

## First Quarter Sustains Rocky Performance

### ...As UACN Records Underwhelming Topline Performance

In 2022FY, United Africa Company of Nigeria (**UACN**) recorded revenue of NGN109.27bn, representing a growth of 7.79% YoY compared to NGN101.38bn in 2021FY. This performance was largely supported by the increase in the number of corporate stores (Mr. Bigg's and Debonairs Pizza), an upward review of prices across the Animal Feed products lines – *which contributes c.58% to revenue* – (oils, concentrates and poultry and fish feeds), and new retail stores in the Paint segment. Thus, save for the Packaged goods segment (-1.69%YoY), the firm recorded topline growth across all its business segments; Quick Service Restaurant (QSR: +39.27% YoY), Animal Feeds and Other Edibles (+5.85% YoY), and Paints (+25.14%YoY). This momentum however reversed in Q1:2023 financial period on account of two major factors: the cash crunch witnessed in the economy which impacted the animal feeds segment, and the slowdown in distribution due to the general elections. Bolstered by the newly opened corporate stores, only the QSR segment recorded an uptick in revenue (+59.22% YoY). Revenue declined across other business segments in Q1:2023; Animal Feeds and Other Edibles (-10.16% YoY), Paints (-14.69% YoY), Packaged foods (-17.30%YoY). Cumulatively, topline in Q1:2023 declined by 11.01% YoY, the first Q1 revenue decline since Q1:2021. **Going further in 2023, we expect a rebound in topline performance anchored on the firm's corporate strategies which include the expansion of its finished goods storage, continued increase in retail outlets and product diversification. Thus, we project an 8.05% topline expansion in 2023FY. Dwindling consumer purchasing power and the heightened competitive environment constitute the major downside risks to this projection. Based on the aforementioned factors, we project an 8.05% topline expansion in 2023FY.**

### Profitability Buckles Under Rising Costs

Outpacing topline growth, production costs in 2022FY increased by 13.35% YoY due to higher raw materials (+10.31% YoY) and direct labor expenses (+14.82% YoY). This mirrored the spiraling inflationary environment and the rise in cost of its imported raw materials (including maize, wheat, sugar, resin, flour, and soya beans). Cost-to-sales ratio, thus, worsened to 86.97% (vs 82.70% in 2021FY and a five-year average of 81.07%). Likewise, **UACN's** operating expense (OPEX) spiked by 16.61% YoY owing to the increase in distribution (+44.04% YoY), electricity (+76.38% YoY), marketing (+61.25% YoY) and royalty fees (+25.55%YoY). UACN ended 2022FY in a loss (**NGN4.00bn** vs NGN2.59bn in 2021FY) owing to a significant operating loss from the animal feed segment and a fair value loss on investment properties.

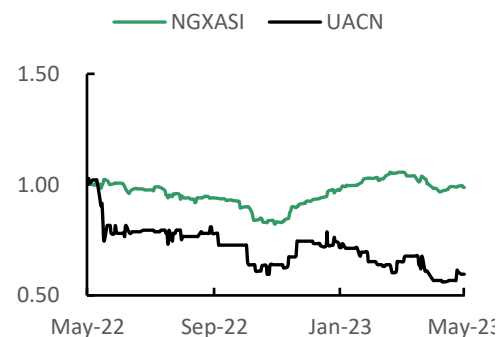
For Q1:2023 financial period, production costs declined by 5.53%, in line with the decline in revenue. Cost to sales ratio, however, remained worse at 86.68% (vs 81.65% in Q1:2022). On the contrary, OPEX advanced by 13.43% YoY as distribution (+19.34% YoY), marketing (+11.80% YoY) and electricity expenses (+31.15% YoY) increased, leading to an operating loss and operating loss margin of **NGN700.26mn** and **2.84%** (vs. operating profit and operating profit margin of NGN1.87bn and 6.75% Q1:2022). We note the 48.67% reduction in finance cost rising from exchange gains and decline in interest bearing liabilities (-6.06%) due to repayment of some short-term loans. Overall, the firm recorded Loss After Tax of **NGN1.16bn** in Q1:2023 from a net profit of NGN0.64bn in Q1:2022). **While we expect the increase in revenue to support earnings in 2023FY, we consider the mounting cost pressure as the major risk to earnings. The unimpressive first quarter result is also expected to dampen earnings prospects for 2023FY. Therefore, we expect the net income and margin to settle at NGN290.54mn and 0.24%.**

We also note the deterioration in **UACN's** liquidity position: Current, Quick and cash ratio declined to 1.10x, 0.50x and 0.32x in Q1:2023 (from 1.11x, 0.54x and 0.38x in 2022FY). This stemmed from higher trade payables (+17.96%) and income tax liabilities (+5.56%), signaling a reduced ability to meet short-term obligations as they rise.

### Recommendation

We project a 2023FY expected book value per share of NGN15.96 and a target PB of 0.68x. This yields a target price of NGN10.85 and implies an upside potential of 29.20% based on the closing price on May 15<sup>th</sup>, 2023. Hence, we rate the ticker a **BUY**.

Company	UACN
<b>Valuation (Trailing)</b>	
Trailing EPS	NGN-1.98
BVPS	15.11
P/E	-4.24x
P/BV	0.56x
Target PB	0.68x
Dec-2023 Exp. BVPS	15.96
Dec 2023 Target price	<b>10.85</b>
Current Price	8.40
Up/Downside Potential	<b>+29.20%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	-12.96%
ROA	-6.19%
Net margin	-5.46%
Asset Turnover	1.13x
Leverage	2.10x
Yr Hi	NGN10.75
Yr Lo	NGN7.90
YTD return	-16.59%
Beta	0.74
Adjusted Beta	0.82
Shares outstanding	2.93bn
Proposed DPS	NGN0.14
Market cap [NGN]	24.58bn
Financial year-end	December
Most Recent Period (MRP)	Q1:2023



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	2.66
BVPS						Max	20.29
		14.77	15.35	15.96	16.57	17.20	
Target PB	0.2x	2.66	2.76	2.87	2.98	3.10	
	0.4x	6.35	6.60	6.86	7.12	7.39	
	0.7x	10.04	10.44	10.85	11.27	11.69	
	0.9x	13.74	14.28	14.84	15.41	15.99	
	1.2x	17.43	18.12	18.83	19.55	20.29	

Financial Highlights and Forecasts (NGN billion)

<i>Profit &amp; Loss Account</i>	Q1:2022A	Q1:2023A	2023F	2024F	2025F	2026F	2027F
Revenue	27.67	24.62	119.34	132.29	146.01	162.82	180.36
Cost of sales	22.59	21.34	102.30	112.00	124.96	137.30	153.30
Gross profit	5.08	3.28	17.03	20.29	21.06	25.51	27.06
Operating expense	3.66	4.16	17.60	18.76	18.98	17.91	19.84
Operating profit	1.87	-0.70	1.21	3.85	4.64	10.49	10.37
Other income	0.46	0.17	1.81	2.33	2.57	2.87	3.17
Finance income	0.36	0.24	1.42	0.85	1.12	1.78	1.18
Finance cost	-0.91	-0.23	2.29	2.90	3.10	3.33	3.74
PBT	0.98	-0.94	0.43	1.90	2.78	9.07	7.95
PAT	0.64	-1.16	0.29	1.29	1.89	6.17	5.41
<i>Balance Sheet</i>	2022FY	Q1:2023	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	25.04	24.60	28.16	31.81	35.34	39.01	43.49
Total Debt	20.59	19.39	20.90	23.00	25.29	26.56	27.89
Total Assets	93.83	93.72	99.45	110.24	121.68	135.68	150.30
Total Equity	41.96	41.21	46.69	46.96	47.70	49.92	51.52
Total Current Liabilities	42.57	43.39	43.37	52.37	61.49	71.73	83.08
Non-Current Liabilities	5.98	6.10	7.79	9.00	10.26	11.43	12.71
Total Liabilities	48.55	49.50	51.16	61.37	71.74	83.16	95.79
<i>Financial Ratios</i>	2022FY	Q1:2023	2023F	2024F	2025F	2026F	2027F
Gross Margin	17.30%	13.32%	14.27%	15.34%	14.42%	15.67%	15.01%
Operating Margin	4.96%	-2.84%	1.01%	2.91%	3.18%	6.44%	5.75%
Net Margin	2.56%	-4.71%	0.24%	0.98%	1.29%	3.79%	3.00%
Return on Asset	2.77%	-1.24%	0.29%	1.17%	1.55%	4.54%	3.60%
Return on Equity	5.74%	-2.62%	0.62%	2.75%	3.96%	12.35%	10.49%
Return on invested capital	5.53%	-2.46%	4.70%	6.62%	7.15%	13.08%	12.61%
Asset Turnover	1.08	0.26	1.75	1.74	1.71	1.67	1.66
Financial Leverage	2.07	2.12	2.13	2.35	2.55	2.72	2.92
Current Ratio	1.11	1.11	1.20	1.09	1.02	0.98	0.94
Quick Ratio	1.25	0.54	0.58	0.52	0.47	0.42	0.39

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

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

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**Company Name:** UAC of Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-May-23	8.40	10.96	10.85	HOLD	BUY

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Company	Disclosure
UAC of Nigeria Plc	

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