

Margins Buckle Under Heightened Cost Pressures

Summary: NASCON's revenue expanded by 43.01% YoY to NGN25.13bn in H1:2022 (vs. NGN17.57bn in H1:2021) anchored on improved volume growth across its product offerings. On a geographical basis, the firm maintained its strong footing in all regions, recording higher revenue from the North (+57.76%YoY), East (+39.71%YoY), West (+15.63%YoY).

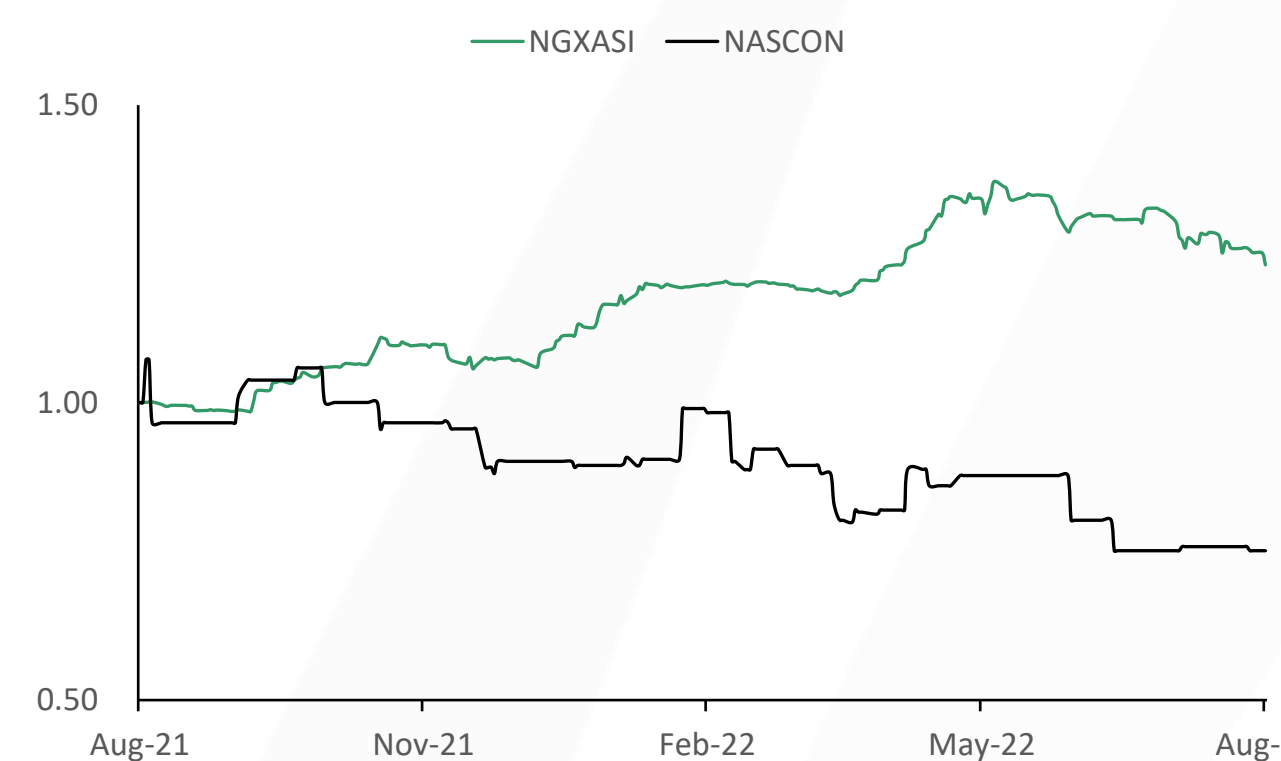
The increase in production cost (+57.61%YoY) outpaced growth in revenue due to higher raw materials expenses (+67.67%YoY), reflective of the spiraling inflationary environment. Likewise, operating expenses ticked up by 38.66%YoY mainly owing to increased cost of delivery (89.92%YoY).

Due to higher topline performance, operating profit increased by 10.76% YoY to NGN2.36bn. The firm obtained a term loan from the bank at 8.5% during the year which led its debt obligations higher to NGN1.67bn (from NGN38.57mn in 2021FY). Thus, finance cost shot up by +781.50%YoY during the half year period. Cumulatively, Profit After Tax (PAT) increased by 5.85% YoY to NGN1.54bn while net margin declined to 6.11% (vs 8.26% in H1:2021)

Positives: Signals of stronger earnings quality as NASCON recorded negative net operating accruals of NGN2.17bn (vs. positive net operating accruals of NGN479.45mn)

Negatives: Cost to sales came in higher at 66.69% (vs. 60.51% in H1:2021). Gross margin declined to 33.31% (vs. 39.49% H1:2021). Operating margin also declined to 28.21%YoY (vs. 30.73% in H1:2021).

| Valuation | | Stock Highlights | |
|-------------------|----------|--------------------|----------|
| Trailing EPS | 1.15 | Yr Hi | 14.50 |
| BVPS | 5.70 | Yr Lo | 11.00 |
| P/E | 9.54x | YTD return | -16.67% |
| P/BV | 1.93x | Beta | 0.70 |
| Target PE | 12.54x | Adjusted Beta | 0.55 |
| Dec-2022 Exp. EPS | 1.26 | Shares outstanding | 2.65bn |
| Dec 2022 Target | | Market cap [NGN] | 29.14bn |
| Price | NGN15.80 | Financial year end | December |
| Current Price | NGN11.00 | | |



Recommendation: **BUY**

TP: **15.80**

CP: **11.00**

UPP: **+43.64%**

Financial Highlight (NGN'bn)

| Profit and Loss Account | H1:2022 | H1:2021 | Y/Y Growth |
|-------------------------|---------|---------|------------|
| Revenue | 25.13 | 17.57 | +43.01% |
| Cost of sales | 16.76 | 10.63 | +57.61% |
| OPEX | 6.44 | 4.65 | +20.64% |
| Operating Profit | 2.36 | 2.13 | +10.76% |
| Finance Cost | 0.22 | 0.02 | +781.50% |
| PBT | 2.27 | 2.13 | +6.63% |
| PAT | 1.54 | 1.45 | +5.85% |

| Balance Sheet | H1:2022 | 2021A | Y/Y Growth |
|-------------------------------|---------|-------|------------|
| Property, Plant and Equipment | 13.76 | 14.06 | -2.16% |
| Total Asset | 49.34 | 40.52 | +21.77% |
| Total Equity | 15.11 | 14.63 | +3.25% |
| Total Debt | 1.66 | 0.03 | +4221.06% |
| Total Liabilities | 34.24 | 25.89 | +32.24% |

Key Metrics

| Profitability Ratio | H1:2022T | 2021A | 3-yr Hist. Avg |
|---------------------|----------|--------|----------------|
| ROA | 6.80% | 6.55% | 6.28% |
| ROE | 20.55% | 19.40% | 20.12% |
| Net Margin | 6.11% | 8.26% | 8.42% |

| Efficiency Ratio | H1:2022T | 2021A | 3-yr Hist. Avg |
|------------------|----------|-------|----------------|
| Asset Turnover | 0.91 | 0.73 | 0.75x |

| Liquidity Ratio | H1:2022T | 2021A | 3-yr Hist. Avg |
|-----------------|----------|-------|----------------|
| Current Ratio | 0.99 | 1.12 | 1.04x |
| Quick Ratio | 0.70 | 0.91 | 0.82x |
| Cash Ratio | 0.39 | 0.35 | 0.22x |

| Solvency Ratio | H1:2022T | 2021A | 3-yr Hist. Avg |
|-------------------|----------|--------|----------------|
| Interest Coverage | 10.63x | 84.59x | 23.20 |
| Debt to Equity | 0.11x | 0.00x | 0.10x |
| Debt to Asset | 0.03x | 0.00x | 0.03x |

| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | Min | 14.04 |
|---|-------|-------|-------|-------|-------|-------|-------|
| Earnings Per Share | | | | | | Max | 17.70 |
| | | 1.17 | 1.21 | 1.26 | 1.31 | 1.36 | |
| Target PE | 12.0x | 14.04 | 14.59 | 15.17 | 15.75 | 16.35 | |
| | 12.3x | 14.33 | 14.90 | 15.49 | 16.07 | 16.68 | |
| | 12.5x | 14.62 | 15.20 | 15.80 | 16.40 | 17.02 | |
| | 12.8x | 14.91 | 15.50 | 16.12 | 16.73 | 17.36 | |
| | 13.0x | 15.21 | 15.81 | 16.43 | 17.05 | 17.70 | |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Improvement Across Business Segments

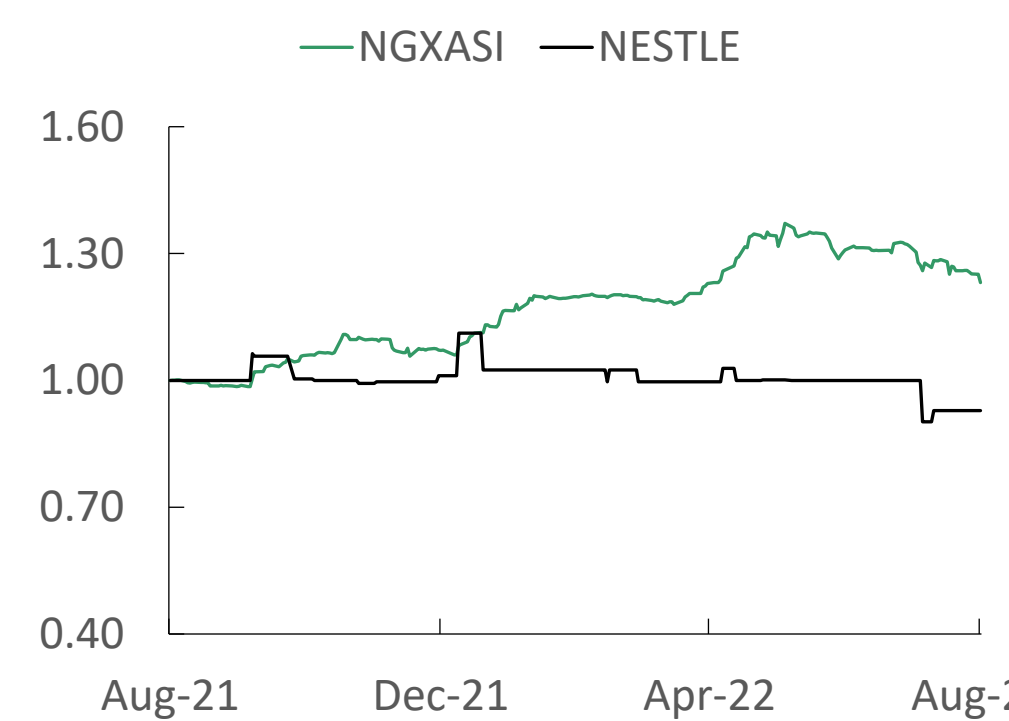
Summary: NESTLE, in its H1:2022 financial scorecard, recorded strong double-digit growth (+29.75% YoY) in topline to NGN222.45bn from NGN171.44bn in H1:2021. The performance was supported by a marked improvement in sales across its business segments with the food segment expanding by +30.94% YoY while the beverage segment increased by +28.04% YoY. We attribute the topline growth to the improved domestic demand (+30.06% YoY) and increased product prices.

The company's production cost expanded by 35.46% YoY to NGN142.25bn, outpacing the improvement in revenue. Consequently, its cost to sales ratio for the period came in higher at 63.94% relative to 61.25% recorded in H1:2021. This was largely due to the increase in raw material cost which broadly reflects the impact of the rising inflationary pressure and FX scarcity in the domestic market. Although, the company's operating expense increased by 13.02% YoY, its operating profit increased significantly by 27.12%YoY to NGN46.18bn in H1:2022. Net finance charge declined by 17.24% YoY to settle at **NGN2.44bn** due to the increase in interest expense on financial liabilities and foreign exchange loss. Cumulatively, PBT and PAT settled higher at NGN43.74bn and NGN27.75bn (vs.NGN33.38bn and NGN21.73bn in H1: 2021), respectively.

Positives: Both the current and quick ratio increased to 1.14x and 0.79x (from 1.04x and 0.74x in 2021FY), reflecting increased ability to cover its short-term liabilities.

Negative: The company's net operating accruals settled at NGN39.94bn in H1:2021 from **NGN29.03bn** in H1:2022, signifying low earnings quality.

| Valuation | | Stock Highlights | |
|-----------------------|--------------------|--------------------|---------------|
| Trailing EPS | NGN58.10 | Yr Hi | NGN1,556.50 |
| BVPS | 36.40 | Yr Lo | NGN1,262.00 |
| P/E | 22.37x | YTD return | -16.48% |
| P/BV | 35.72x | Beta | 0.54 |
| Target PE | 28.18x | Adjusted Beta | 0.69 |
| Dec-2021 Exp. EPS | NGN55.49 | Shares outstanding | 0.79bn |
| Dec 2021 Target price | NGN1,563.87 | Market cap [NGN] | 1.03tn |
| Current Price | NGN1,300.00 | Financial year end | December |



Recommendation: **BUY**

TP: **1,540.92**

CP: **1,300.00**

UPP: **20.30%**

Financial Highlight (NGN'bn)

| Profit and Loss Account | H1:2022 | H1:2021 | Y/Y Growth |
|-------------------------|---------|---------|------------|
| Revenue | 222.45 | 171.44 | 29.75% |
| Cost of sales | -142.25 | -105.01 | -35.46% |
| OPEX | 34.02 | 30.10 | 13.02% |
| Operating Profit | 46.18 | 36.33 | 27.12% |
| Finance Cost | 4.60 | 1.96 | 134.55% |
| PBT | 43.74 | 33.38 | 31.04% |
| PAT | 27.75 | 21.73 | 27.70% |

| Balance Sheet | H1:2022 | 2021A | Y/Y Growth |
|-------------------------------|---------|--------|------------|
| Property, Plant and Equipment | 101.77 | 98.96 | 2.83% |
| Total Asset | 346.73 | 310.24 | 11.76% |
| Total Equity | 28.85 | 21.38 | 34.95% |
| Total Debt | 92.64 | 76.86 | 20.53% |
| Total Liabilities | 317.88 | 288.86 | 10.05% |

Key Metrics

| Profitability Ratio | H1: 2022T | 2021A | 3-yr Hist. Avg |
|---------------------|-----------|---------|----------------|
| ROA | 13.28% | 12.91% | 17.49% |
| ROE | 159.65% | 187.28% | 140.47% |
| Net Margin | 11.43% | 11.38% | 13.71% |

| Efficiency Ratio | H1:2022T | 2021A | 3-yr Hist. Avg |
|------------------|----------|-------|----------------|
| Asset Turnover | 1.23x | 1.68x | 1.26 |

| Liquidity Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
|-----------------|---------|-------|----------------|
| Current Ratio | 1.14x | 1.04x | 0.94x |
| Quick Ratio | 0.79x | 0.74x | 0.64x |
| Cash Ratio | 0.42x | 0.51x | 0.31x |

| Solvency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
|-------------------|---------|-------|----------------|
| Interest Coverage | 6.77x | 5.96x | 17.43x |
| Debt to Equity | 0.27x | 3.62x | 1.77x |
| Debt to Asset | 3.21x | 4.01x | 8.18x |

Sensitivity Analysis of Dec-2022 Target Price to key model inputs

| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | | Min | 1,471.45 |
|---|-----------------|--------------|--------------|-----------------|--------------|--------------|-----|----------|
| | | | | | | | Max | 1,659.11 |
| | | | | | | | EPS | |
| | 1,563.87 | 53.82 | 54.66 | 55.49 | 56.32 | 57.15 | | |
| Target PE | 27.34x | 1,471.45 | 1,494.20 | 1,516.96 | 1,539.71 | 1,562.47 | | |
| | 27.76x | 1,494.20 | 1,517.31 | 1,540.42 | 1,563.52 | 1,586.63 | | |
| | 28.18x | 1,516.96 | 1,540.42 | 1,563.87 | 1,587.33 | 1,610.79 | | |
| | 28.61x | 1,539.71 | 1,563.52 | 1,587.33 | 1,611.14 | 1,634.95 | | |
| | 29.03x | 1,562.47 | 1,586.63 | 1,610.79 | 1,634.95 | 1,659.11 | | |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Earnings Pressured by Surge in Production Cost

Summary: Reflecting the impact of the weak operating environment, UACN's Q2:2022 standalone revenue performance declined marginally by -0.41% YoY to NGN24.38bn. Cumulatively, its H1:2022 revenue expanded by 11.92% to NGN52.04bn (vs. NGN46.50bn in H1:2021). All business segment recorded sales growth, including the animal feeds and other edibles (+9.43% YoY), paints (+30.09% YoY), quick service restaurant (+5.97% YoY), and Packaged Food segment (+28.25% YoY). The broad improvement was largely due the price increase on majority of the company's business segments, addition to the company owned-restaurants and improved production efficiency of its water business.

The company recorded a 12.91% YoY increase in production cost to NGN43.10bn, attributable to the increase in raw material cost, foreign exchange scarcity and high energy cost. As a result, cost to sales increased marginally to 82.83% (from 82.10% in H1:2021). The company's operating expenses spiked by 15.70% YoY, attributable to the increase in distribution (+24.04 YoY) and administrative (+9.11 YoY). Consequently, operating margin moderated to 3.10% in H1:2022 from 3.82% in H1:2021. Net finance cost increased substantially to settle at NGN1.54bn in H1:2022 (vs. NGN101.66bn in H1:2021), attributable to the increase in the company's borrowing during the period. Overall, both profit before tax and profit after tax plunged by 99.05% YoY and 193.89% YoY.

Positives: Asset turnover increased to 1.04x (from 1.02x in 2021FY)

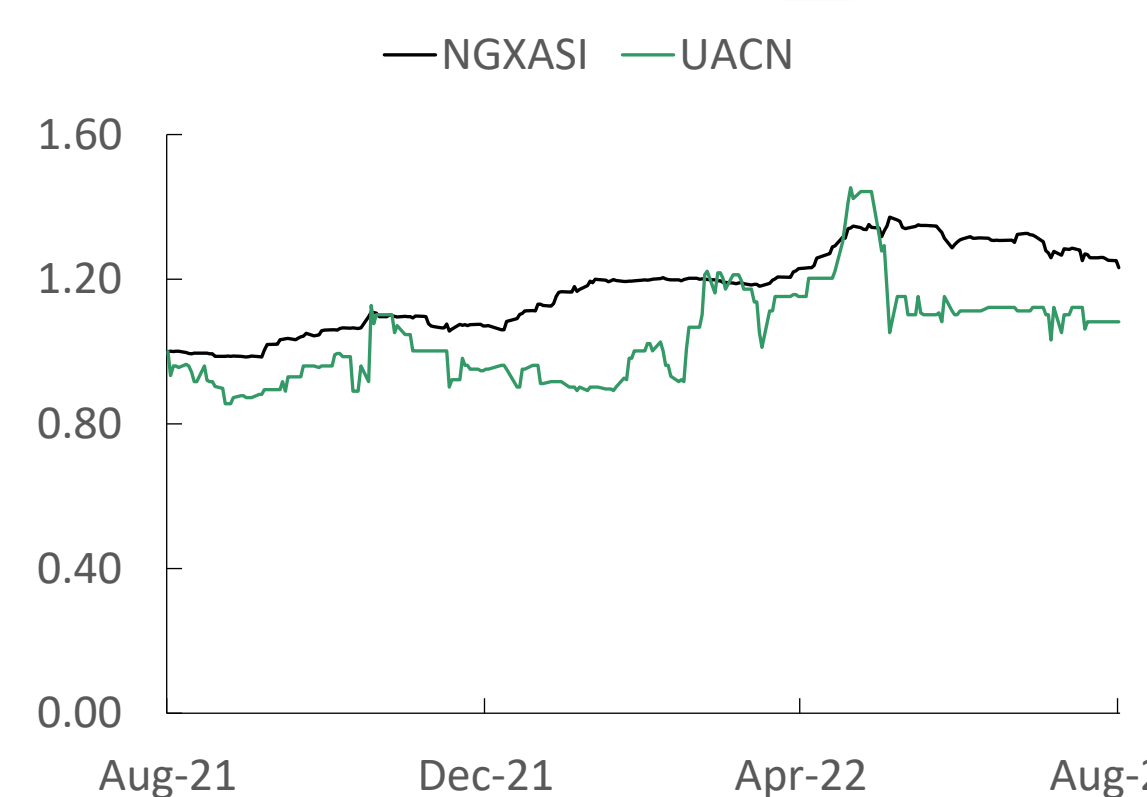
Negative: All liquidity metrics declined with current, cash and quick ratios settling at 1.23x, 0.26x and 0.36x in H1:2022 from 1.32x and 0.47x as of the end of 2021FY, implying reduced cover for its short-term liabilities.

Valuation

| | |
|-----------------------|-----------------|
| Trailing EPS | NGN0.39 |
| BVPS | 16.75x |
| P/E | 29.06x |
| P/BV | 0.67xs |
| Target PE | 12.48x |
| Dec-2021 Exp. EPS | NGN1.22 |
| Dec 2021 Target price | NGN15.16 |
| Current Price | NGN10.80 |

Stock Highlights

| | |
|--------------------|----------------|
| Yr Hi | NGN14.50 |
| Yr Lo | NGN8.90 |
| YTD return | 13.68% |
| Beta | 0.62 |
| Adjusted Beta | 0.75 |
| Shares outstanding | 2.88bn |
| Market cap [NGN] | 31.12bn |
| Financial year end | December |



Sensitivity Analysis of Dec-2022 Target Price to key model inputs

| | | | | | | Min | 1.17 |
|------------------|---------------|-------------|-------------|--------------|-------------|-------------|-------|
| | | | | | | Max | 16.41 |
| | | | | | | EPS | |
| | 15.16 | 1.12 | 1.17 | 1.22 | 1.27 | 1.32 | |
| | 1.05x | 1.17 | 1.22 | 1.28 | 1.33 | 1.38 | |
| | 1.15x | 1.28 | 1.34 | 1.40 | 1.46 | 1.51 | |
| Target PE | 12.48x | 13.92 | 14.54 | 15.16 | 15.79 | 16.41 | |
| | 1.35x | 1.51 | 1.57 | 1.64 | 1.71 | 1.78 | |
| | 1.45x | 1.62 | 1.69 | 1.76 | 1.83 | 1.91 | |

Recommendation: BUY **TP: 15.16** **CP: 10.80** **UPP: 40.42%**

Financial Highlight (NGN'bn)

| Profit and Loss Account | H1:2022 | H1:2021 | Y/Y Growth |
|------------------------------|---------|---------|------------|
| Revenue | 52.04 | 46.50 | 11.92% |
| Cost of sales | -43.10 | -38.18 | -12.91% |
| OPEX | 7.96 | 6.88 | 15.70% |
| Operating Profit | 1.61 | 1.78 | -9.36% |
| Finance Cost | 1.54 | 0.10 | 1414.92% |
| PBT | 0.01 | 1.30 | -99.05% |
| PAT | -0.72 | 0.76 | -193.89% |
| Balance Sheet | H1:2022 | 2021A | Y/Y Growth |
| Property Plant and Equipment | 23.60 | 22.22 | 6.18% |
| Total Asset | 106.89 | 98.93 | 8.05% |
| Total Equity | 48.25 | 50.84 | -5.08% |
| Total Debt | 29.66 | 19.91 | 48.96% |
| Total Liabilities | 58.64 | 48.09 | 21.93% |

Key Metrics

| Profitability Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
|---------------------|---------|-------|----------------|
| ROA | 1.04% | 2.63% | 3.76% |
| ROE | 2.03% | 5.09% | 6.50% |
| Net Margin | 1.04 | 2.55% | 4.49% |
| Efficiency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Asset Turnover | 1.04 | 1.02 | 0.88 |
| Liquidity Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Current Ratio | 1.23x | 1.32x | 1.72x |
| Quick Ratio | 0.36x | 0.47x | 0.94x |
| Cash Ratio | 0.26x | 0.27x | 0.73x |
| Solvency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Interest Coverage | 0.80x | 1.76x | 3.48x |
| Debt to Equity | 0.61x | 0.40x | 0.20x |
| Debt to Asset | 0.28x | 0.21x | 0.11x |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Earnings Bolstered by Strong Revenue Growth

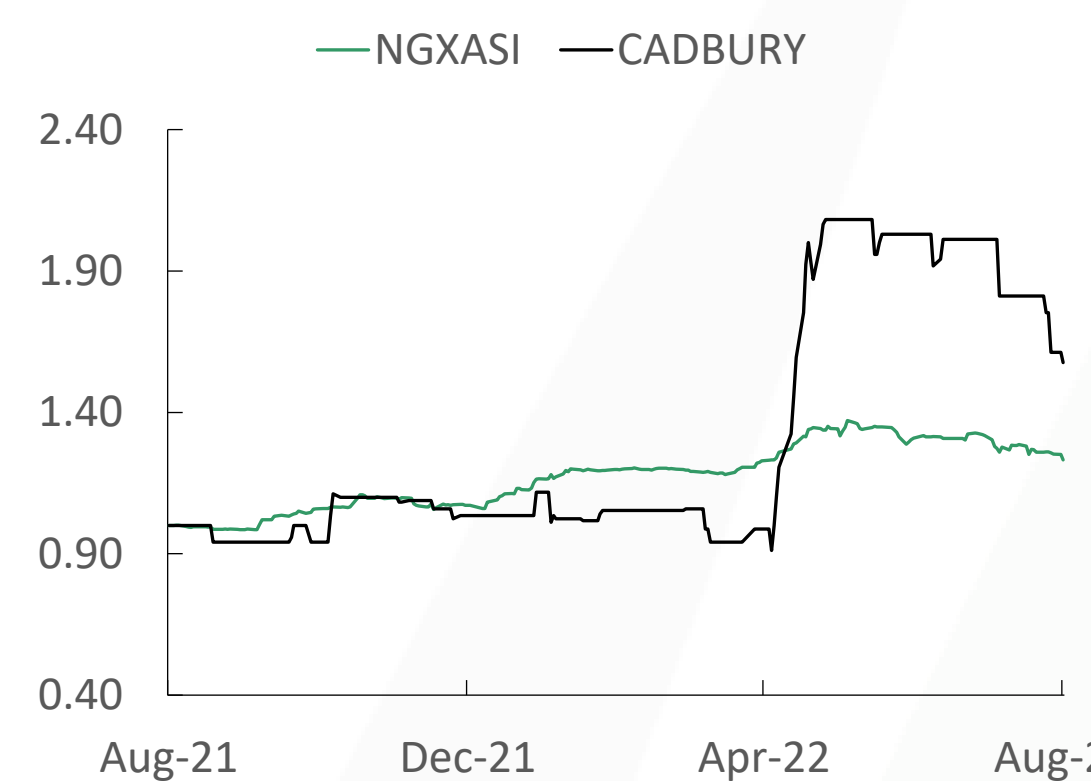
Summary: CADBURY posted an impressive H1:2022 financial performance, recording a double-digit growth (+50.50%) in topline to NGN27.88bn. This was largely on the account of the improvement (+51.55% YoY and +24.62% YoY) in its domestic and export sales. Consequently, both the refreshment beverage (64.42% YoY) and confectionary business (+27.29% YoY) improved from previous levels.

Due to the sharper increase in topline, the company's cost to sales ratio moderated to 79.00% from 88.24% in H1:2022 despite the increase (34.74% YoY) in cost of production. Operating expense spiked by +8.23%, largely due to the increase in distribution and administrative expenses. Notwithstanding, operating profit increased significantly (+556.98% YoY), pushing its operating margin to 10.22% from an operating loss of **3.29%** in H1:2021. The company's net finance charge settled positive at NGN497.05mn in H1:2022 from NGN93.79mn in H1:2021. attributable to the increase in interest income on bank deposits. Ultimately, profit after tax rebounded from its loss position to NGN2.34bn in H1:2022 (from **NGN0.53bn** in H1:2021).

Positives: Working capital improved by +8.22% YoY to NGN9.32bn in H1:2022 from NGN8.61bn in 2021FY.

Negative: The company's debt-equity ratio increase to 0.86x in H1:2022 from 0.77x in 2021FY.

| Valuation | | Stock Highlights | |
|-----------------------|-----------------|--------------------|----------------|
| Trailing EPS | 2.02 | Yr Hi | NGN17.70 |
| BVPS | 8.01 | Yr Lo | NGN7.75 |
| P/E | 6.64x | YTD return | 52.27% |
| P/BV | 1.67x | Beta | 1.20 |
| Target PE | 15.41x | Adjusted Beta | 1.14 |
| Dec-2021 Exp. EPS | NGN1.00 | Shares outstanding | 1.88bn |
| Dec 2021 Target price | NGN15.35 | Market cap [NGN] | 25.17bn |
| Current Price | NGN13.40 | Financial year end | December |



Recommendation: BUY **TP: 15.35** **CP: 13.40** **UPP: 14.53%**

Financial Highlight (NGN'bn)

| Profit and Loss Account | H1:2022 | H1:2021 | Y/Y Growth |
|-------------------------|---------|---------|------------|
| Revenue | 27.88 | 18.52 | 50.50% |
| Cost of sales | -22.02 | -16.34 | -34.74% |
| OPEX | 3.03 | 2.80 | 8.23% |
| Operating Profit | 2.85 | -0.61 | -566.98% |
| Finance Cost | - 0.21 | - 0.06 | -264.33% |
| PBT | 3.35 | -0.52 | -748.13% |
| PAT | 2.34 | -0.52 | -553.69% |

| Balance Sheet | 1:2022 | 2021A | Y/Y Growth |
|-------------------------------|--------|-------|------------|
| Property, Plant and Equipment | 13.91 | 13.02 | 6.82% |
| Total Asset | 53.81 | 43.69 | 23.17% |
| Total Equity | 15.04 | 13.64 | 10.28% |
| Total Debt | 13 | 10 | 22.80% |
| Total Liabilities | 38.77 | 30.05 | 29.03% |

Key Metrics

| Profitability Ratio | H1: 2022T | 2021A | 3-yr Hist. Avg |
|---------------------|-----------|-------|----------------|
| ROA | 7.04% | 1.03% | 2.52% |
| ROE | 25.20% | 3.30% | 6.02% |
| Net Margin | 8.47% | 1.06% | 2.14% |

| Efficiency Ratio | H1:2022T | 2021A | 3-yr Hist. Avg |
|------------------|----------|-------|----------------|
| Asset Turnover | 0.92x | 0.97x | 1.13x |

| Liquidity Ratio | Q1:2022 | 2021A | 3-yr Hist. Avg |
|-----------------|---------|-------|----------------|
| Current Ratio | 1.30x | 1.39x | 1.44x |
| Quick Ratio | 0.95x | 0.58x | 1.00x |
| Cash Ratio | 0.71x | 0.81x | 0.67x |

| Solvency Ratio | Q1:2022 | 2021A | 3-yr Hist. Avg |
|-------------------|---------|-------|----------------|
| Interest Coverage | 0.24x | 1.97x | 1398.58x |
| Debt to Equity | 0.86x | 0.28x | 0.18x |
| Debt to Asset | 0.07x | 0.09x | 0.06x |

| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | | Min | 14.44 |
|---|--------------|-------------|-------------|--------------|-------------|-------------|-----|-------|
| EPS | | | | | | | Max | 16.28 |
| | 15.35 | 0.97 | 0.98 | 1.00 | 1.01 | 1.03 | | |
| | 14.95x | 14.44 | 14.66 | 14.89 | 15.11 | 15.33 | | |
| | 15.18x | 14.66 | 14.89 | 15.12 | 15.34 | 15.57 | | |
| Target PE | 15.41x | 14.89 | 15.12 | 15.35 | 15.58 | 15.81 | | |
| | 15.64x | 15.11 | 15.34 | 15.58 | 15.81 | 16.04 | | |
| | 15.87x | 15.33 | 15.57 | 15.81 | 16.04 | 16.28 | | |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Improved Domestic Sales Props Earnings Potential

Summary: UNILEVER in its H1:2022 financial scorecard, recorded impressive double-digit growth (+35.12% YoY) in revenue to NGN43.81bn (vs. NGN32.42bn in H1:2021). The performance was bolstered by a marked improvement in domestic (+33.77% YoY) and export sales (+249.08% YoY). Thus, its food product segment and home & personal care product segment recorded substantial growth, expanding by +39.53% YoY and +31.66% YoY, respectively.

With the rising pace in the cost of raw material due to the inflationary pressure and FX illiquidity, UNILEVER's cost of production expanded by +22.31% YoY. However, due to the faster growth recorded in the topline, the cost to sales ratio moderated to 67.68% in H1:2022 from 74.66% in H1:2021. Operating expenses spiked by +36.37% YoY due to the increase in marketing and distribution. Notwithstanding, operating margin settled significantly higher at 7.19% from 0.08% in H1:2021. Net finance charge (incl. finance income and finance cost) increased to **NGN335.02mn** in H1:2022 from NGN452.78mn in H1:2021. Overall, profit before tax and profit after tax settled higher at NGN2.98bn and NGN1.91bn in H1:2022 from NGN434.12mn and NGN714.78mn in H1:2021.

Positives: Net operating accruals increased marginally by 0.60% YoY to settled at **NGN6.37bn**, signifying improved earnings quality.

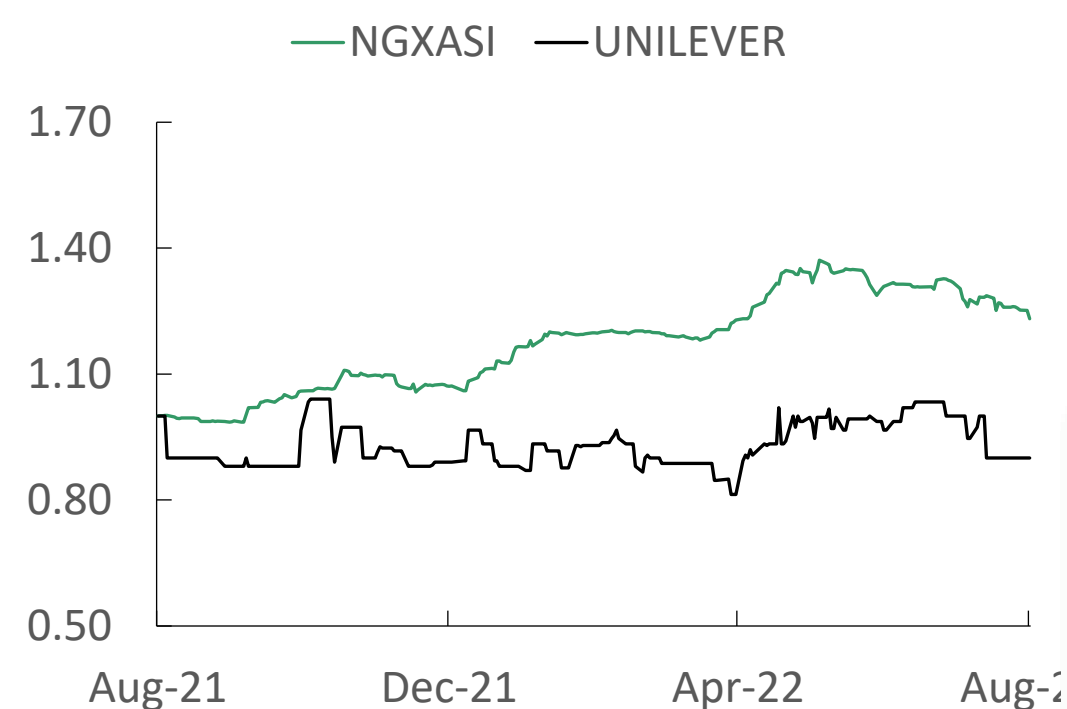
Negative: All liquidity metrics declined from previous levels with current, cash and quick ration declining to 1.90x, 1.24x and 1.61x in H1:2021 from 2.14x, 1.38x and 1.76x in 2021FY. This indicates a reduced cover for the company's short-term obligation.

Valuation

| | |
|-----------------------|-----------------|
| Trailing EPS | NGN0.80 |
| BVPS | 11.28x |
| P/E | 16.86x |
| P/BV | 1.20x |
| Target PE | 27.13x |
| Dec-2021 Exp. EPS | NGN0.57 |
| Dec 2021 Target price | NGN15.58 |
| Current Price | NGN13.50 |

Stock Highlights

| | |
|--------------------|----------------|
| Yr Hi | NGN15.50 |
| Yr Lo | NGN12.20 |
| YTD return | -6.90% |
| Beta | 0.60 |
| Adjusted Beta | 0.73 |
| Shares outstanding | 5.75bn |
| Market cap [NGN] | 77.56bn |
| Financial year end | December |



Recommendation: BUY

TP: 15.58

CP: 13.50

UPP: 15.38%

Financial Highlight (NGN'bn)

| Profit and Loss Account | H1:2022 | H1:2021 | Y/Y Growth |
|-------------------------------|---------|---------|------------|
| Revenue | 43.81 | 32.42 | 35.12% |
| Cost of sales | 29.61 | 24.20 | 22.31% |
| OPEX | 11.17 | 8.19 | 36.37% |
| Operating Profit | 3.15 | 0.03 | 11,943.35% |
| Finance Cost | 0.63 | 0.05 | 1,282.60% |
| PBT | 2.98 | 0.63 | 371.81% |
| PAT | 1.91 | 0.71 | 166.75% |
| Balance Sheet | H:2022 | 2021A | Y/Y Growth |
| Property, Plant and Equipment | 21.75 | 22.38 | -2.79% |
| Total Asset | 119.00 | 108.29 | 9.89% |
| Total Equity | 64.80 | 65.76 | -1.47% |
| Total Debt | - | - | - |
| Total Liabilities | 54.20 | 42.53 | 27.45% |

Key Metrics

| Profitability Ratio | H1: 2022T | 2021A | 3-yr Hist. Avg |
|---------------------|-----------|--------|----------------|
| ROA | 3.87% | 3.15% | -5.23% |
| ROE | 7.10% | 5.18% | -3.46% |
| Net Margin | 5.62% | 4.83% | -5.64% |
| Efficiency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Asset Turnover | 0.72x | 0.65x | 0.96x |
| Liquidity Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Current Ratio | 1.90x | 2.14x | 2.16x |
| Quick Ratio | 1.61x | 1.76x | 1.76x |
| Cash Ratio | 1.24x | 1.38x | 1.25x |
| Solvency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Interest Coverage | 5.01x | 48.73x | 34.77x |
| Debt to Equity | 0.00x | 0.00x | 0.00x |
| Debt to Asset | 0.00x | 0.00x | 0.00x |

Sensitivity Analysis of Dec-2022 Target Price to key model inputs

| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | | Min | 11.91 |
|---|---------------|-------------|-------------|--------------|-------------|-------------|-----|-------|
| | | | | | | | Max | 18.44 |
| | | | | | | | EPS | |
| | 15.58 | 0.47 | 0.52 | 0.57 | 0.62 | 0.67 | | |
| | 26.32x | 15.58 | 15.58 | 15.58 | 15.58 | 15.58 | | |
| | 26.72x | 15.58 | 15.58 | 15.58 | 15.58 | 15.58 | | |
| Target PE | 27.13x | 15.58 | 15.58 | 15.58 | 15.58 | 15.58 | | |
| | 27.54x | 15.58 | 15.58 | 15.58 | 15.58 | 15.58 | | |
| | 27.95x | 15.58 | 15.58 | 15.58 | 15.58 | 15.58 | | |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Cost Pressure Dampen Earnings Potential

Recommendation: **BUY**

TP: **45.79**

CP: **29.05**

UPP: **+57.61%**

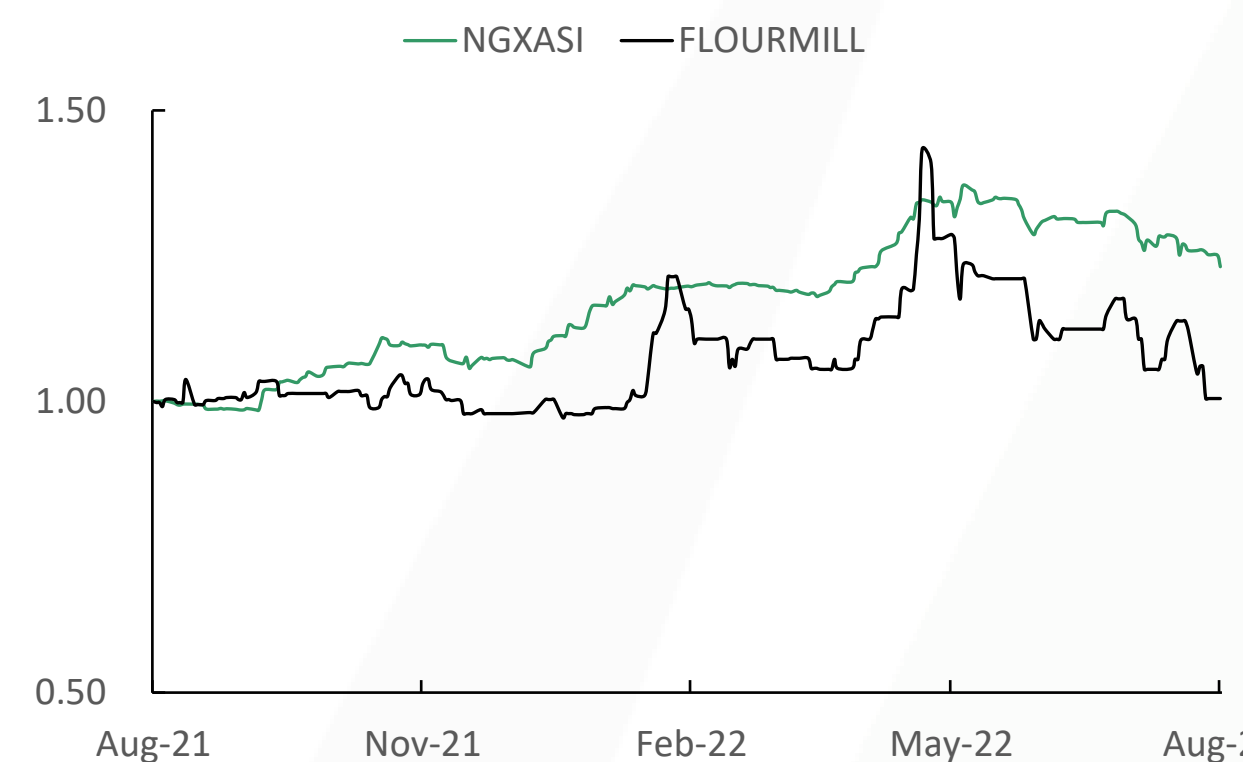
Summary: FLOURMILL's revenue expanded by 45.31% YoY to NGN339.60bn in Q1:2023 – year end is March. This performance was driven by an increase in volume growth across all business segments. Thus, revenue from all the segments recorded significant growth; Food (+45.08%), Agro-allied (+37.67%), Sugar (+3.58%), Support Services (+64.11%). The firm also increased market penetration of its breakfast cereal and launched new SKUs in the starch and fertilizer business segments.

Production cost grew by 47.28% YoY mainly due to an expansion in the cost of raw materials (+48.78% YoY), power cost (+77.16% YoY) and direct labour (+16.36% YoY). Thus, cost to sales came in higher at 90.21% (vs. 89.00% in Q1:2022). Similarly, operating expenses shot up by 52.01% YoY to NGN14.68bn in Q1:2023 propelled by an increase in selling and distribution expenses (+73.30% YoY), advertisement (+20.52%) and personnel expenses (+50.86% YoY). Nonetheless, operating profit grew by 32.74% YoY to NGN15.29bn in H1:2022 due to higher topline performance. Due to increase in other loans, the firm recorded higher debt obligations (+98.01%). Thus, finance cost spiked by 79.28% YoY to NGN8.16bn. Overall, Profit After Tax (PAT) increased marginally by 0.75% YoY to NGN5.49bn (vs. NGN5.45bn Q1:2022)

Positives: Impairment loss declined by 52.90% to NGN659.11mn (from NGN1.40bn in Q1:2022). Annualized return on equity increased marginally to 14.43% (vs. 14.11% in Q1:2022)

Negative: Net margin declined to 1.62% in Q1:2023 (vs. 2.33% in Q1:2022). Asset Turnover declined to 1.40x in Q1:2023 (vs. 1.64x in 2022FY).

| Valuation | | Stock Highlights | |
|-------------------|----------|--------------------|-----------------|
| Trailing EPS | 6.84 | Yr Hi | 41.45 |
| BVPS | 49.23 | Yr Lo | 28.10 |
| P/E | 4.25x | YTD return | +2.47% |
| P/BV | 0.59 | Beta | 1.19 |
| Target PE | 5.57x | Adjusted Beta | 1.13 |
| Dec-2022 Exp. EPS | 8.22 | Shares outstanding | 4.10bn |
| Dec 2022 Target | | Market cap [NGN] | 119.12bn |
| Price | NGN45.79 | Financial year end | December |
| Current Price | NGN29.05 | | |



Financial Highlight (NGN'Bn)

| Profit and Loss Account | Q1:2023 | Q1:2022 | Y/Y Growth |
|-------------------------------|---------|---------|------------|
| Revenue | 339.60 | 233.70 | +45.31% |
| Cost of sales | 306.35 | 208.00 | +47.28% |
| OPEX | 14.68 | 9.66 | +52.01% |
| Operating Profit | 15.29 | 11.51 | +32.74% |
| Finance Cost | 8.16 | 4.55 | +79.28% |
| PBT | 7.32 | 7.26 | +0.80% |
| PAT | 5.49 | 5.45 | +0.75% |
| Balance Sheet | Q1:2023 | 2022FY | Y/Y Growth |
| Property, Plant and Equipment | 331.57 | 226.84 | +46.17% |
| Total Asset | 880.46 | 667.01 | +32.00% |
| Total Equity | 201.85 | 195.90 | +3.03% |
| Total Debt | 294.69 | 148.83 | +98.01% |
| Total Liabilities | 678.61 | 471.11 | +44.05% |

Key Metrics

| Profitability Ratio | 2023T | 2022A | 3-yr Hist. Avg |
|---------------------|---------|--------|----------------|
| ROA | 3.93% | 3.63% | 12.70% |
| ROE | 14.14% | 14.11% | 4.19% |
| Net Margin | 2.33% | 1.62% | 2.57% |
| Efficiency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Asset Turnover | 1.40 | 1.64 | 1.62 |
| Liquidity Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Current Ratio | 1.16 | 1.40 | 1.38 |
| Quick Ratio | 0.34 | 0.43 | 0.49 |
| Cash Ratio | 0.07 | 0.11 | 0.15 |
| Solvency Ratio | H1:2022 | 2021A | 3-yr Hist. Avg |
| Interest Coverage | 1.87 | 2.57 | 2.38 |
| Debt to Equity | 1.46 | 0.76 | 0.72 |
| Debt to Asset | 0.33 | 0.22 | 0.23 |

| Sensitivity Analysis of Dec-2022 Target Price to key model inputs | | | | | | Min | 38.57 | | | |
|---|------|-------|-------|-------|-------|-------|-------|------|------|------|
| | | | | | | Max | 53.76 | | | |
| | | | | | | EPS | | | | |
| | | | | | | 7.61 | 7.91 | 8.22 | 8.53 | 8.86 |
| Target PE | 5.1x | 38.57 | 40.09 | 41.68 | 43.26 | 44.90 | | | | |
| | 5.3x | 40.47 | 42.07 | 43.73 | 45.39 | 47.12 | | | | |
| | 5.6x | 42.37 | 44.05 | 45.79 | 47.53 | 49.33 | | | | |
| | 5.8x | 44.27 | 46.02 | 47.84 | 49.66 | 51.55 | | | | |
| | 6.1x | 46.18 | 48.00 | 49.90 | 51.79 | 53.76 | | | | |

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

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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.

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.

Ratings Specification

BUY: Target Price of the stock is above the current market price by at least 10 percent

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

SELL: Target Price of the stock is more than 10 percent below the current market price.

Movements in Price Target

Company Name: NASCON Allied Industries Plc.

| Date | Price (N) | Previous Price(N) | Target | New Target Price (N) | Previous Recommendation | New Recommendation |
|-------------|-----------|-------------------|--------|----------------------|-------------------------|--------------------|
| 23-Aug-2022 | 11.00 | 15.80 | | 15.80 | BUY | BUY |

Company Name: UAC of Nigeria Plc.

| Date | Price (N) | Previous Price(N) | Target | New Target Price (N) | Previous Recommendation | New Recommendation |
|-------------|-----------|-------------------|--------|----------------------|-------------------------|--------------------|
| 23-Aug-2022 | 10.80 | 15.16 | | 15.16 | BUY | BUY |

Company Name: Cadbury Nigeria Plc.

| Date | Price (N) | Previous Price(N) | Target | New Target Price (N) | Previous Recommendation | New Recommendation |
|-------------|-----------|-------------------|--------|----------------------|-------------------------|--------------------|
| 23-Aug-2022 | 13.40 | 7.34 | | 15.35 | SELL | BUY |

Company Name: Nestle Nigeria Plc.

| Date | Price (N) | Previous Price(N) | Target | New Target Price (N) | Previous Recommendation | New Recommendation |
|-------------|-----------|-------------------|--------|----------------------|-------------------------|--------------------|
| 23-Aug-2022 | 1,300.00 | 1,540.92 | | 1,563.87 | HOLD | BUY |

Company Name: Unilever Nigeria Plc.

| Date | Price (N) | Previous Price(N) | Target | New Target Price (N) | Previous Recommendation | New Recommendation |
|-------------|-----------|-------------------|--------|----------------------|-------------------------|--------------------|
| 23-Aug-2022 | 13.50 | 15.07 | | 15.58 | HOLD | BUY |

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| Company | Disclosure |
|------------------------------|------------|
| NASCON Allied Industries Plc | |
| UAC of Nigeria Plc | |
| Cadbury Nigeria Plc | |
| Nestle Nigeria Plc | |
| Unilever Nigeria Plc | |

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- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Movements in Price Target

Company Name: Flour Mills Of Nigeria Plc

| Date | Price (N) | Previous Price(N) | Target | New Target Price (N) | Previous Recommendation | New Recommendation |
|------------|-----------|-------------------|--------|----------------------|-------------------------|--------------------|
| 23-Aug -22 | 29.05 | 45.79 | | 45.79 | BUY | BUY |

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| Company | Disclosure |
|----------------------------|------------|
| Flour Mills Of Nigeria Plc | |

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