

## Q1 Revenue Touches 7-Year High

### Topline Sustains Uptrend

Berger Paints Nigeria Plc (**BERGER**) sustained its impressive top-line performance with a strong revenue growth of 29.37% YoY in 2021FY. This was bettered by its outstanding Q1:2022 financial scorecard, where revenue was up by 38.62%YoY (its highest quarterly revenue since 2014). This growth was fueled by better paint sales as the sale of paints and allied products segment expanded by 45.30%YoY (to NGN1.62bn from NGN1.11bn in Q1:2021). In our opinion, the increase in paint sales was due mainly to the improvement in economic activities compared to the pandemic year, and strong demand in the real estate sector. This drove demand for paint product upward and culminated in the increase witnessed in firm's topline. In contrast, the company's contract services bucked the trend, as revenue from this business segment declined by 54.74%YoY to NGN36.00mn (vs NGN79.53mn in Q1:2021). **For the rest of the year, we remain optimistic about the paint maker's growth prospect as the firm's management continues to deploy its discount initiatives to increase market share. Furthermore, we expect the sustained growth in the real estate sector given it rebound in 2021FY (GDP growth of 2.26%) to contribute to an increase in sales volume, thereby bolstering revenue growth. Thus, we project a 14.11% YoY increase in topline to NGN5.67bn by year end 2022.**

### Earnings Shun Cost Pressures

Being highly exposed to importation of its raw materials (C.70%), the persistent FX devaluation significantly impacted **BERGER's** production costs in Q1:2022. Cost of raw materials and consumables increased by 58.34%YoY to NGN1.04bn (vs NGN0.65bn in Q1:2021). The higher cost of sales is also attributable to the rising inflationary pressures across the globe. As a result, cost to sales grew to 68.73% (from 64.32% in Q1:2021), dragging gross margin to 31.27% (vs 35.68% in Q1:2021). In Q1:2022, operating expenses increased by 11.50% YoY spurred by a rise in distribution, advertisement, and publicity expenses. Nonetheless, operating profit settled higher at NGN134.61mn (vs NGN79.79mn in Q1:2021), translating to a higher operating margin of 8.15% (vs 6.70% in Q1:2021).

Finance costs declined to NGN6.34mn in Q1:2022 (vs NGN17.22mn in Q1:2021). This was mainly due to the decline in total debts to NGN108.57mn from NGN145.37mn as at 2021FY, following repayment of debt obligations to the tune of NGN41.04mn. This contributed to the expansion in bottom-line, as PAT advanced by 102.33%YoY to NGN91.02mn (translating to an improvement in net margin of 5.51% vs 3.78% recorded in the previous year). **Hinged on our expectation for robust topline growth, we forecast a bottom-line increase of 58.81%YoY to NGN215.40mn in 2022FY—implying a net margin of 3.80%.**

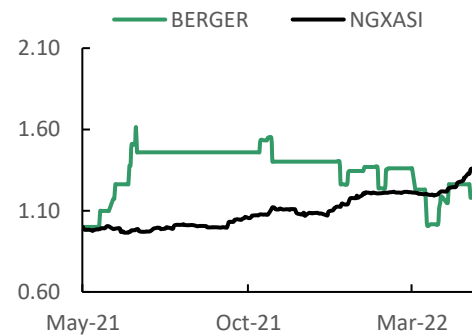
### Interest Coverage Ratio Rises Sharply

The paint maker's interest coverage ratio spiked to 21.24x compared to a 5-year average of 11.91x following a decline in total debts amid a debt repayment of NGN41.04mn made during the year. As the firm gears up towards rounding up the payments of its lease liabilities at the end of the year, no additional debt has been incurred. Thus, its leverage ratio remains satisfactory with debt-to-equity and debt-to-assets for the period declining to 3.27% and 2.12% (vs 4.50% and 2.84%) respectively.

### Recommendation

Premised on our 2022FY expected EPS of NGN0.74 and revised target P/E of 12.00x, we arrived at a Target Price of NGN8.92. This represents +23.90% upside potential when compared to the ticker's closing price on 18<sup>th</sup> May 2022. Hence, we place a **BUY** rating on the counter.

Company	BERGER
<b>Valuation</b>	
Trailing EPS	NGN0.63
BVPS	NGN11.46
P/E	11.43x
P/BV	0.63x
Target P/E	12.00x
Dec-2022 Exp. EPS	NGN0.74
Dec 2022 Target price	<b>8.92</b>
Current Price	7.20
Up/Downside Potential	+23.90%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	5.55%
ROA	3.55%
Net margin	3.35%
Asset Turnover	1.06x
Leverage	1.56x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN8.55
Yr Lo	NGN6.15
YTD return	-9.94%
Beta	0.54
Adjusted Beta	0.69
52-wk average volume	115,261
Shares outstanding	289.82mn
Market cap [NGN]	<b>2.09bn</b>
Financial year end	December
Most Recent Period (MRP)	Q1:2022



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**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	7.72
EPS						Max	11.06
		0.64	0.69	0.74	0.79	0.84	
Target P/E	12.88	8.29	8.93	9.57	10.22	10.86	
	12.93	8.32	8.96	9.61	10.26	10.90	
	12.00	7.72	8.32	8.92	9.52	10.12	
	13.05	8.40	9.05	9.70	10.35	11.01	
	13.11	8.43	9.09	9.75	10.40	11.06	

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

<b>Profit &amp; Loss Account</b>	Q1:2022	Q1:2021	2022F	2023F	2024F	2025F	2026F
Revenue	1.65	1.19	5.67	6.41	7.00	7.69	8.40
Cost of sales	1.14	0.77	3.87	4.40	4.82	5.30	5.88
<b>Gross Profit</b>	<b>0.52</b>	<b>0.43</b>	<b>1.80</b>	<b>2.02</b>	<b>2.19</b>	<b>2.39</b>	<b>2.52</b>
OPEX	0.39	0.35	1.61	1.77	1.87	1.92	1.97
Other Income	0.01	0.01	0.09	0.10	0.11	0.12	0.13
<b>EBIT</b>	<b>0.13</b>	<b>0.08</b>	<b>0.28</b>	<b>0.35</b>	<b>0.43</b>	<b>0.59</b>	<b>0.68</b>
Net Finance Cost	(0.00)	(0.01)	0.03	0.02	0.02	0.06	0.03
<b>PBT</b>	<b>0.13</b>	<b>0.07</b>	<b>0.31</b>	<b>0.36</b>	<b>0.45</b>	<b>0.65</b>	<b>0.71</b>
<b>PAT</b>	<b>0.09</b>	<b>0.04</b>	<b>0.22</b>	<b>0.25</b>	<b>0.31</b>	<b>0.44</b>	<b>0.47</b>

<b>Balance Sheet</b>	Q1:2022	Q1:2021	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	2.57	2.63	2.58	2.54	2.53	2.56	2.63
Total Debt	0.11	0.15	0.07	0.03	0.02	0.01	0.00
<b>Total Assets</b>	<b>5.12</b>	<b>5.11</b>	<b>5.26</b>	<b>5.44</b>	<b>6.04</b>	<b>6.86</b>	<b>7.01</b>
<b>Total Equity</b>	<b>3.32</b>	<b>3.23</b>	<b>3.27</b>	<b>3.37</b>	<b>3.54</b>	<b>3.77</b>	<b>4.04</b>
<b>Total Current Liabilities</b>	<b>1.39</b>	<b>1.44</b>	<b>1.51</b>	<b>1.47</b>	<b>1.86</b>	<b>2.35</b>	<b>2.27</b>
<b>Non-Current Liabilities</b>	<b>0.40</b>	<b>0.44</b>	<b>0.48</b>	<b>0.60</b>	<b>0.63</b>	<b>0.74</b>	<b>0.70</b>
<b>Total Liabilities</b>	<b>1.80</b>	<b>1.88</b>	<b>1.99</b>	<b>2.07</b>	<b>2.50</b>	<b>3.09</b>	<b>2.97</b>

<b>Financial Ratios</b>	Q1:2022	Q1:2021	2022F	2023F	2024F	2025F	2026F
Gross Margin	31.27%	35.68%	31.75%	31.45%	31.25%	31.05%	30.00%
Operating Margin	8.15%	6.70%	4.90%	5.45%	6.07%	7.67%	8.06%
Net Margin	5.51%	3.78%	3.80%	3.91%	4.45%	5.67%	5.64%
Return on Asset	1.78%	0.88%	4.09%	4.61%	5.17%	6.36%	6.75%
Return on Equity	2.74%	1.39%	6.59%	7.44%	8.82%	11.57%	11.71%
Earnings Per Share	0.31	0.16	0.74	0.87	1.08	1.51	1.63
Asset Turnover	0.32x	0.23x	1.08x	1.18x	1.16x	1.12x	1.20x
Financial Leverage	1.54x	1.58x	1.61x	1.61x	1.71x	1.82x	1.73x
Debt to Asset Ratio	0.02x	0.03x	0.01x	0.01x	0.00x	0.00x	0.00x
Debt to EBIT Ratio	0.81x	1.82x	0.24x	0.10x	0.04x	0.02x	0.00x
Current Ratio	1.54	1.42	1.48	1.63	1.58	1.55	1.61
Quick Ratio	0.59	0.61	0.77	0.81	0.78	0.83	0.81

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### Fair Value Estimate

We estimate a 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.

### Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

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- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
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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.

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## Movements in Price Target

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**Company Name:** Berger Paints Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
19-May-2022	7.90	13.67	8.92	BUY	BUY

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Company	Disclosure
Berger Paints Plc	

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