

Cost Efficiency Props Profitability

Topline Improvement Anchored on Price Increment

Despite the myriad of challenges facing the consumer goods sector, NASCON Allied Plc (**NASCON**) in the first half of 2023 proved its mettle. The firm's topline expansion was propped by price increments across its salts and seasoning segments compared to the same period last year. The firm also recorded higher sales volume from sale of salt in the B2C (Sachet) market, compared to the edibles. In addition, a new seasoning product (*Dangote Classic*) was introduced in the Northern region (its main seasoning market). Thus, **NASCON's** revenue increased by 51.89%YoY to NGN38.17bn (from NGN25.13bn in H1:2022). We note that a significant portion of the overall topline performance was recorded in Q2:2023 standalone where revenue increased by 48.01%YoY to NGN21.26bn (from NGN14.37bn in Q2:2022). We opine that the resolution of the macroeconomic challenges (like currency crisis and electioneering activities) which impacted the firm's Q1:2023 performance and the increase in demand for seasoning product in the North due to festivities in Q2:2023 boosted the firm's revenue for Q2:2023 standalone. On a regional basis, we highlight that the Northern region remains the major contributor (c.72%) of the firm's total revenue expanding by 60.85%YoY, while the Eastern (+60.76%YoY) and Western (+26.64%YoY) regions also recorded significant upticks. **We expect the introduction of the new seasoning products in the North to continually boost performance for the second half of the year. While we highlight that the inflationary environment is bound to pressure consumer wallets, we expect the essential nature of salt products to sustain revenue for the firm despite the aforementioned price increments. The influx of unbranded smuggled products and the stiff competition in the salt and seasoning markets could however portend downside risks to the expectation. Premised on this, we model a 26.28% growth in topline to NGN74.23bn.**

Margins Undeterred by Rising Costs

Despite the tense inflationary environment, discounted pricing strategy and significant increase in revenue, **NASCON's** production cost increased by 14.59%YoY to NGN19.20bn vs NGN16.76bn in H1:2022. Thus, its cost to sales ratio declined to 50.32% (from 66.69% and 5-year average of 62.04%). In our view, this highlights the firm's effective cost management and buttresses the fact that the increase in topline performance was anchored more on price increments across products. The minimal increase in production cost was mainly influenced by higher raw materials cost (+13.96%YoY) and manufacturing expenses (+29.99%YoY). Gross margin thus increased to 49.68% vs 33.31% in H1:2022). The firm's operating expenses shot up by 59.24%YoY to NGN10.26bn (from NGN6.44bn) on the back of an increase in delivery expenses by 70.58%YoY as the firm relies on third party distributors. A new salary structure was also implemented during the period resulting in a 63.32%YoY increase in employee cost. Operating profit margin however remained sturdy improving to 23.06% (from 9.40% in H1:2022). We note the +119.01%YoY increase in finance costs, anchored on the +184.21% YoY upshoot in current debt obligations (letters of credit obtained for importation). Nevertheless, interest coverage improved to 18.09x (from 10.63x).

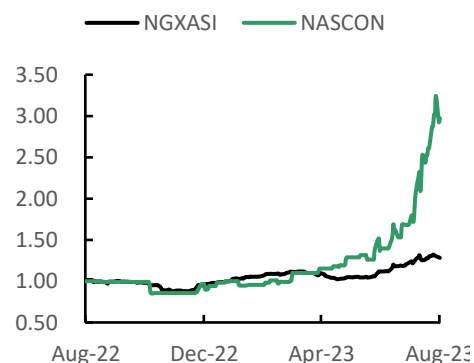
Supported by the increase in topline and lower production cost pressure, **NASCON's** profit after taxes increased by 279.21%YoY to NGN5.82bn from NGN1.54bn in H1:2022). The financial performance during the period improved trailing shareholders' returns on equity as it shot up to 47.29% (from 18.15% in H1:2022) mainly propped by higher net margin (15.25% vs 6.11%), while asset turnover (1.16x vs 0.85x) and financial leverage (3.01x vs 2.85x).

FX Revaluation to Dampen Liquidity Metrics

Despite the 116.44% increase in trade receivables (due to revaluation gains), the firm's liquidity metrics worsened: Current, quick and cash ratio increased to 1.12x, 0.85x and 0.36x (from 1.28x, 1.01x and 0.43x in 2022FY). We view the 43.66% increase in trade payables to its related party; Bulk Commodities Limited (*responsible for the importation of its raw salt*), which lead current liabilities higher by 32.33% as the major catalyst for this decline in liquidity metrics. Going forward, we expect trade payables to increase further due to impact of FX devaluation and higher raw materials cost for the related company.

For the rest of the year, while we expect cost pressures to continue weighing on the firm. We opine that the firm's existing cost management strategies would help to cushion its impact on prices and profitability. We project a 66.87% YoY improvement in earnings to NGN9.13bn for 2023FY hinged on our optimistic projection for revenue performance.

Company	NASCON
Valuation (Trailing)	
Trailing EPS	3.68
BVPS	8.38
P/E	8.83x
P/BV	3.88x
Target PE	9.48x
Dec-2022 Exp. EPS	3.44
Dec 2023 Target price	32.64
Current Price	32.50
Up/Downside Potential	+0.43%
Ratings	HOLD
Key metrics	
ROE	47.29%
ROA	15.73%
Net margin	15.25%
Asset Turnover	1.16x
Leverage	3.01x
Yr Hi	NGN36.00
Yr Lo	NGN10.50
YTD return	+192.79%
Beta	0.72
Adjusted Beta	0.81
Shares outstanding	2.65bn
Market cap [NGN]	86.11bn
Financial year end	December
Most Recent Period (MRP)	H1:2023



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Recommendation

We project a 2023FY target price of NGN32.64 based on our EPS forecast of NGN3.44 and target P/E ratio of 9.48x. This represents a 0.43% upside based on the closing price on the 1st of August 2023. Hence, we rate the ticket "HOLD".

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	28.61			
						Max	37.02			
						EPS				
						3.19	3.31	3.44	3.58	3.71
Target PE	9.0x	28.61	29.74	30.92	32.09	33.31				
	9.2x	29.41	30.57	31.78	32.99	34.24				
	9.5x	30.21	31.40	32.64	33.88	35.17				
	9.7x	31.00	32.23	33.50	34.77	36.10				
	10.0x	31.80	33.06	34.36	35.67	37.02				

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2022A	H1:2023A	2023F	2024F	2025F	2026F	2027F
Revenue	33.27	58.79	74.23	97.51	133.79	213.09	272.45
Cost of sales	16.76	19.20	40.59	59.59	75.55	120.22	153.74
Gross profit	8.37	18.96	33.65	37.92	58.24	92.87	118.71
Operating expense	0.00	0.00	19.27	22.66	31.04	49.70	63.48
Net FX gain/ (loss)	6.44	10.26	0.04	0.05	0.07	0.11	0.14
Operating profit	2.36	8.80	15.80	16.91	29.12	45.02	57.41
Finance cost	-0.22	-0.49	0.35	0.16	0.13	0.20	0.20
PBT	2.27	8.63	13.42	14.26	26.34	41.80	53.80
PBT	1.54	5.82	9.13	9.70	17.91	28.42	36.58
Balance Sheet	2022A	H1:2023A	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	14.06	12.47	13.71	14.35	16.05	19.84	25.81
Total Debt	3.68	8.83	0.04	0.04	0.04	0.04	0.04
Total Assets	40.52	55.53	71.81	100.35	135.46	206.14	273.69
Total Equity	14.63	19.04	19.20	27.75	44.48	71.71	106.70
Total Current Liabilities	20.22	30.49	46.01	66.00	84.38	127.80	160.30
Non-Current Liabilities	5.67	5.60	6.59	6.60	6.60	6.64	6.69
Total Liabilities	25.89	36.49	52.61	72.60	90.98	134.43	166.99
Financial Ratios	2022A	H1:2023A	2023F	2024F	2025F	2026F	2027F
Gross Margin	33.31%	49.68%	45.33%	38.89%	43.53%	43.58%	43.57%
Operating Margin	9.40%	23.06%	21.28%	17.34%	21.77%	21.13%	21.07%
Net Margin	6.11%	15.25%	12.29%	9.94%	13.39%	13.34%	13.43%
Return on Asset	5.50%	15.73%	10.60%	8.22%	10.49%	11.85%	13.37%
Return on Equity	18.15%	47.29%	38.88%	26.85%	30.84%	31.86%	34.29%
Return on Invested Capital	24.71%	38.24%	42.65%	34.76%	40.07%	39.44%	34.07%
Asset Turnover	0.85x	1.16x	1.17x	1.13x	1.13x	1.25x	1.14x
Financial Leverage	2.85x	3.01x	2.91x	3.67x	3.26x	2.94x	2.69x
Current Ratio	1.28x	1.30x	1.17x	1.24x	1.36x	1.41x	1.51x
Quick Ratio	1.13x	1.19x	1.01x	1.04x	1.16x	1.22x	1.31x

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

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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.

Movements in Price Target

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
07-Jul-2023	21.00	13.17	20.13	HOLD	HOLD
01-Aug-2023	32.50	20.13	33.35	HOLD	HOLD

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NASCON Allied Industries Plc	

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