

## Price Rally Lifts Topline

### Topline Hits Record High

Presco Plc ended the 2021 financial year on a positive note, as topline soared by 98.51% YoY to NGN47.43bn. This solid revenue growth overshot the firm's 2021FY revenue forecast (NGN44.57bn) by 6.42%. The stellar performance is largely attributable to the surge in global palm oil prices and, consequently, high palm oil prices in the domestic market. The global oil palm industry has continued to witness a rally in Crude Palm Oil (CPO) prices on account of a widened global supply deficit. **In our opinion, this hike in global palm oil prices limited the invasion of cheaper imports, encouraged local patronage, and gave domestic players the leeway to increase prices.** Presco Plc's topline gained further momentum in Q1:2022, where the company's revenue grew significantly by 147.42% YoY, hitting a record high of NGN19.61bn. At the end of Q1:2022, the firm had already generated 41.36% of its last year's total revenue. **Going forward, we expect the current price rally to persist. Our expectation is hinged on a further widened supply gap as stronger demand for palm oil derivatives outpaces supply (both in the local and global markets). In addition, we envisage increased production volumes, especially with the increased oil palm hectareage resulting from its recent acquisition of Siat Nigeria Ltd. We have thus modelled a topline growth of 43.61%YoY (NGN68.11bn vs NGN47.43bn in 2021).**

### Faster Revenue Growth Bolsters Earnings

The firm's cost of sales spiked by 114.83% YoY to NGN13.59bn in 2021FY, largely resulting from the significant increase in the cost of mill processing, refining and packaging by 750.36% YoY to NGN5.52bn. This worsened cost to sales ratio to 28.65% (vs. 26.47% in 2020FY). Similarly in Q1:2022, cost to sales ratio increased to 29.38% YoY (vs. 19.07% in Q1:2021). This in turn led to a contraction in gross margin to 70.62% (vs. 80.93% in Q1:2021). Administrative expenses also increased by 151.43% YoY - pushing up operating expenses to NGN3.81bn (from NGN1.17bn in Q1:2021). Thus, operating margin fell to 51.20% (vs. 66.19% in Q1:2021) despite the 91.41% YoY increase in operating profit (from NGN5.25bn to NGN10.04bn in Q1:2022).

Quite notably, finance expense rose by 400.16%YoY to NGN1.48bn in Q1:2022, partly attributable to an increase in the company's debt obligations. In Q1:2022, interest-bearing obligations increased slightly to NGN51.14bn (vs. NGN51.06bn in 2021FY). Nonetheless, PBT and PAT came in higher at NGN8.60bn and NGN5.89bn (vs NGN4.95bn and NGN3.84bn in Q1:2021 respectively), supported by the strong growth in revenue. **We expect the favourable pricing environment to positively impact earnings this year. Thus, hinged on our expectation of a robust topline growth, we project a bottomline increase of 35.87% YoY to NGN26.25bn in 2022FY.**

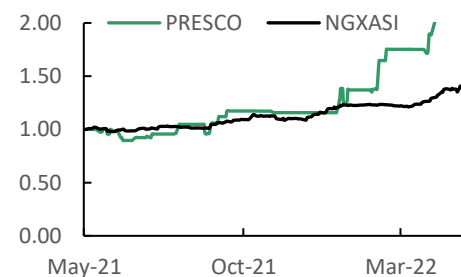
### Aggressive Expansion Projects

Presco Plc has consolidated on its expansion efforts. The firm initially operates a refinery with a capacity of 100MT per day. However, in March 2021, the firm commissioned 500MT refinery. Accordingly, its milling capacity increased to 200-300MT per day. The company also proposes to have an additional mill in 2025. Recently, the company acquired Siat Nigeria Limited (SNL) in a move to broaden its footprint across the oil palm value chain.

### Recommendation

Premised on our 2022FY expected EPS of NGN26.25 and target PE of 8.25x, we arrived at a target price of NGN216.54. This represents a 33.66% upside when compared to the ticker's closing price as of 2<sup>nd</sup> June 2022. Hence, we recommend a **BUY** on the ticker.

Company	PRESCO
<b>Valuation</b>	
Trailing EPS	21.37
BVPS	35.67
P/E	7.58
P/BV	4.54
Target PE	8.25x
Dec-2022 Exp. EPS	26.25
Dec 2022 Target price	<b>216.54</b>
Current Price	162.00
Up/Downside Potential	33.66%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	65.29%
ROA	6.85%
Net margin	30.03%
Asset Turnover	0.43
Leverage	3.85
<b>Share Price Data</b>	
Year High	200.00
Year Low	87.80
YTD return	+84.51%
Beta	0.97
Adjusted Beta	0.98
Shares outstanding	1.00bn
Market cap [NGN]	162.00bn
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	213.10			
EPS						Max	220.00			
						26.15	26.20	26.25	26.30	18.82
Target PE	8.15x	213.10	213.50	213.91	214.32	214.73				
	8.20x	214.40	214.81	215.22	215.63	216.04				
	8.25x	215.71	216.12	<b>216.54</b>	216.95	217.36				
	8.30x	217.02	217.43	217.85	218.26	218.68				
	8.35x	218.33	218.74	219.16	219.58	220.00				

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

<i>Profit &amp; Loss Account</i>	Q1:2022A	Q1:2021A	2022F	2023F	2024F	2025F	2026F
Revenue	19.61	7.93	68.11	87.17	99.02	111.05	124.45
Cost of sales	5.76	1.51	15.57	18.35	21.03	23.48	26.07
<b>Gross Profit</b>	<b>13.85</b>	<b>6.42</b>	<b>52.54</b>	<b>68.82</b>	<b>77.98</b>	<b>87.57</b>	<b>98.39</b>
OPEX	3.81	1.17	11.87	13.49	15.72	17.68	19.79
<b>Operating Profit</b>	<b>10.04</b>	<b>5.25</b>	<b>38.11</b>	<b>51.52</b>	<b>57.90</b>	<b>65.10</b>	<b>72.80</b>
Finance Cost	1.48	0.29	4.00	6.20	9.61	11.53	13.83
<b>PBT</b>	<b>8.60</b>	<b>4.95</b>	<b>41.67</b>	<b>56.37</b>	<b>62.63</b>	<b>72.08</b>	<b>83.26</b>
<b>PAT</b>	<b>5.89</b>	<b>3.84</b>	<b>26.25</b>	<b>35.51</b>	<b>39.46</b>	<b>45.41</b>	<b>52.45</b>

<i>Balance Sheet</i>	Q1:2022A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	86.42	84.57	53.91	58.52	66.15	74.31	83.78
Total Debt	51.14	51.06	75.65	100.40	129.96	170.14	220.79
<b>Total Assets</b>	<b>137.36</b>	<b>140.61</b>	<b>84.29</b>	<b>96.04</b>	<b>120.54</b>	<b>135.55</b>	<b>154.99</b>
<b>Total Equity</b>	<b>35.67</b>	<b>29.78</b>	<b>44.32</b>	<b>73.03</b>	<b>87.51</b>	<b>97.96</b>	<b>115.45</b>
<b>Total Current Liabilities</b>	<b>64.65</b>	<b>73.46</b>	<b>73.78</b>	<b>86.87</b>	<b>103.45</b>	<b>119.20</b>	<b>136.06</b>
<b>Non-Current Liabilities</b>	<b>37.05</b>	<b>37.36</b>	<b>49.68</b>	<b>64.90</b>	<b>87.44</b>	<b>118.39</b>	<b>160.73</b>
<b>Total Liabilities</b>	<b>101.69</b>	<b>110.82</b>	<b>123.47</b>	<b>151.78</b>	<b>190.88</b>	<b>237.59</b>	<b>296.79</b>

<i>Financial Ratios</i>	Q1:2022A	Q1:2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	70.62%	80.93%	77.14%	78.95%	78.76%	78.85%	79.06%
Operating Margin	51.20%	66.19%	55.96%	59.10%	58.47%	58.62%	58.50%
Net Margin	30.03%	48.49%	38.54%	40.74%	39.85%	40.89%	42.15%
Return on Asset	6.85%	15.37%	17.02%	18.09%	15.68%	14.79%	14.03%
Return on Equity	65.29%	24.16%	70.85%	114.99%	105.26%	107.02%	107.20%
Asset Turnover	0.43	0.25	0.44	0.44	0.39	0.36	0.33
Financial Leverage	3.85	4.72	3.79	3.08	3.18	3.43	3.57
Debt to Asset Ratio	0.37	0.36	0.69	0.67	0.68	0.72	0.73
Debt to EBIT Ratio	1.94	4.48	3.02	2.92	3.26	3.70	4.15
Current Ratio	0.74	0.71	0.91	0.92	1.02	1.08	1.19
Quick Ratio	0.65	0.65	0.82	0.85	0.94	0.99	1.10

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

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### Fair Value Estimate

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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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:** Presco Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
02-June-2022	162.00	96.88	216.54	SELL	BUY

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Company	Disclosure
Presco Plc	

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