Gross Profit	0.93	1.16	1.84	2.10	2.37	2.69	3.04
OPEX	0.56	0.52	0.90	1.01	1.15	1.30	1.47
Other Income	0.07	0.00	0.07	0.10	0.11	0.13	0.14
Operating Profit	0.44	0.64	0.84	1.02	1.13	1.31	1.48
Finance Cost	0.11	0.18	0.20	0.25	0.32	0.40	0.50
PBT	0.33	0.46	0.77	0.89	1.09	1.24	1.47
PAT	0.22	0.42	0.72	0.83	1.01	1.15	1.36

Balance Sheet	2020FY	9M:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	0.84	0.83	0.77	0.75	0.72	0.71	0.70
Intangible Assets	0.00	0.00	0.01	0.01	0.01	0.01	0.13
Total Debt	1.99	1.91	2.19	3.16	3.84	4.93	6.01
Total Assets	6.47	5.22	7.25	9.57	11.51	14.22	17.08
Total Equity	2.07	2.49	2.79	3.62	4.64	5.79	7.15
Total Current Liabilities	4.40	2.72	4.45	5.95	6.87	8.43	9.93
Non-Current Liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Liabilities	4.40	2.72	4.45	5.95	6.87	8.43	9.93

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

Financial Ratios	9M:2020	9M:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	11.28%	10.91%	12.50%	12.65%	12.57%	12.61%	12.59%
Operating Margin	4.66%	6.32%	5.68%	6.11%	5.99%	6.14%	6.14%
Net Margin	3.24%	5.02%	4.91%	4.98%	5.38%	5.41%	5.64%
Return on Asset	9.56%	11.96%	10.52%	9.84%	9.61%	8.96%	8.70%
Return on Equity	20.26%	30.61%	29.65%	25.80%	24.55%	22.12%	21.05%
Return on Invested Capital	17.05%	14.23%	3.18%	4.49%	2.64%	3.13%	2.25%
Asset Turnover	2.95	2.38	2.14	1.98	1.79	1.66	1.54
Financial Leverage	2.12	2.56	2.82	2.62	2.55	2.47	2.42
Debt to Asset Ratio	0.16	0.37	0.30	0.33	0.33	0.35	0.35
Debt to EBIT Ratio	1.12	3.00	2.62	3.12	3.40	3.77	4.05
Current Ratio	1.79	1.61	1.45	1.48	1.57	1.60	1.64
Quick Ratio	0.68	0.30	0.42	0.55	0.68	0.77	0.85

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We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

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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: Okomu Oil Palm Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
09-09-2021	2.20	1.84	2.71	SELL	BUY
15-Nov-2021	2.19	2.71	2.33	BUY	HOLD

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Company	Disclosure
Livestock Feeds Plc	

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