

## Impressive Performance Despite Cost Pressures

### Highest Quarterly Revenue in Q4:2022 Standalone

NASCON's revenue grew strongly in 2022FY to NGN58.79bn, topping its performance in 2021FY by 76.64%YoY. The firm recorded higher revenue from both of its operating segments – *Salt (+79.80%YoY) and Seasoning (+49.86%YoY)* – on the back of price increments implemented across its products (salt and Classic seasoning cubes) as well as higher sales volume recorded during the period. **NASCON's** effort to increase marketing activities in the Western region and leverage brand loyalty in the Northern region helped sustain performance as it recorded double-digit growth across all regions: North (+96.55%YoY), West (+46.50%YoY) and East (+30.14%YoY). We also observed that the firm recorded its highest quarterly revenue (NGN18.18bn) in Q4:2022, a performance we attribute to festivity-linked consumption in the period. **We remain optimistic about the firm's topline prospects in 2023 given that it operates a discounted pricing strategy compared to other brands in the sector. Thus, this should sustain demand in the face of dwindling consumer wallets. The influx of unbranded smuggled products and stiff competition from other brands could however portend downside risks to the expectation. The aforementioned uptick in product prices could also impact its topline as significant increases in prices have typically led to lower sales volume in the past (2017/2018). Premised on this, we model a modest 9.88% growth in topline to NGN64.59bn.**

### Inflationary Environment Keep Costs Pressured

Trailing the expansion in revenue, production costs expanded by 60.62%YoY in 2022FY, influenced by higher raw materials costs (+69.04%YoY) and manufacturing expenses (+63.20%YoY). Nonetheless, cost to sales ratio improved to 58.25% (vs. 64.06% in 2021FY). Anchored on the increase in energy costs, delivery expenses (c.68% of OPEX) increased by 126.64%YoY, leading **NASCON's** operating expenses up by 59.91%YoY to NGN15.18bn (vs NGN9.49bn in 2021FY). We note that while the operating margin remained sturdy, improving to 14.76% (vs. 12.97% in 2021FY), it remains lower than its 5-year average of 15.17%. The firm's finance cost also increased significantly by 433.83%YoY following the increase in its debt obligations (NGN4.79bn usance facility at 13.60%) and higher lease liabilities (+9.95%YoY), with interest coverage declining to 12.48x (from 33.16x and 4-year average of 20.52x).

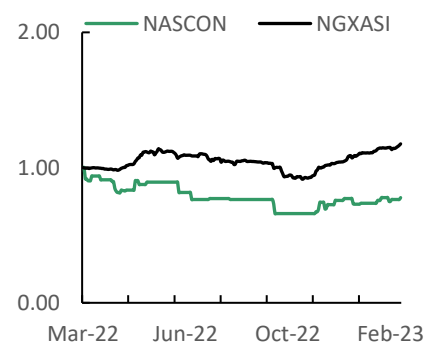
### ...Margins However Remain Sturdy

**NASCON** recorded a higher effective tax rate of 34.69% (vs 29.90% in 2021FY) exerting further pressure on net income which was pegged at NGN5.47bn (+84.09%YoY). The financial performance during the period improved shareholders' returns on equity as it ticked up to 28.72% (from 20.31% in 2021FY) on the back of higher net margin, asset turnover and financial leverage to 9.30%, 1.06x and 2.92x (vs. 8.93%, 0.82x and 2.77x in 2021FY), respectively. **We however highlight that while the 2022FY performance conveys an improvement from 2021FY levels, the firm has recorded higher profitability margins in prior years (before 2019). The firm's management would need to continue implementing techniques to ensure the increase in product prices does not negatively impact on its sales volumes. We project a 6.76%YoY improvement in earnings to NGN5.84bn for 2023FY hinged on our optimistic projection for revenue performance.** The short-term facility obtained during the year propped up its cash and inventories balance, leading current, quick and cash ratios up to 1.28x, 1.01x, and 0.43x (from 1.12x, 0.90x, and 0.35x in 2021FY), signaling a stronger liquidity position.

### Recommendation

We project a 2023FY target price of NGN13.17 based on our EPS forecast of NGN2.20 and target P/E ratio of 5.99x. This represents a 7.95% upside based on the closing price on the 10<sup>th</sup> of March 2023. Hence, we rate the ticket **"HOLD"**.

Company	NASCON
<b>Valuation (Trailing)</b>	
Trailing EPS	2.06
BVPS	7.19
P/E	5.92x
P/BV	1.70x
Target PE	5.99x
Dec-2022 Exp. EPS	2.20
Dec 2022 Target price	<b>13.17</b>
Current Price	12.20
Up/Downside Potential	+7.95%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	28.72%
ROA	15.62%
Net margin	9.30%
Asset Turnover	1.06x
Leverage	2.92x
Yr Hi	NGN12.20
Yr Lo	NGN10.50
YTD return	9.91%
Beta	0.49
Adjusted Beta	0.66
Shares outstanding	2.65bn
Market cap [NGN]	32.32bn
Financial year end	December
Most Recent Period (MRP)	2022FY



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**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	11.17
						Max	15.38
						EPS	
						2.04	2.12
						2.20	2.28
						2.37	
Target PE	5.5x	11.17	11.61	12.07	12.53	13.00	
	5.7x	11.68	12.14	12.62	13.10	13.60	
	6.0x	12.19	12.67	13.17	13.67	14.19	
	6.2x	12.70	13.20	13.72	14.24	14.78	
	6.5x	13.21	13.73	14.27	14.81	15.38	

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

<i>Profit &amp; Loss Account</i>	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Revenue	33.27	58.79	64.59	78.42	99.71	148.56	174.97
Cost of sales	21.32	34.24	37.11	47.94	56.33	83.84	98.77
Gross profit	11.96	24.54	27.48	30.48	43.38	64.72	76.20
Operating expense	9.49	15.18	18.05	18.35	23.32	34.96	40.77
Net FX gain/ (loss)	1.04	-0.37	0.03	0.04	0.05	0.07	0.09
Operating profit	4.32	8.67	10.66	13.56	21.74	31.36	37.30
Finance cost	0.13	0.69	0.06	0.06	0.06	0.06	0.06
PBT	4.24	8.37	8.59	11.06	19.16	28.54	34.28
PBT	2.97	5.47	5.84	7.52	13.03	19.41	23.31
<i>Balance Sheet</i>	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	14.06	12.47	13.41	13.53	14.32	16.43	19.90
Total Debt	3.68	8.83	0.04	0.04	0.04	0.04	0.04
Total Assets	40.52	55.53	62.41	82.94	105.15	150.13	186.24
Total Equity	14.63	19.04	15.91	22.29	34.12	52.34	74.06
Total Current Liabilities	20.22	30.49	39.90	54.05	64.43	91.16	105.49
Non-Current Liabilities	5.67	5.60	6.59	6.60	6.60	6.64	6.69
Total Liabilities	25.89	36.49	46.50	60.66	71.02	97.79	112.18
<i>Financial Ratios</i>	2022A	2022A	2023F	2024F	2025F	2026F	2027F
Gross Margin	35.94%	41.75%	42.54%	38.87%	43.51%	43.56%	43.55%
Operating Margin	12.97%	14.76%	16.51%	17.29%	21.80%	21.11%	21.32%
Net Margin	8.93%	9.30%	9.04%	9.59%	13.06%	13.07%	13.32%
Return on Asset	7.47%	15.62%	7.90%	7.99%	10.21%	11.54%	12.52%
Return on Equity	20.31%	28.72%	30.57%	26.66%	30.13%	30.71%	31.48%
Return on Invested Capital	33.06%	73.83%	31.43%	33.35%	37.88%	36.78%	31.21%
Asset Turnover	0.82x	1.28x	1.07	1.06	1.06	1.16	1.04
Financial Leverage	2.77x	2.92x	2.96	3.87	3.33	2.95	2.66
Current Ratio	1.12x	1.28x	1.12	1.21	1.34	1.41	1.53
Quick Ratio	0.91x	1.01	0.96	1.01	1.15	1.22	1.34

(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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## Movements in Price Target

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**Company Name:** NASCON Allied Industries Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
10-Mar-23	12.20	15.80	13.17	BUY	HOLD

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NASCON Allied Industries Plc	

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