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# Shifting Landscape for Consumer Goods Players

Consumer Goods Sector Update | December 2023

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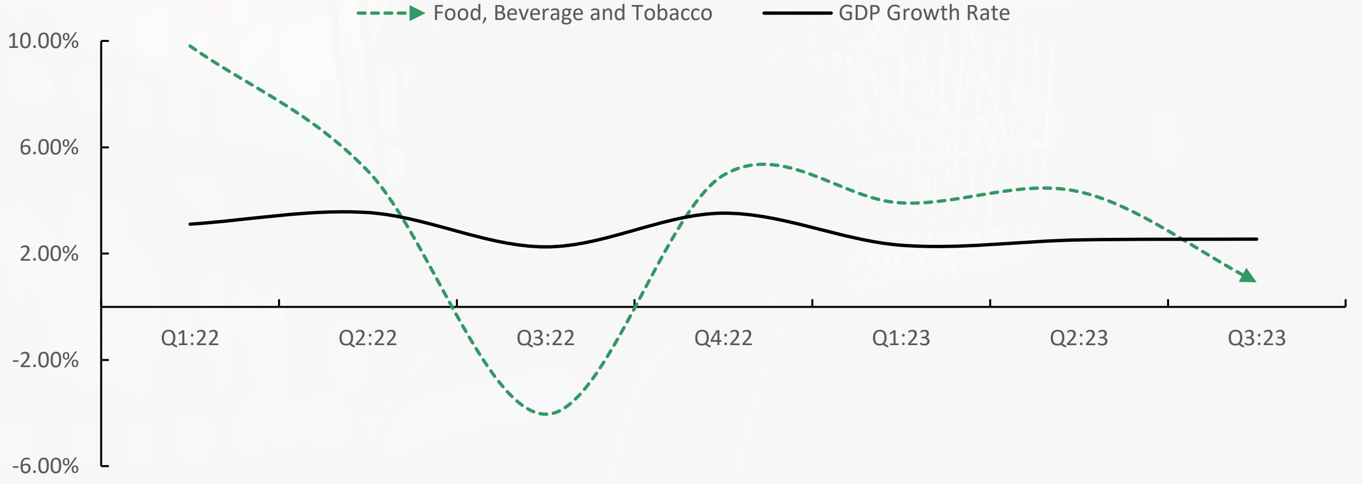
# A Glimpse of The Nigerian Consumer Goods Sector Landscape

The Nigerian consumer goods sector is a crucial pillar of the nation's economy and a reliable gauge of consumer sentiment and economic stability. Beyond being an assembly of companies engaged in production and distribution, the Nigerian consumer goods sector serves as a dynamic reflection of the collective consumption patterns, preferences, and lifestyles that define Nigerians at any given time. This multifaceted sector spans a wide spectrum of products, encompassing everything from the fundamental necessities of food and beverages to personal care items, electronics, and beyond. In essence, it encapsulates the ever-shifting dynamics of economic trends and consumer behaviour. The Food and beverage industry in Nigeria has since held its position as the largest subsector of the manufacturing industry, contributing about 49.01% to manufacturing sector GDP as at Q3:2023.

While the sector is often characterized by its resilience, it has not remained impervious to the profound macroeconomic headwinds that have swept across the nation in recent times, with the food and beverage sector showing a declining trend since Q1:2022 (where it recorded its highest growth rate of 9.81%). As a result, there was a drop in the growth of the food and beverage sector, falling further to 0.92% YoY in Q3:2023, compared to -4.05% YoY in Q3:2022 and 4.94% YoY in Q4:2022.

Reflecting the broader macroeconomic terrain of the nation, the consumer goods sector has grappled with a host of pervasive challenges. These challenges range from foreign exchange shortages and the Naira devaluation, lower purchasing power of consumer due to the unabated inflationary pressures, the rising cost of commodities, amongst others.

**Chart 1: Sectoral Contribution to GDP**



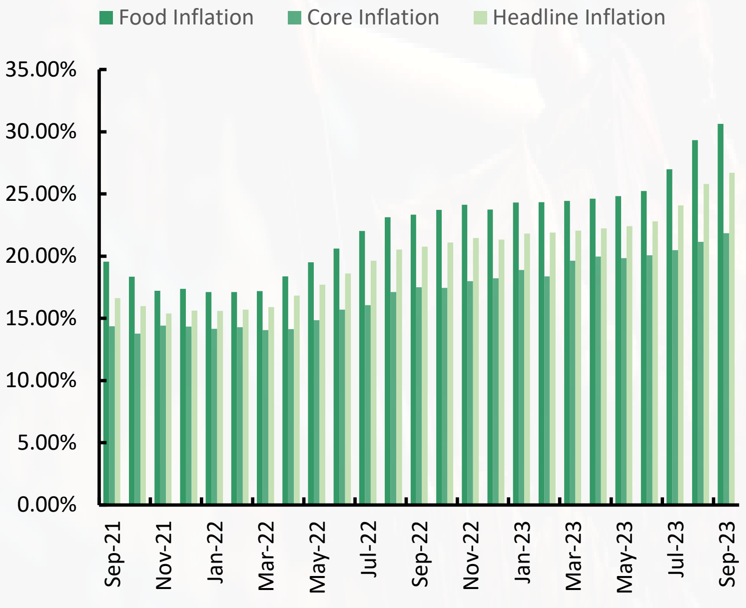

Source: NBS, Meristem Research

# The Consumer Goods Sector in Inflation's Wake

With the country's inflation reaching its highest levels in over 18 years (28.20% YoY as of November 2023), fundamental aspects such as consumer behavior, purchasing power, and spending patterns have all felt the tremor, leaving an indelible mark on the industry's overall dynamics. Notably, persistent supply chain challenges have played a significant role in this inflationary surge.

Factors such as inadequate infrastructure, security concerns in food-producing regions, and the rising cost of fuel, which has driven up transportation expenses for agricultural products, have collectively contributed to the steady increase in food prices throughout the year. As a result, food inflation has reached an alarming 32.84%, marking its highest level in 18 years.

## Chart 2: Nigeria's Inflation Trend (YoY Change)



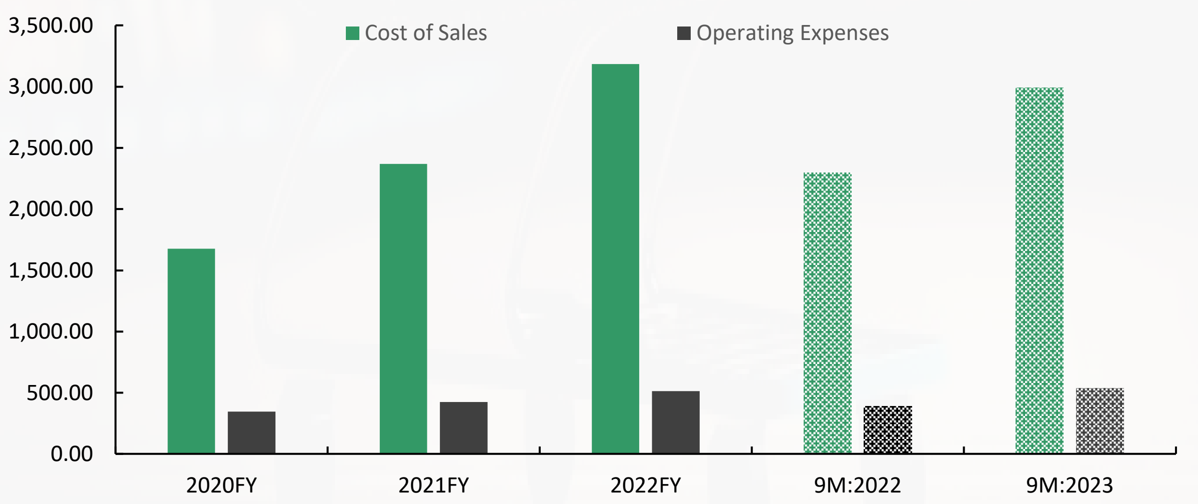

Source: NBS, Meristem Research

The high inflation rate exerted significant pressure on production costs within the consumer goods sector, particularly affecting food and beverage manufacturers. The increased costs of essential raw materials such as grains, dairy, and meat directly impacted production, leading companies to either absorb these expenses or pass them on to consumers through higher prices. Notably cost of sales for companies under our coverage spiked by 30.12% YoY to NGN2.99trn in 9M:2023 from NGN2.30trn in 9M:2022.

Furthermore, following the removal of fuel subsidies, the price of Premium Motor Spirit (PMS) soared by approximately 240%, rising to around NGN550-620 per liter from its prior rate of NGN180-190 per liter. This led to increased transportation costs for agricultural products, consequently driving a spike in food prices. Moreover, the repercussions of this price surge extended beyond food costs, significantly impacting distribution expenses for companies and amplifying the financial burden on both these companies and the general public due to elevated fuel expenses.

Specifically, operating expenses for the companies under our coverage increased to NGN537.17bn (+38.84% YoY) in 9M:2023 from NGN387.90bn in the previous period. Subsequently, the price of PMS has continued to climb, reaching NGN600/ltr as of October 2023, further amplifying costs for consumer goods players.

## Chart 3: Industry Cost of goods and Operational expenses (NGN'bn)




Source: Company Financials, Meristem Research

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## Counting the Costs: Consumer Goods Sector in a Devalued Naira Era

Sequel to the liberalization of FX windows in June 2023, the value of the Naira against the greenback devalued significantly by c.45%. By December 2023, it had reached an all-time low, trading at NGN1099.55/USD in the official window and NGN1310/USD in the parallel market. This depreciation of the national currency has left an indelible mark on consumer goods companies, particularly those heavily reliant on the importation of raw materials for their production processes.

For majority of companies in the consumer goods sector, which heavily rely on the importation of raw materials, the weakened Naira translated into significantly higher import bills, thereby leading to a substantial increase in production costs. Moreover, companies holding foreign currency-denominated debts, like Nigerian Breweries Plc (**NB**), Nestle Nigeria Plc (**NESTLE**), and Guinness Nigeria Plc (**GUINNESS**), Cadbury Nigeria Plc (**CADBURY**), faced higher debt burdens, more expensive letters of credit and substantial foreign exchange losses due to the debt revaluation.

This placed significant strain on the profitability for these industry players, leading a number of these players to report after-tax losses for both Q2:2023 and Q3:2023.

As of 9M:2023, foreign exchange losses for major players in the industry stood at NGN472.35bn, further underscoring the magnitude of the challenge posed by the Naira's depreciation on the financial health of consumer goods companies.

Therefore, our outlook for the consumer goods sector in Q4:2023 is mixed. While positive signs, such as anticipated price hikes and robust sales during the festive season, are set to drive increased revenue, several concerns cast shadows over this outlook. The ongoing inflation surge, coupled with the naira's continued depreciation and challenges in foreign exchange liquidity, are expected to weigh on companies' profitability.

Consequently, for the 2023 fiscal year, companies like **UACN**, **UNILEVER**, **NASCON**, and **BUAFOODS** are anticipated to log profits due to expected revenue growth and their controlled exposure to FX risks. In contrast, companies like **NB**, **GUINNESS**, and **NESTLE** are likely to report end-of-year losses, primarily due to their heightened exposure to foreign exchange risks, negatively impacting profitability.

## On Corporate Actions: A New Wave?

Given the afore-mentioned challenges and impact of Nigeria's operating environment on the consumer goods sector, some firms have taken several measures to respond and protect profit margins. We note the wave of corporate and strategic actions by several major companies, including Unilever Nigeria Plc, Guinness Nigeria Plc, PZ Cussons Plc, Dangote Sugar Refinery Plc, and NASCON Allied Industries Plc.

Taking a strategic move to bolster the group's positioning and capitalize on broader market opportunities within the consumer goods industry, **DANGSUGAR** announced its proposed merger with **NASCON** and Dangote Rice Limited (**DRL**). This merger is structured via a scheme of arrangement, offering eleven (11) shares for every twelve (12) shares to **NASCON** shareholders and fourteen (14) shares for every one (1) share to **DRL** shareholders.

Earlier this year, **UNILEVER** made strategic changes in its business by phasing out two segments of its operations, specifically the Home Care and Skin Cleansing. This move will impact major brands within its product portfolio, including - OMO, Sunlight, Rexona, Whitening, Dove, Lifebuoy, Vaseline and Lux. The decision was prompted by challenges within Nigeria's operating environment and increased cost pressures, compelling the company to streamline its operations.

However, the company remained committed to its food segment (Knorr and Royco seasoning), focusing on driving growth across its broader brand portfolio while implementing process simplification initiatives to enhance its overall business performance.
We however note that stiff competition exists within the seasoning segment and **UNILEVER** will have to make further strategic moves to improve market share

**GUINNESS** also announced its decision to cease the importation and distribution of select Diageo international premium spirits products (Johnnie Walker, Singleton, and Baileys and others) by April 2024 as another fallout of the recent and further expected exchange rate devaluation in the domestic market.

According to the company, the divestment aligns with their long-term growth strategy and corresponds with its parent company's decision to establish a new, wholly-owned entity dedicated to managing the importation and distribution of its international premium spirits portfolio in West and Central Africa. We opine that this move will have minimal impact on **GUINESS's** financial performance in 2024FY. We also expect the firm's production costs to moderate following this divestment which should help improve profitability metrics.

Elsewhere, **PZ** disclosed its intensions to delist from the Nigerian Stock Exchange (NGX), highlighting that PZ Cussons UK (the parent company of **PZ**) offered to buy out minority shareholders of **PZ** at price of NGN23.00 via a scheme of arrangement. The company cited reasons relating to the need to simplify its business operations and keep the company on a path of growth.
While the aforementioned companies have chosen to divest a portion of their business, delist from the exchange or merge, US-based multinational corporation, Procter and Gamble (P&G), has announced its intention to exit the Nigerian market completely.

This development was due to the operational hurdles faced by the company amid a challenging macroeconomic environment and the persistent effects of Naira devaluation on its operations. Consequently, the company has decided to shift towards an import-only operational model.

Moving forward, into 2024, we anticipate more players in the industry to engage in business restructuring, strategic acquisitions, and expansions to sustain profitability and navigate the challenging operating conditions in the Nigerian market. Despite ongoing struggles with rising costs due to inflation and substantial FX losses affecting their bottom line, we foresee consumer goods companies adapting their product categories to remain relevant and innovative, aiming to stay ahead of the curve in serving evolving consumer needs.

The recent departure of consumer goods companies from the local market due to challenges holds significant implications for consumers and other industry players. We anticipate price hikes in consumer products due to decreased supply, leaving consumers with limited access to alternative products. Additionally, there's a possibility that other market players might exploit this situation by raising their product prices.

On the other hand, this presents an opportunity for the remaining market players (especially those in the home care and skin cleansing market) to increase market share by expanding their product portfolio and improving profitability.

Lastly, we note that without lasting government interventions to alleviate the operational challenges faced by these manufacturers, we might see further scaling down or exits by consumer goods companies in Nigeria.

## Industry Characteristics

| Porters Five Force | Intensity of threat | Reasons |
|---|---|---|
| Threat of new Entrant | Moderate | ✓ The Nigerian consumer goods industry is fragmented, featuring established and smaller players, making it relatively easy for new firms to enter the market.<br>✓ Government regulations deters new entrants due to policy requirements. |
| Competitive Landscape | High | ✓ Intense competition in the Nigerian FMCG sector due to similar offerings among players, driving market share battles.<br>✓ The informal nature of the market and the existence of counterfeit products impact consumer demand. |
| Bargaining Power of Buyers | High | ✓ Consumers hold substantial leverage as switching costs from one FMCG product to another is typically low.<br>✓ Low consumer loyalty due to varied options in low-involvement, inexpensive products. |
| Bargaining Power of Suppliers | Moderate | ✓ The presence of alternative suppliers and readily accessible raw materials .<br>✓ Suppliers influence the industry by determining the level of supply of key inputs that are available to firms. |
| Threat of Substitutes | High | ✓ Evolving consumer tastes and preferences.<br>✓ Some factors contribute to this threat of substitute products such as price and affordability, quality of FMCG products, as well as the availability in the market. As a result, players in the market must intensify their efforts on product innovation and branding to differentiate their products. |

## The Flour Milling Sub-sector

The flour milling sector is a dynamic industry that produces a diverse range of flours by blending traditional techniques with state-of-the-art technologies. It involves the transformation of various cereal grains, such as wheat, barley, rye, rice, oats, corn, and millet, into flour using milling machines. Particularly, the Nigerian flour milling industry holds a pivotal position in the country's economy, primarily contributing to the production of wheat-based goods like bread, pasta, and pastries. The industry is marked by intense competition, where both domestic and international companies compete for market dominance. Key participants in the Nigerian flour milling sector encompass Flour Mills of Nigeria, Dangote Flour Mills, Olam Nigeria, Honeywell Flour Mills, Crown Flour Mills, and various others.

Nevertheless, it's worth noting that the market remains highly fragmented, and the number of players can vary over time. Wheat as a fundamental raw material for flour production ranks among the top three globally produced grains and serves as the primary ingredient in flour making. This globally cultivated cereal grain is celebrated for its versatility and widespread utilization in a variety of food products. It holds a crucial place in diets worldwide, appreciated for its nutrient-rich composition and its adaptability in diverse culinary traditions.

### Value Chain Analysis

The wheat value chain comprises an intricate network of stakeholders, each playing a pivotal role in the production, processing, and distribution of wheat-based products.

- Input Sourcing

Input sourcing is a crucial phase in the wheat value chain, requiring a variety of components, including seeds, fertilizers, chemicals, and farm machinery for the cultivation of wheats. Multiple stakeholders within the wheat value chain significantly contribute to providing these essential inputs. Government agencies, research centers, and individual outlets are the primary sources of these inputs in Nigeria.

- Wheat Cultivation/Production

While the exact quantity of wheat cultivated or produced in the country remains uncertain due to conflicting figures reported by different sources, a survey by the National Bureau of Statistics (NBS) in 2021 revealed that wheat cultivation in Nigeria covered approximately 11,820 hectares, yielding a total grain production of 36,943.8 tonnes across 13 states.

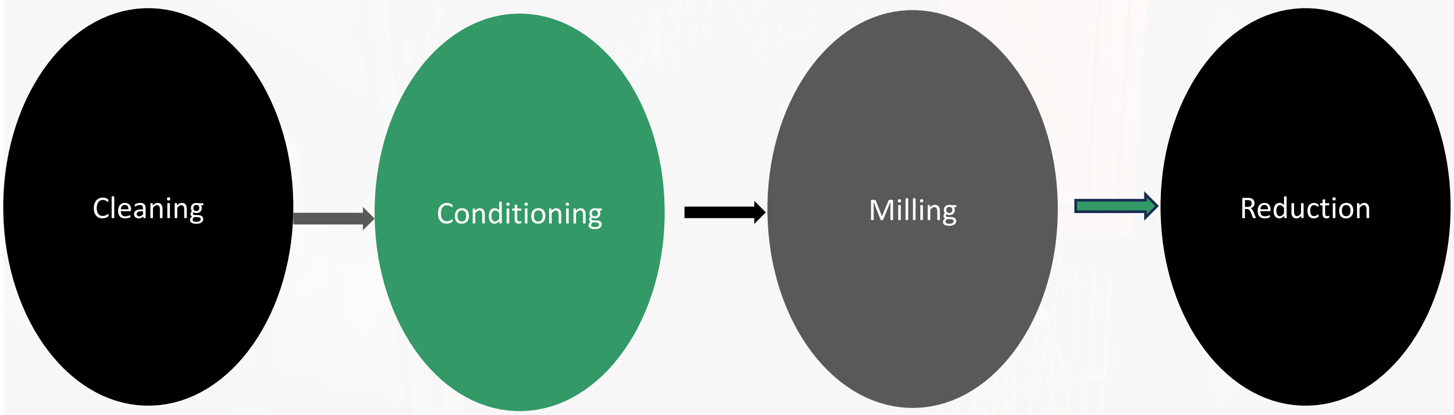
Particularly, Kano led in both wheat cultivation area, accounting for 19.68% of the total, and wheat production with 6,512.8 tonnes. Jigawa closely followed with 17.69% of the cultivation area and 5,854.8 tonnes in production. In contrast, Zamfara State had the smallest wheat cultivation area at 1.62% and the lowest wheat production, totaling 672 tonnes. Kebbi State also contributed significantly with a production of 4,422 tonnes.

Notably, one of the prominent characteristics of this industry is its heavy reliance on wheat imports. This dependence stems from the limited local wheat production, which can be attributed to adverse climatic conditions and unsuitable land and soil for wheat cultivation.

Other challenges besieging wheat production and cultivation in Nigeria include insufficient funding for seed production, ongoing insurgency in key wheat-growing areas, a shortage of necessary inputs for farmers, and limited cultivated land. These challenges have significantly hampered the success of initiatives aimed at increasing wheat production, posing considerable difficulties for both farmers and policymakers.

Import-wise, Nigeria's wheat imports reached a substantial USD3.32bn in 2021, positioning the country as the world's second-largest importer of wheat. Additionally, during the same year, wheat stood as the second most imported product in Nigeria, underscoring its significant role in the country's import trade.

Nigeria's primary sources of wheat imports include Russia, Ukraine, the United States, Canada, and Latvia. However, disruptions in the global wheat supply chain and local production constraints prompted both public and commercial entities to seek alternative wheat sources.




Consequently, Nigerian manufacturers expanded their wheat procurement to include a more extensive range of nations. For instance, in the first half of 2022, Nigeria's wheat imports were predominantly sourced from North and South America.
The conflict between Russia and Ukraine, compounded by Russia's blockade of Ukrainian ports and the repercussions of sanctions imposed by the EU and other Western nations, has resulted in a substantial surge in wheat prices posing a dilemma for flour millers in the country.

- **Processing**

This phase encompasses activities such as raw material preparation, product manufacturing before packaging for distribution and sale. Specifically for flour millers, this stage involves the transformation of wheat into flour or the production of ready-to-eat meals through milling. The primary ingredient in this process is the wheat grain, which is ground to produce flour. The composition required for wheat flour production can vary based on the specific type of flour and the manufacturer's specifications. Various factors, including the wheat variety, growing conditions, soil quality, as well as the practices employed in harvesting, storage, and milling, collectively influence the final product's taste, texture, and nutritional value.

# The Cocoa Industry

Cocoa is one of the most important export crops and one of the largest FX-earning non-oil commodities in Nigeria. The agricultural sector in Nigeria is primarily underdeveloped because the focus is primarily on production, rather than on enhancing value addition across value chain segments. This is a major reason why about 85% of cocoa produced in Nigeria is exported as cocoa beans and the rest is processed locally, with most of it exported in the form of cocoa paste and butter. Most of the cocoa in Nigeria is produced in the western state of Ondo, where agricultural output is supported by the state's location in an agroecological zone of the rainforest. Cocoa production in the country has witnessed a lot of volatility in the past years, due to the cyclicality of cocoa tree production and weather conditions.

## Value Chain Analysis

The cocoa value chain shows different relationships between the various channels. The structure of the cocoa value chain starts from Input supplying, production and primary processing, aggregation, intermediate processing, final processing, wholesaling, and retailing down to the end user.

### • Supply of Input

The major supplier of cocoa pods/ seedlings to farmers in Nigeria is the Cocoa Research Institute of Nigeria (CRIN). The Institute has seed gardens where they grow improved hybrids of cocoa pods, which are made available to farmers for vegetative propagation. To save costs, farmer groups purchase these hybrid cocoa pods, grow them in nurseries and then sell them to members at subsidized rates.

### • Production/Primary Processing

Cocoa is an important ingredient needed in the production of confectionery products like chocolate and other cocoa beverages. Cocoa powder has a powerful and unadulterated scent and is a vital raw material for making chocolate, drinks, ice cream, candies, cakes, and other meals. This stage involves the cultivation, harvesting, and processing techniques that are very vital to achieving fine quality of fine flavor cocoa beans.

**Harvesting:** Pod development of cocoa from the flowering stage to maturity takes around 5-6 months. Only fully ripe, healthy, and undamaged pods are selected for primary processing. Selected pods are separated from the trees using a special knife fixed to bamboo and care is taken while harvesting not to damage the pods.

↓

**Pod Breaking**: This operation involves the removal of the cocoa beans from the pods, this is done using either a small cutlass or wooden billet

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**Fermentation**: This involves the removal of the pulp from the cocoa beans, and it takes about 2-5 days. Fermentation can be done in a number of ways, in heaps of beans covered with banana leaves, in boxes, or in baskets. It can also be done mechanically using dehydrators.

↓

**Drying**: This is done to reduce the moisture content of the fermented bean to about 7-7.5% so that there is no chance for growth of mold during storage. The drying rate of cocoa affects the final quality and can be done naturally or using artificial dryers.

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**Polishing**: This is done in order to increase the appearance of the beans during the drying operation. The beans are polished using a rotary type dryer or a special polishing machine. Polishing helps to protect the beans from fungal attacks during storage

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**Cleaning and Bagging**: After drying and polishing, the beans are cleaned of any extraneous matter and packed in food-safe jute bags. The bags are only used once and must be clean, and properly sewn.

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**Grading**: This is done via a mechanical grader to separate the beans into different grades, and to separate the defective ones. Defective beans are not stored or exported.

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**Storage**: This is to maintain optimum quality, and humidity is controlled to avoid re-humidification of cocoa beans. Proper storage helps to reduce mold growth.

## • Intermediate Processing

This process involves the transformation of cocoa beans into other products such as cocoa powder, cocoa butter, and cocoa cake. The cocoa beans are cleaned, roasted, and processed into several valuable products, including;

**Cocoa Butter:** This is a vegetable fat made from cocoa beans, it is edible, creamy colored, and has a cocoa flavor and scent. About 50.00% of the weight of cocoa beans is made up of cocoa butter, which is also used to manufacture several ointments, cosmetics, and pharmaceuticals.

**Cocoa Cake:** This is the light brown or reddish-brown substance that remains after cocoa butter is extracted from cocoa beans. They are often sold as a final product in the form of cocoa powder which is a major ingredient in beverages, drinks, and confectionaries.

**Cocoa Powder:** Cocoa powder is obtained from cocoa beans by crushing the beans and removing the fat or cocoa butter. In cakes, ice cream, dairy drinks, and biscuits, cocoa powder primarily serves as a flavoring. In addition to being used as a flavor, it is also utilized to make coatings for frozen sweets or confectioners.

- ### Final Processing/ Wholesaling/ Retailing

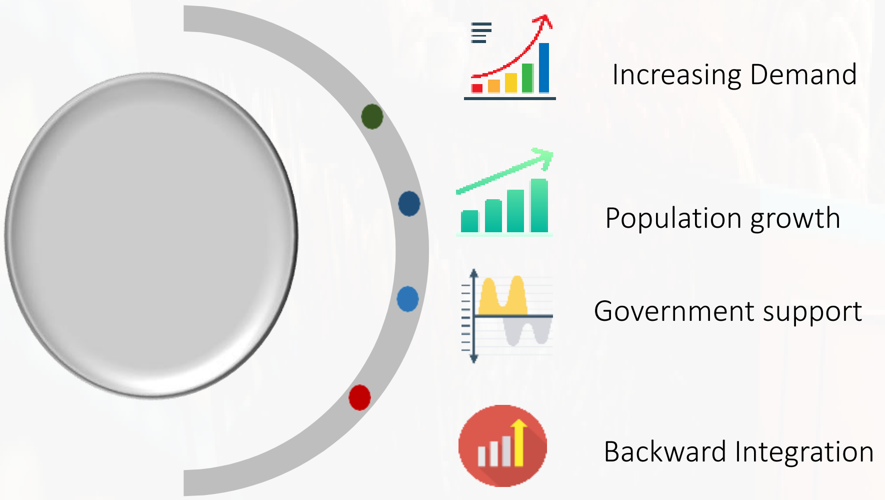
This stage involves the participation of chocolate and beverage companies that produce beverages and chocolates for final consumers. Here, the cocoa liquor is combined with cocoa butter, sugar, and occasionally milk to form chocolate. The mixture is poured into conches, which are substantial agitators that smooth and swirl the liquid while it is heated. After being tempered, the liquid chocolate is then poured into block molds and occasionally combined with additional ingredients like nuts and/or dried fruits for sale to bakeries, dairies, and confectioneries. Before it reaches the final consumer, the finished product is packaged, boxed, and delivered to wholesalers in the nation who supply retailers. These activities are primarily conducted in Europe and America. The minimal final processing carried out in Nigeria primarily results in beverages that are sold only domestically. The three major final processors in Nigeria are Nestle, Cadbury, and Promasidor of Cowbell Industry, which provide finished goods (chocolate, drinking cocoa powder, and cocoa butter for cosmetics) for the Nigerian market. They are integrated into every stage of processing, including the intermediate steps of turning beans into butter, liquor, and paste before they are turned into the cocoa powder used to manufacture chocolate and beverages.

## The Sugar Industry

Sugar is an edible substance composed of carbon, hydrogen, and oxygen. Sugar is commonly used as a sweetener in the processing of food. The close substitutes to this commodity are honey and saccharine. The most common source of sugar is sugar cane which is a native crop of tropical South Asia and Southeast Asia.

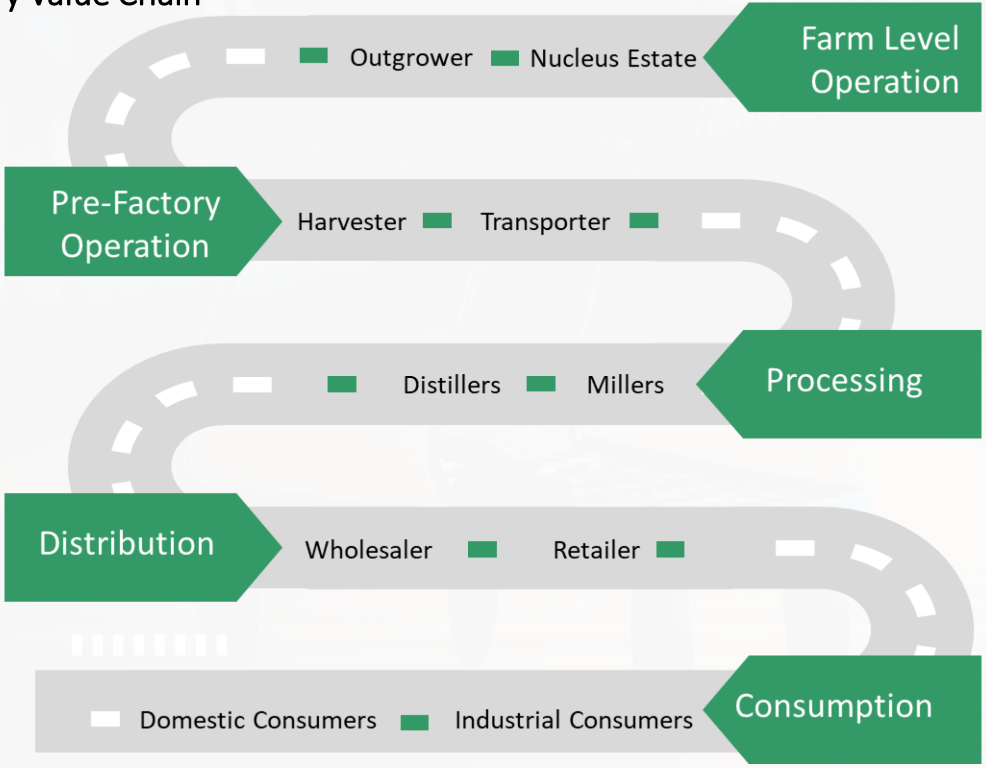
A very close substitute to sugarcane is sugar beets, which is a biennial plant in the family of tuber root plants. The United States, Germany, Russia and Ukraine are the world's largest producers of sugar beets. Sugar is extracted by a diffusion process and purified through several levels of filtration.

### Domestic Industry Growth Drivers




The Nigeria sugar market is driven by the fast-growing food processing segment its value chain. According to the NSCD, soft drinks and the food and beverages sector accounted for more than 60% of the country's total industrial sugar consumption. On the other hand, bakery and confectionary, diary companies and pharmaceutical accounted for 40% of the industrial sugar consumption. In 2022/2023FY, FAS Lagos forecasted sugar consumption to increase by 1.00% to 1.62MMT from 1.60MMT in proceeding financial year.

### The Industry Value Chain



1. **Sugarcane Producers:** Growing sugar cane with adequate rain and sunshine usually takes between 16-24 months to mature. New cane grows from the stalks (setts) which are plated and takes 2-4 weeks sprout from the ground. Once mature, crops are harvested between June to December. Being a perennial crop which thrives in the tropical land with plenty of water needed for its cultivation, Nigeria has embarked on the Nigerian Sugar Master Plan to facilitate local cultivation in the country. Across the globe, it is cultivated in exportable quantities in Brazil, India and the EU. The three major players in Nigerian Sugar Industry imports raw sugar mainly from Brazil.

2. **Sugar Millers:** After harvested, sugar cane is cleaned and crushed to extract the juice through some mechanical and or technological processes. The sugar cane juice is further diluted with lime to adjust the pH to 7 and allowed to settle to ensure further purification. The juice or syrup is concentrated by boiling in an evaporator. The mother syrup from the first crystallization is further boiled until it becomes super-saturated to form small sugar crystals. A filter is used to separate the sugar crystals from the mother syrup, which is then dried, cooled and stored. Three main products are obtained from the milling process. They are: a) raw sugar that is transferred to refineries for further processing into refined sugar b) molasses used in the production of ethanol and animal feeds and c) bagasse used as a source of biofuel to generate energy.

3. **Sugar Refineries:** The raw sugar, a product of milling, passes through several purification and refining processes to be finally transformed into granulated sugar. This involves extraction of thin coat of molasses from the crystallized sugar by dissolving and washing in water. The washed crystals are dissolved in water and filtered thoroughly to remove particles and other microscopic particles to produce more pure syrup consisting of sugar and water. This is later dried and cooled to form tiny crystals. Brown sugar is produced in the earlier stage of the refining process while white sugar is typically produced at the later stage.

4. **Distribution of packaged sugar and End-Users:** The refined sugar is then packaged for distribution into sugar bags. These are then delivered to industry users and wholesalers. Industrial uses of sugar include; pharmaceutical use in growing penicillin and masking the taste of bitter drugs, textile use in sizing and finishing fabrics, bio-chemicals use as input for some insect repellant and most importantly, use in beverage and confectionaries among others. The final consumer concludes the value chain, through domestic use in direct food sweetening or indirect consumption from final products of industrial users.

# Company Analysis

In estimating the intrinsic value of the companies under our coverage, we employed a blend of valuation methodologies:

- Dividend Discount Model
- Residual Income model
- Free Cashflow Models.
- Relative Valuation Method

Considering that the projected cash flows are expected at various time horizons and have different risk perceptions, we employed the average yield to-maturity on default (risk) free 10-year federal government bonds.

Each company's beta was estimated by regressing the equity returns to the NSEASI returns. The beta was subsequently adjusted using the Blume's approach, to reflect its movement towards the market beta of one (1) over the covered period.

In estimating the Cost of Equity, we employed the Capital Asset Pricing Model (CAPM).

- Flourmill of Nigeria Plc
- Nigerian Breweries Plc
- Guinness Nigeria Plc
- NESTLE Nigeria Plc
- UAC of Nigeria Plc
- Unilever Nigeria Plc
- Cadbury Nigeria Plc
- BUA Foods Plc
- NASCON Allied Industries Plc
- Dangote Sugar Refinery Plc

# Flour Mill of Nigeria Plc (FLOURMILL)

FLOURMILL is the largest food and agro-allied company listed on the Nigerian bourse. Its business cuts across four subsidiaries: Food, Sugar, agro-Allied and Support Services.

The firm boasts of a rich portfolio of products including; Noodles, Pasta, Semovita, Masavita, Refined sugar, Margarine, Vegetable oils, and a range of breakfast cereals. Its flagship foods brand, Golden Penny enjoys popularity and patronage in many Nigerian households.


The firm's growth strategy which is focused on product innovation, capacity expansion and diversification into various facets of the agric and other businesses has proven effective over the years.

In 2019, the firm completed the restructuring of its agro-allied division, making it a stand-alone subsidiary- agro-Allied Holdco. This was carried out to improve the efficiency of the division and to ensure focus on core competencies across the group. In addition, the subsidiary is better positioned to access funds that are best suited for its business operations, especially the agricultural sector intervention funds provided by the Federal Government. The firm also announced its 100% acquisition of Sunti Golden Sugar Estates Limited (17,000 farm hectares and 4,500MT/d of sugar milling capacity). This is in alignment with the Government's backward integration drive.

To further capture market share and improve operations, FLOURMILL announced the 76.75% acquisition of its major competitor Honeywell Flour Mills in 2022 which served as a major strategic move.

55% of the issued share capital of Port Harcourt Flour Mills was also acquired during the year through another subsidiary, Nigerian Eagle Flour Mills to further increase its market share. Furthermore, In 2023, the firm announced plans to set up its power generating plant to achieve cost savings on energy and serve as an alternative source of revenue as excess energy generated could be distributed and sold to third parties in the long run.

## Largest Market Share by Revenue Amongst Consumer Goods Players

FLOURMILL has consistently reported solid financial performance over the years, with a five year Compounded Annual Growth Rate (CAGR) of 23.19%.

In line with our forecast, the company recorded a robust 32.30% YoY growth to NGN1.54trn in 2023FY (*year end is March*) driven by product portfolio expansion, operational growth, and the introduction of locally produced brown sugar. The food segment took the lead in revenue generation, followed by the agro-allied, Sugar, and Services segments. Its Q2:2024 (July-September 2023) financial period marked its highest quarterly revenue on record at NGN508.27bn, supporting the company's H1:2024 performance. The food segment demonstrated the most significant expansion (+46.63% YoY), while the sugar and support services segments showed impressive increases of 42.57% YoY and 14.53% YoY, respectively. Given the firm's position as the only listed consumer goods player recording revenue above NGN1trn, it firmly cemented its position as the largest player by market share.

**For 2024FY, we remain optimistic about prospects for further topline expansion. We expect the recent additions to the product lines, increased production capacity, price increment, and extended distribution channels to drive revenue higher. Thus, we project a 2024FY revenue of NGN1.85trn (from NGN1.54bn), implying a 20.20% YoY topline expansion growth.**

## Cost Remains Archilles Heel

For **FLOURMILL**, direct costs have closely mirrored the revenue trend. The company's heavy reliance on imports for its primary raw material, wheat, exposes it to fluctuations in the foreign exchange market, contributing significantly to the consistently high costs recorded over the years. Notably, the company's cost-to-sales margin has consistently exceeded 85.00% for the past seven years. In alignment with the revenue contribution pattern, production costs are highest in the food segment, followed by the agro-allied, Sugar, and Services segments in that order. In H1:2024, production costs surged by 31.81% YoY to NGN859.14bn primarily owing to an increase in material costs (+34.84% YoY).

Additionally, operating expenses soared by 110.12% YoY owing to simultaneous surges in administrative (+39.25% YoY), selling and distribution (+48.36% YoY) expenses as well as foreign exchange losses (+159.50% YoY). Consequently, its operating margin decreased to 2.56% from 4.21% in H1:2023. The company's increase in debt obligations (+33.43% YoY), resulted in a significant increase in finance costs by 55.04% YoY in H1:2024. This had a negative impact on several key financial ratios, with debt-to-asset, debt-to-equity, and interest coverage ratios worsening to 0.35x, 2.15x, and 0.71x, respectively, as compared to 0.32x, 1.55x, and 1.88x in 2023FY. Consequently, in H1:2024, FLOURMILL reported a loss after tax of NGN8.52bn, in contrast to a net profit of NGN5.70bn in H1:2023.

## Profitability Metrics Impacted by Heightened Cost Pressures

The company has consistently demonstrated positive yearly performance over the last decade, maintaining an average return on equity of 10.42% in the past five years. Despite this, the company's net margin has consistently remained below 5.00% (falling as low as 0.76% in 2019FY), primarily influenced by high direct costs. Due to the increased costs (direct, operational, and finance) and increasing foreign exchange loss, **FLOURMILL** saw only a marginal uptick in profit after tax (+5.32% YoY) to NGN29.50bn in the 2023FY (compared to NGN28.02bn in 2022).

Also, in Q1:2024 (April to June 2023), owing to a compounding foreign exchange loss (+343.68% YoY), the company recorded a loss after tax of NGN9.34bn. Although the firm’s profitability turned positive at the end of Q2:2024 (July to September), on the back of higher revenue and improved cost efficiency, the effect of the loss recorded in Q1:2024 held sway. Consequently, FLOURMIL concluded H1:2024 with a net loss position of NGN8.52bn.

As of September 2024, the company holds the leading position among consumer goods firms in terms of asset base, boasting a total asset value of NGN1.32trn. Over the past five years, the company has demonstrated robust growth in its assets, achieving a CAGR of 21.86%.

With its frequent foray inro the capital market to raise capital in form of bond and commercial paper issuances, **FLOURMILL’s** capital structure a 2.15x debt-to-equity ratio as of September 2024. The company’s debt stock currently stands at NGN466.60bn bolstered by the recent Series 3 commercial paper issue in June 2023. The company is highly leveraged with a leverage ratio of 6.07x as per its most recent financial disclosure.

We also note the firm's cashflow from operations to capital expenditure ratio has deteriorated steadily over the past three years to 0.64x in 2023FY (from 4.07x in 2020FY), signifying a lower ability to reinvest in its business without resorting to external financing. Thus, considering the risk of its debt profile expanding further, we expect finance costs to increase in upcoming financial periods, increasing its riskiness for short-term equity investors

**We expect production and operating expenses to increase further in 2024FY. However, our optimistic projection for revenue expansion provides some respite to profitability. Additionally, the company's enhanced backward integration initiatives and the planned establishment of a power subsidiary, Golden Penny Power Ltd, is expected to streamline operational costs and bolster revenue generation in the long run. We project an earnings performance of NGN19.26bn in 2024FY and a net margin of1.04% (from 1.92% in 2023FY)**

Valuation and Recommendation

# Valuation and Recommendation

## Summary

| Metrics | Value |
|---|---|
| Fair Value | **60.88** |
| Current Share Price | 33.05 |
| Discount to fair value | 84.21% |
| Recommendation | BUY |

## Basis for Recommendation

In arriving at a fair value of NGN60.88 per share for **FLOURMILL**, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model), Residual Income and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a **BUY** recommendation is extended for underpinned by a positive medium to long-term outlook.

## Nigerian Breweries Plc

Nigerian Breweries Plc. (**NB**), a subsidiary of the Heineken Group of the Netherlands, is the pioneer company in the domestic brewery industry. The firm has grown both organically and through consolidations, to sustain its position as the largest brewer in Nigeria. The principal activities of the company are brewing, packaging and marketing of beer, alcoholic flavoured/non-alcoholic beverage. The Heineken Group of the Netherlands, through its subsidiaries (Heineken Brouwerijen B.V. and Distilled Trading International B.V), holds majority interest of 54% in the company.

As the largest brewery company in the nation by both revenue and market capitalization, **NB** has maintained leadership status consistently over its six decades of operation in the Nigerian brewing landscape. Boasting an impressive installed brewing capacity of 15.40mn hectoliters annually and a continuous drive for expansion, The company has an extensive product portfolio with a rich legacy spanning several decades. Recognizable brands such as Star Lager Beer, Gulder Lager Beer, Maltina, Legend Extra Stout, Amstel, and the reintroduced Heineken Lager Beer (reintroduced to Nigeria in 1998) are among its well-known offerings.

Earlier this year, Nigerian Breweries Plc announced its intention to acquire an 80.00% stake in Distell Wines and Spirits Nigeria Ltd. The successful acquisition will enable Nigerian Breweries to produce local wines and ciders and import alcoholic beverages from Distell Group in South Africa. Anticipated to be finalized in H1:2024, this strategic move will enhance **NB's** product portfolio, marking its entry into the wines and spirits category. Consequently, we expect a positive impact on the company's revenue, driven by the expansion of its product offerings.

With a CAGR of 6.39% over the past eight years, the company has registered consistent growth in its topline. The most notable increase, however, is the impressive 29.74% YoY surge in revenue in 2021FY, reaching NGN437.29bn from NGN337.05bn in 2020. This marked NB's most significant annual topline growth in over a decade mainly supported by the broad acceptance of the brewer's recently launched products (including Sugar-free Amstel Malta, Star Radler Red Fruits, and Desperados. In 2022FY, Nigerian Breweries (NB) achieved a 25.92% YoY revenue growth to NGN550.64bn from NGN437.29bn in 2021.

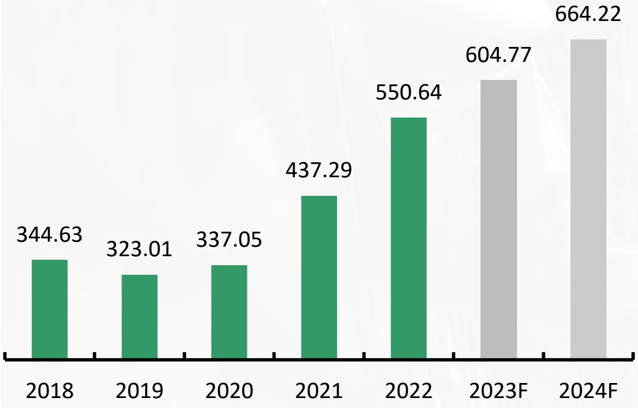

**NB** has sales offices and depots spread across the country and this is complemented by an extensive network of key distributors, wholesalers, bulk breakers and retail stores situated across the country. The company has a strong distribution network with over 40 depots and a fleet of over 500 trucks that distribute its products to retailers and wholesalers across the country.

In November 2018, **NB** incorporated 234 Stores Limited; a subsidiary created to explore Route-to-market (RTM) opportunities. The firm has since invested NGN100mn in the subsidiary, and it was run during the year as a pilot scheme. This initiative aims to enhance the firm's distribution channels while optimizing costs, given its exclusivity and the elimination of middlemen.

This increase was driven by strategic price hikes to offset rising input costs, a modest uptick in sales volume, and the completion of the Ama brewery expansion, boosting production capacity from 3.00mn hectoliters to 4.80mn hectoliters. In its most recent financial period 9M:2023, **NB**'s revenue grew only slightly (+2.12% YoY) to NGN401.80bn, compared to NGN393.45bn in 9M:2022.

This slight growth can be attributed to a decline in the company's sales volume during Q1:2023 due to the cash crunch fiasco in the period. Reduction in sales volume in Q3:2023 due to the effect of a spiraling inflationary environment on consumer purchasing power also impacted revenue in the 9M period.

Chart 4: Revenue (NGN'bn) 2018 - 2024




Source: Company Financials, Meristem Research

## Rising Costs and Debt Impact NB's Profitability

**NB**'s cost of sales has also risen over the years, surging by 26.80% YoY in 2021FY to NGN276.87bn. The primary drivers of this upward trajectory include global commodity price hikes and mounting import costs. Notably, the company's dependence on exports for crucial production inputs has exposed its sales figures to the recent foreign exchange volatility experienced in the country.

The company's cost of sales also increased by 4.32% YoY in 9M:2023 due to a rise in raw material expenses (+3.35% YoY), leading to a higher cost-to-sales ratio of 62.03% compared to 60.72% in 9M:2022 (average of 59.46% over the past 8 years).

Additionally, administrative expenses surged by 21.40% YoY in 9M:2023, contributing to a 4.61% YoY increase in operating expenses (OPEX) to NGN127.25bn (from NGN121.65bn in 9M:2022). Also, NB's finance costs notably surged by 205.13% YoY, driven primarily by increased borrowings (+170.90% YoY) in this period. The further depreciation of the Naira in Q3:2023 led to higher foreign exchange losses (+737.85% YoY), intensifying pressure on the company's profitability.
Consequent to the rise in the company's debt stock, interest coverage ratio worsened to 1.44x from 5.72x owing to the surge in finance cost as well as a reduction in operating profit (-22.97% YoY).

**NB**'s profit levels have experienced a decline over the last eight years. This is evinced by the firm's net margin trend which contracted from 12.95% in 2015FY to 2.39% in 2022FY. The downtrend can be attributed to the ongoing cost challenges that the industry as a whole is currently grappling with.

In 9M:2023, higher foreign exchange losses (+737.85% YoY) further exerted pressure on the company's profitability resulting in a net loss position of NGN57.20bn from a profit of NGN14.76bn in the prior period.

As a consequence of the escalated debt and a decline in operating profit (-22.97% YoY), .interest coverage ratio fell from 5.72x to 1.44x. Furthermore, liquidity ratios suffered: current, quick, and cash ratios dropped to 0.40x, 0.20x, and 0.04x, respectively, from their 2022FY levels of 0.38x, 0.18x, and 0.05x.

**NB** has consistently maintained a positive operating cash position, supported by sustained profitability at fiscal year-ends. However, the cash flow-to-debt ratio has declined since 2018, except for 2021FY when operating cashflow surged (+119.61% YoY) owing to an upswing in trade and other payables, resulting in a ratio of 2.92x (vs 0.93x in 2020). The downtrend in the cash flow-to-debt ratio can be attributed to the company's escalating debt levels amid diminishing profitability. Furthermore, earnings quality has typically ranged from 1.00x to 2.50x, except for 2020 and 2021 when a simultaneous rise in operating cash flow and decline in profits resulted in spikes to 11.58x and 7.23x, respectively.

For 2023FY and 2024FY, we project a 9.83% YoY and 10.03% YoY growth in revenue to NGN665.43bn and NGN664.22bn, respectively owing mainly to product price hikes. However, we believe the ongoing macroeconomic challenges are likely to drive an increase in input costs, compounded by the potential .depreciation of the Naira, leading to further losses in foreign exchange transactions. As a result, we anticipate the company to incur a loss of NGN66.34bn by the end of the year, with escalating costs and foreign exchange losses offsetting the projected revenue increase. Nonetheless, we anticipate a return to profitability by the close of 2024FY as the FX losses moderate, projecting a net profit of NGN5.76bn.

# Valuation and Recommendation

Valuation and Recommendation

## Summary

| Metrics | Value |
|---|---|
| Fair Value | **48.02** |
| Current Share Price | 36.00 |
| Discount to fair value | 33.39% |
| Recommendation | **BUY** |

## Basis for Recommendation

In arriving at a fair value of NGN48.02 per share for **NB**, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model), Residual Income and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a **BUY** recommendation is extended for underpinned by a positive medium to long-term outlook.

## Guinness Nigeria Plc (GUINNESS)

Guinness Nigeria Plc was incorporated in 1950, a public limited liability subsidiary of Diageo, Guinness Nigeria was established as a brewery trade company, importing Guinness Stout from Dublin and selling in Nigeria up to 1963. Since then, the company has changed from a distribution business to a manufacturing one. The business operates five breweries in Lagos, Benin, and Abia from where it produces and distributes its products throughout the nation.

For **GUINNESS**, its main focus is based on three strategic pillars of productivity, portfolio expansion, as well as execution of commercial footprint initiative. The firm offers a broad portfolio of brands in premium, mainstream and value segments. The company is the only brewer in Nigeria with portfolios across all segments of beer, malt and spirits, making it a total beverage brand. Its flagship products include Guinness Foreign S tout, Harp, Orijin, Smirnoff ice, Malta Guinness, and so on.

Furthermore, the firm obtained the rights to import, market, and distribute Mr Dowell's and Royal Challenge whiskey in Nigeria thanks to their affiliation with Diageo Plc. Guinness Nigeria Plc is the only Total Beverage Alcohol (TBA) firm in Nigeria with the expertise and ability to meet the demands of all consumer categories owing to its exciting new range of outstanding brands.

However, in October 2023, **GUINNESS** announced plans to cease the importation of select Diageo international premium spirits products (Johnnie Walker, Singleton, and Baileys and others) by April 2024 a fallout of the recent and further expected exchange rate devaluation in the domestic market. For context, its 2023FY results, showed a significant spike in finance costs (+2401.62% YoY) caused by losses on exchange difference (some of which we opine was incurred from its arrangement with Diageo Plc. In our company update on the divestment, we discussed the likely impact on the firm's performance going forward.


In 2019, the firm launched Guinness Gold, a premium lager, reiterating their commitment to driving product innovation.

In January 2016, Guinness Nigeria Plc, with the approval of the Board of Directors, obtained the rights to import, market, distribute, and sell the international premium spirit brands of Diageo plc ("Diageo"), its parent company in Nigeria. Guinness Nigeria Plc also obtained the license to locally produce some of the most popular Diageo brands in Nigeria, including Gordon's Gin and Smirnoff Vodka.

### Price Hikes Support Revenue Growth

Guinness Nigeria Plc concluded its 2023 fiscal year (ending in June) with a 10.94% YoY revenue growth, reaching NGN229.44bn compared to NGN206.82bn in 2022FY. The domestic sales, accounting for about 99% of the total revenue, surged by 10.97% YoY to NGN227.35bn. Exports also increased by 7.18% YoY, totaling NGN2.05bn.

This growth is attributed to strategic pricing adjustments and enhanced distribution efficiency through the B2B platform. Stout, ready-to-drink, and mainstream spirits showed impressive YoY growth rates of 14.00%, 36.00%, and 12.00%, respectively.

The positive impact of price increment cushioned the impact of a slight decline in sales volume (c.3.70%) during the 2023FY as the cash crunch in its third financial quarter (Q1:2023) had a marginal influence on topline performance, mitigated by the company's adept use of digital platforms to sustain sales.

In its most recent financial period, Q1:2024 (ending September 2023), GUINNESS reported a 12.65% YoY revenue growth, reaching NGN59.54bn compared to NGN52.85bn in Q1:2023. This growth is attributable to product line expansion, with the introduction of Smirnoff Ice Pineapple in the previous quarter, as well as price increases aimed at offsetting cost escalation. Notably, the Adult Premium Non-Alcoholic Drinks (APNAD) and ready-to-serve (RTD) segments recorded robust growth, whereas other segments demonstrated only modest improvement.

## Inflationary Pressure Drive Surges in Costs

The escalation in the company's cost of sales outpacing revenue growth in 2023FY to NGN151.31bn (+12.78% YoY) from NGN134.16bn in 2022FY. The increase in costs is primarily attributed to a rise in raw materials and consumables cost (which constitutes approximately 70% of the total cost of sales). While a significant portion of the company's raw materials is procured domestically, the prices of crucial components, such as sorghum and maize surged particularly during the final quarter of the financial year, substantiating this increase.

The company's cost of sales surged by 19.61% YoY in Q1:2024 to NGN41.40bn from NGN34.61bn, primarily attributed to the combined effects of high inflation and the depreciation of the naira, impacting the prices of both locally sourced and imported raw materials. Consequently, the firm's cost-to-sales ratio deteriorated to 69.54%.
Additionally, operating expense (OPEX) reduced by 10.28% YoY to NGN11.66bn (vs. NGN12.99bn in Q1:2023) due to a simultaneous decrease in marketing and distribution expense (-11.69% YoY) and administrative expense (-6.57% YoY).

Consequently, operating profit ticked up (+33.35% YoY) to NGN7.87bn from NGN5.80bn in Q1:2023. Also, the firm's finance cost soared by 87.82% YoY primarily due to a 96.41% YoY rise in debt stock (letters of credit and related party loan) and losses from remeasurement of foreign currency balances (+156.60% YoY), resulting from the depreciation of the naira during the period. As a result, debt-to-asset ratio, debt-to equity and interest coverage worsened to 0.24x, 1.00x and 1.70x in Q1:2024 (from 0.14x, 0.34x and 2.40x in Q1:2023). This is a result of increased debt and reduced equity stemming from the losses incurred in 2023, which depleted its retained earnings. Liquidity ratios also deteriorated : current, quick and cash ratios to 0.79x, 0.59x and 0.42x (vs 1.06x, 0,74x and 0.55x). Overall, GUINNESS recorded a lower profit after tax of NGN2.40bn (-5.56% YoY) from NGN2.75bn in the previous period

In our view, the company is poised to sustain its strong topline performance, thanks to its diverse and effective brand portfolio, product innovation and strong brand presence (especially in the south-west region. Additionally, the Management has articulated ambitions to drive growth in targeted categories such as ready-to-drink, ready-to-serve, and non-alcoholic malt segments. Nevertheless, we must recognize that the presence of strong competitors within the industry, coupled with the weakening consumer purchasing power acts as potential downward risks to this projection.

Also, we opine that the high inflationary environment and the persistent depreciation of the Naira will exert downward pressure on the company's profitability.

We project a 2024FY revenue and profit after tax of NGN256.54bn and NGN6.77bn (from NGN229.44bn and NGN18.09bn loss in 2023FY)

Valuation and Recommendation

## Valuation and Recommendation

### Summary

| Metrics | Value |
|---|---|
| Fair Value | **79.36** |
| Current Share Price | 66.00 |
| Discount to fair value | 20.24% |
| Recommendation | BUY |

## Basis for Recommendation

In arriving at a fair value of NGN79.36 per share for **GUINNESS**, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model), Residual Income and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a **BUY** recommendation is extended for underpinned by a positive medium to long-term outlook.

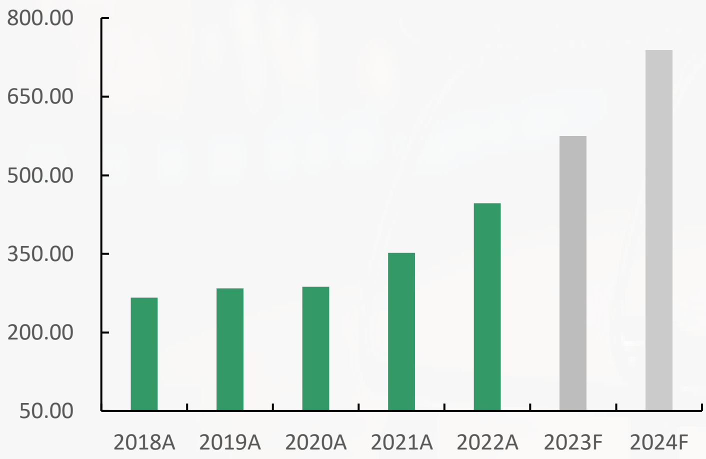
# Nestle Nigeria Plc

**Nestle Nigeria Plc (NESTLE)** is a subsidiary of Nestle S.A., a Switzerland manufacturing giant in the foods and beverages sector with over 2000 iconic brands and has a presence in 194 countries globally. It is one of Africa's largest food corporations and was founded in 1961 and has its headquarters in Lagos, Nigeria. The company operates currently operates three production facilities across the south-western region of Nigeria in addition to other facilities across Africa.

The company operates in food and beverages segment with products ranging across infant and family cereals, nutritional formula, and natural table water, dairy products, snacks, confectionery, and frozen foods. Some of their iconic brands under food products include Maggi, Cerelac, SMA Gold, Lactogen, and Golden Morn brands, while in their beverages segment, Nestle Pure Life Protect, Nestle Sparkling Water, Milo ready-to-drink, Milo energy cube, as well as coffee products.

With over 60 years of operations in Nigeria, **NESTLE** has retained its position as the leader in Nigeria's food and beverage industry. A significant source of competitive advantage in the fiercely contested quest for market share is the company's leadership in the industry and brand recognition.

Chart 5: **Revenue (NGN'bn) 2018-2024**




Source: Company Financials, Meristem Research

NESTLE Nigeria is one of the FMCG companies that have significantly towed backward integration in Nigeria by sourcing over 80% of its key raw material from local farmers. The company has since trained over 46,000 farmers, including farm village heads, grain suppliers and transporters, and agricultural extension agent

## FX Devaluation Undercuts Impressive Revenue Performance

Over the years, **NESTLE** has consistently delivered a solid revenue performance, recording expansion in revenue by a 5-year CAGR of 12.85% to NGN446.82bn in 2022FY. Growth in both its the food segment and the beverage segment over the years was supported by upward price reviews and the strong brand equity enjoyed by the company.

**NESTLE** delivered a topline growth of 18.93% YoY in 9M:2023 to NGN396.59bn (vs. NGN333.47bn in 9M:2022), marking the highest revenue growth over the past 43 quarters. This was spurred by increased sales in both the food (27.03% to NGN254.38bn) and beverage (6.75% to NGN142.21bn) segments.
Likewise, production cost has taken the same trajectory over the years. Due to global supply shortages and foreign exchange scarcity affecting the prices of key raw materials, production costs surged to NGN291.05bn in 2022FY, up from NGN152.35bn.

While heightened competition, weakening consumer purchasing power and a challenging business environment are major headwinds to volume growth in the domestic market, we expect that the essential nature of the company's product, brand loyalty it enjoys and price reviews on products to sustain topline performance in the domestic market. Export sales should however sustain its downward trend in the near term till economic condition improve with export partner countries (like Ghana, Ivory coast and Burkina Faso). We have thus modelled a 18.86% YoY growth in 2024FY revenue to NGN682.35bn.

Production costs also increased moderately by 9.36% YoY to NGN236.42bn, due to an uptick in raw materials and finished goods (13.10% YoY) as well as factory overheads (19.61% YoY). However, propelled by the faster pace in revenue growth, the company's cost-to-sales ratio improved to 59.61% from 64.83% in 9M:2023.
In addition, operating expenses climbed by 41.17% YoY, totalling NGN91.59bn, attributable to increases in marketing & distribution expenses (up by 35.73% to NGN58.88bn) and administrative expenses (rising by 7.48% to NGN9.70bn), reflecting the prevailing higher inflationary environment. The company debt profile has continued to be on the increase over the years in the face of increased financing needs (loans and borrowings from related party- parent company) to make purchases on imports for operations.

Thus, the significant influence of the FX devaluation in its financial performance in 9M:2023. First, **NESTLE's** debt balance surged by +106.19% and finance cost increased by 2183.65% YoY in its net finance cost to NGN148.24bn, due to revaluation losses (NGN127.46bn). As a result, debt to equity ratio worsened to -7.69x (from 5.13x in 9M:2022) while interest coverage worsened to 0.59x (from 7.15x in 9M:2022).

## … Leading to first Loss after tax in History

Over the past five years since 2017, profit after tax has consistently grown with a 5-year CAGR of 7.74% from NGN33.72bn in 2017FY to NGN48.97bn in 2021FY. Also, the company has delivered strong value for its shareholders, delivering a steady return on equity (ROE) over the period, from 75.15% in 2017FY to 161.65% in 2022FY. However, as a result of the high FX losses, the company incurred a significant decline (207.26% YoY) in its bottom-line in 9M:2023 to NGN43.07bn, thus eroding its equity position.

For 2024FY, we anticipate upward price adjustments in **NESTLE's** food and beverage segments, backed by robust brand loyalty among consumers, which should bolster revenue performance.

Moreover, we predict that NESTLE will face a less severe foreign exchange impact on their profits compared to the previous year. Consequently, we project their bottom line to strengthen to NGN37.47bn in 2024FY from the previous year's loss.

### Chart 6: PAT (NGN'bn) and ROE (%)


Source: Company Financials, Meristem Research

The company's liquidity position has shown much of an improvement over the years, indicating its capacity to meet its short-term obligations as at when due. As a result, there was an uptrend in the current ratio, quick ratio and cash ratio from 0.91x, 0.61x and 0.19x to 1.33x, 0.93x, and 0.54x in 2022FY. However, **NESTLE's** cash position has been low over the years further deteriorating to –0.04x and –0.02x in 2022FY from 0.62x and 0.33x in 2021FY. This decline was due to increases in inventory and receivables during the period. Also, earnings quality declined further to -0.09x from 1.62x in 2021FY due to increasing accruals.

Valuation and Recommendation

# Valuation and Recommendation

## Summary

| Metrics | Value |
| --- | --- |
| Fair Value | **1,326.79** |
| Current Share Price | 1,100.00 |
| Discount to fair value | 20.62% |
| Recommendation | BUY |

## Basis for Recommendation

In arriving at a fair value of NGN1,326.79 per share for **NESTLE**, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model) , Residual Income and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a **BUY** recommendation is extended for underpinned by a positive medium to long-term outlook.

## UAC of Nigeria Plc

United Africa Company of Nigeria (**UACN**) was incorporated as Nigeria Motors Ltd. in 1931 before undergoing several business restructurings leading to the present name of **UACN** in 1991. The company is a leading player in the packaged food and beverages, animal feeds, real estate, paints, quick service restaurants and logistics industries in Nigeria, producing and distributing paints and other ornamental goods in addition to edible oils, bottled water, snacks, and ice cream. Additionally, the business provides logistics and supply chain services, such as redistribution, shipping, and warehousing.


**UACN** broadly operates across four business segment with manufacturing activities across the South-West and North-Central region of Nigeria, namely Packaged Foods and Beverages, Quick Service Restaurants (QSR), Animal Feeds and the Paints segments. Within their foods products category, they boast of iconic brands such as Gala sausage roll, Supreme ice cream, Funtime groundnut and coconut chips and SWAN spring water. The QSR business includes franchised brands like Mr. Biggs and Debonairs Pizza.

## Revenue Growth Remains Sluggish

Revenue growth has been modest over the years, growing at a 5-year CAGR of 4.15% between 2017FY-2022FY. The company's five-year financial analysis recorded the most significant revenue decline in 2018FY. Revenue nosedived significantly by -20.97% due to the poor performance in animal feed and other edible segments as new entrants with aggressive trade terms impacted UACN's trade volume. The real estate segment NGN10.00bn non-cash impairment and losses on assets sales impacted the topline growth.

Revenue performance in other years was however upheld by upward price reviews, volume growth, store count increases, business restructuring, and expansions. In 2021, revenue rose sharply (24.61% YoY) reflecting an uptick in business activities following the lockdown. In its latest financial scorecard, 9M:2023, revenue grew marginally by 4.78% YoY to NGN81.53bn from NGN77.80bn in 9M:2022.

Revenue growth was supported by improved sales in the Paints (+16.88% YoY), Packaged Foods & Beverages (+7.33% YoY) and QSR (+29.54% YoY) business segments. This was due to inflation-driven price increases and volume growth in the Packaged Food & Beverages and Paints sub-segments. Revenue, however, declined in the Animal Feeds and Other Edibles (-0.91% YoY). We also highlight that the firm recorded its highest quarterly revenue on record in Q3:2023 standalone.

Across all business segments (Paints, QSR, Animal Feeds, and Packaged Foods and Beverages) we anticipate that price increases, the company's strategic initiatives to drive growth, as well as likely store expansions to drive revenue performance. Thus, we forecast a 9.91% YoY growth to NGN132.29bn in 2024FY.

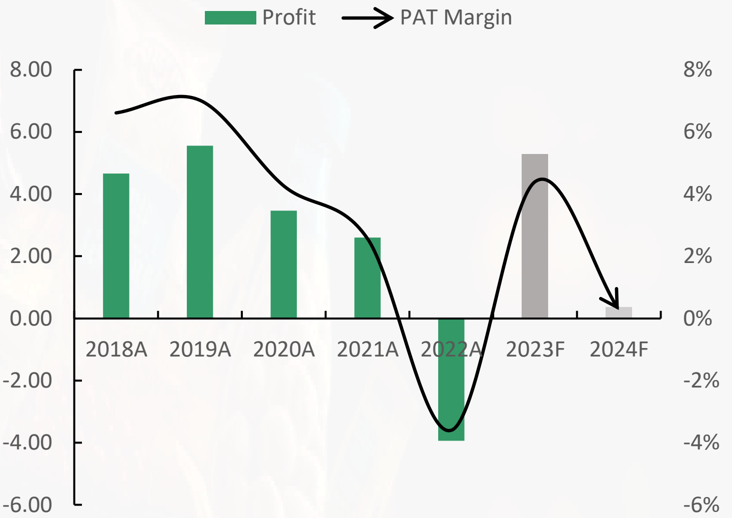
Similarly, due to the inflationary environment and major increases in the cost of raw materials and other input products, production cost rose marginally +2.91%YOY to (NGN67.39bn from NGN65.49bn in the previous period), owing to higher input costs (+4.11% to NGN57.56bn). However, cost to sales improved to 82.66% in 9M:2023 (vs. 84.17% in 9M:2022 and 5-year average of 82.05%). Likewise, operating expenses surged by 11.92% YoY to reach NGN14.19bn, notably affected by increases in distribution expenses (+18.97% YoY) and administrative expenses (+17.94%YoY) reflecting higher fuel prices and the general inflationary environment. Also, Operating profit increased significantly (835.98% YoY) to NGN7.10bn (vs. 758.46mn in 9M:2022), on the back of a NGN7.63bn gain on the disposal of non-core items of property, plant and equipment (PPE). As a result, the company's bottom line improved to NGN6.71bn in 9M:2023 (from a loss after tax of NGN1.98bn in 9M:2022)

Anticipating continued substantial cost pressures throughout the year, we foresee a further consequent decline in margins. Nevertheless, we project revenue growth and further the company's foreign-denominated financial assets to contribute to the expansion in bottom line. Thus, our forecast for 2024FY is NGN801.34mn.

An assessment of the company's liquidity position shows a decline since 2017FY, evinced by a decline in its current and quick ratios from 1.21x and 0.61x to 1.11x and 0.54x, respectively in 2022FY due to higher trade payables (+17.66%) and income tax liabilities (7.26%). Likewise, debt levels increased moderately over the period largely due to additional bank loans taken during the year. As such, debt-to-equity ratio and financial leverage rose to 0.45x and 2.07x in 2022FY.

Similarly, **UACN's** cash position indicated an improvement in 2022FY, showing in improved CFO-to-CAPEX to 0.55x (from -0.63x in the preceding year). This signifies a strengthening ability to meet short term obligations and fund . Nevertheless, these relatively low levels still signify the company's dependence on external capital sources to fund its operations.

Chart 7: PAT (NGN'bn) Net Profit Margin (%)




Source: Company Financials, Meristem Research

Similarly, **UACN's** cash position indicated an improvement in 2022FY, showing in improved CFO-to-CAPEX and CFO-to-revenue ratios, rising to 0.55x and 0.15x respectively from -0.63x and 0.15x in the preceding year. This signifies increased cash generation from revenue and a larger cash reserve for capital expenditure. Nevertheless, these relatively low levels still signify the company's dependence on external capital sources to fund its operations.

## Valuation and Recommendation

| Metrics | Value |
| --- | --- |
| Fair Value | **17.81** |
| Current Share Price | 12.85 |
| Discount to fair value | 38.57% |
| Recommendation | **BUY** |

## Basis for Recommendation

In arriving at a fair value of NGN17.81 per share for **UACN**, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model) , Residual Income and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a **BUY** recommendation is extended for underpinned by a positive medium to long-term outlook.
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## Unilever Nigeria Plc

Unilever Nigeria Plc (**UNILEVER**), a subsidiary of the multinational corporation Unilever, is actively engaged in Nigeria's consumer goods industry. . Globally, at least 2.5million people use or consume UNILEVER products daily due to the essential nature of the company's products. In 1996, UNILEVER Nigeria was established and listed on the Nigerian stock exchange in 1973. The company embarked on an NGN58.85bn rights issue in 2017 to payout loans, purchase additional raw materials, and improve its cash position. The company specializes in manufacturing and distributing a diverse array of fast-moving consumer goods (FMCG), encompassing food items, beverages, cleaning agents, personal care essentials, and home care products.

In 2018, **UNILEVER** Nigeria divested its spread business and all the asset attached to the spread business. Additionally, in the 2020 half-year financial call, the parent company (UNILEVER group) confirmed the plan to spin-off its global tea business by the end of 2021. However, the company retained its Lipton ice-tea ready to drink joint venture with PepsiCo and India and Indonesia tea business. Also in 2023, the company has disclosed its plans to dissolve its home and personal care (HPC) segment.

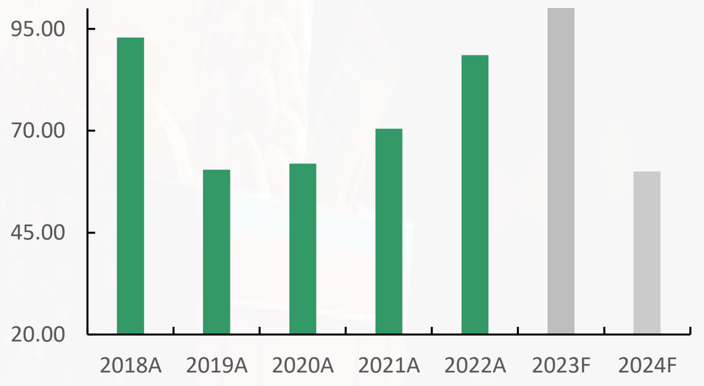
With a robust legacy spanning over seven decades, Unilever Nigeria holds a significant and established market position within Nigeria, especially in the food segment with its foremost Knorr bouillon cubes brand.

Its business model is based on the production and distribution of a wide range of consumer goods, including food, and formerly the home and personal care (HPC). In the food segment, the company boasts of foremost seasoning and broth brands like Knorr and Royco which have grown to become household names. Also, the HPC segment included known brands in the detergent, skin cleansing sub-segments, including OMO, Sunlight, Vaseline, Pears, CloseUp, Pepsodent, Lux, etc.

Employing a multi-brand approach, the company boasts a diverse portfolio of brands within each product category.

As such, this has enabled the company to cater to distinct market segments by offering a range of products. Also, leveraging its status as a subsidiary of a multinational corporation, **UNILEVER** harnesses the extensive resources and expertise of its parent company to support its operations within Nigeria.

**Chart 8: Revenue (NGN'bn), 2018-2024**




Source: Company Financials, Meristem Research

A review of **UNILEVER's** financial performance from 2017FY to 2022FY shows that revenue grew marginally by a CAGR of 0.78% over the last 5 years. Notably in 2022FY, the company witnessed a remarkable 25.59% YoY surge in revenue, reaching NGN88.57bn from NGN70.52bn in the previous year. This substantial expansion was primarily driven by a growth of 37.47% YoY to NGN42.63bn in the Food products segment. This growth was mainly fuelled by the strategic upward price adjustments made on its core products, particularly Knorr bouillon cubes and Royco, in the 2022FY. Similarly, at the end of 9M:2023, **UNILEVER's** results outperformed that of the corresponding period despite the difficult operating environment.

Revenue expanded by 25.95% YoY to NGN81.58bn during the period (vs. NGN64.77bn in 9M:2022). Higher sales was the predominant driven by strong customer loyalty to the company's products and contributed to the improved performance in the topline.

We modelled a 39.38% decline in revenue, to reach NGN60.99bn, a decrease from NGN81.58bn in 9M:2023 and NGN88.57bn in 2022FY. This outlook is influenced by the halt in production within the HPC segment, which typically contributes c.53% to the overall revenue.

Nevertheless, the strong brand reputation of their food products like Knorr seasoning cubes and Royco is expected to bolster revenue performance. Furthermore, we expect that **UNILEVER** may introduce new brands to its product line to adapt to evolving consumer preferences and maintain relevance in the Nigerian consumer goods market.

Similarly, costs have taken the same direction, increasing marginally by 17.90% YoY to NGN54.97bn in 2022FY due to a spike in raw material costs (32.98% YoY) during the period. However, cost-to-sales ratio improved to 62.07% (vs. 66.11% in 2021FY). Also, in 9M:2023, production cost rose by 30.65% YoY to NGN62.17bn owing to the higher inflationary environment, revaluation loss on foreign currency-related trade loans and restructuring costs on the divestment from its HPC segment. As such, the company's cost-to-sales ratio ticked up to 76.22% (higher than 73.47% in 9M:2022).

Likewise, operating expenses have increased over the period evinced by continued growth in administrative expenses (+22.45% YoY to NGN18.52bn) and selling and distribution expenses (+44.55% YoY to NGN4.80bn) in 2022FY. Notably, increases were recorded in brand and marketing expenses (+25.45% YoY), utility expenses (+45.23% YoY), and royalty expenses (+55.93% YoY). However, in 9M:2023, foreign exchange revaluation gains on receivables helped to shore up operating expenses, which declined marginally by 4.40% YoY to NGN16.05bn. Despite its challenge with rising costs, **UNILEVER** managed to achieve a remarkable 217.87% YoY increase in operating profit, reaching NGN1.73bn in 9M:2023 (a significant jump from NGN543.70mn in the corresponding period).

In addition to the general inflationary environment which affects the price of raw materials and inputs products, we expect **UNILEVER's** to still incur costs (restructuring costs – NGN3.27bn as of 9M:2023) related to its divestment from the HPC segment to result in an increase to NGN42.08bn in 2024FY.

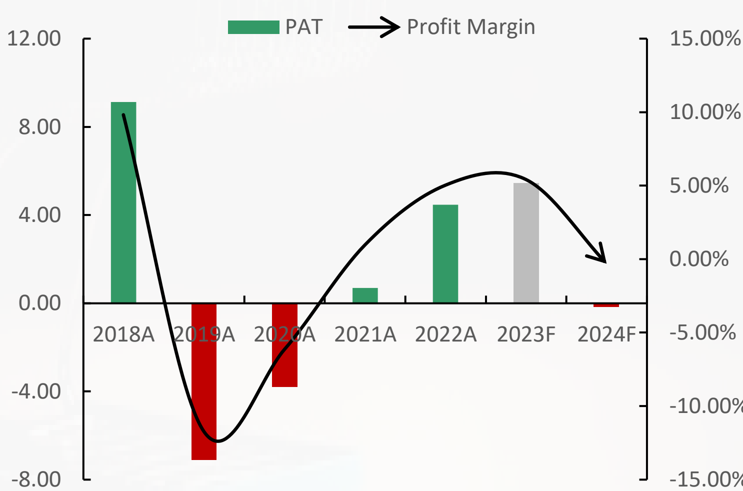
In terms of profitability, **UNILEVER** has showed a lot of resilience growing significantly by 549.04% YoY to NGN4.4bn in 2022FY.

This was anchored on strong revenue performance on the back of the company's implementation of route-to-market distribution strategies, intensification of marketing activities, as well as volume and price increases. Due to foreign exchange revaluation gains on receivables and a solid topline performance, profit after tax settled higher at NGN1.67bn (from a loss after tax of NGN348.01mn in 9M:2022).

**Although we anticipate a decline in revenue (reflects the influence of the recent divestments), we expect that increased selloffs on some PPE items could help to shore up the company's bottom line for 2024FY. Thus, we anticipate an expansion of 22.74% YoY to NGN6.32bn.**

**UNILEVER's** ability to meet its short-term obligations has declined steadily over the years, evinced by its liquidity ratios including, current, quick, and cash ratios, which increased to 1.88x, 1.58x, and 1.20x in 2022FY compared to 2.54x, 2.14x, and 1.38x in 2017FY. This decline happened due to a rapid increase trade payables over the period and by 31.87% YoY in 2022FY. Also, a glance at the company's earnings quality shows it has hovered around the same levels since 2016FY, however a notable uptick was seen in 2021FY to 29.19x. This was due to an increase in trade payables during the period.

**Chart 9: PAT (NGN'bn), Net Profit Margin (%)**




Source: Company Financials, Meristem Research

Valuation and Recommendation

## Valuation and Recommendation

### Summary

| Metrics | Value |
|---|---|
| Fair Value | **17.90** |
| Current Share Price | 14.80 |
| Discount to fair value | 20.95% |
| Recommendation | **BUY** |

## Basis for Recommendation

In arriving at a fair value of NGN17.90 per share for **UNILEVER**, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model) , Residual Income  and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a BUY recommendation is extended for underpinned by a positive medium to long-term outlook.

## Cadbury Nigeria Plc

Cadbury Nigeria Plc (**CADBURY**) is a subsidiary of Mondelez International, a British-based multinational confectionary company and the second largest in the world. In the 1950s, CADBURY Nigeria plc was founded to source cocoa beans from Nigeria and as a pathway to help the founders' leverage opportunities to serve the local consumer market with other global CADBURY branded products. In 1960, CADBURY Bournvita, the company's flagship brand, was imported in bulk and repacked locally at the company site at Agidingbi, Ikeja Lagos.

Product innovation and consumer satisfaction are the primary growth strategy for CADBURY. CADBURY invented one of its most iconic brands, "TomTom" in 1970 to further integrate its growth strategy. TomTom has sustained market leadership for almost 50years in Nigeria and now comes in four variants: strawberry, classic, fresh lime, and honey lemon. In 2014 **CADBURY** launched its 3-in-1 hot chocolate, and CADBURY Bournvita was repackaged into an environmentally friendly polypropylene jar in 2011 and relaunched with improved taste in 2018. The company also planned to invent new products to give consumers more varieties in 2020.


**CADBURY** currently has its production facilities in the south-western region of Nigeria, with their cocoa and butter processing plants in Ondo state and the manufacturing plant in Ikeja. The company operates in the food and beverages segment with products ranging across refreshment beverages, confectionery, and intermediate cocoa products like liquor, cake, cocoa butter, and powder.

Some of their iconic brands under the refreshment beverages segment include Cadbury Bournvita and Cadbury 3-in-1 hot Chocolate, while the TomTom Classic, TomTom Freshlime, Trebor, Buttermint, Cadbury Dairy Milk, Candy Caramel, Candy Coffee, and Clorets are the brands in their confectionery segment. In the segment for intermediate cocoa products, they have Cocoa Powder, Cocoa Cake, and Cocoa Butter. Through their backward integration strategies by processing cocoa in the factory in Ondo state, they have been able to provide all the cocoa powder needed for the manufacture of intermediate cocoa products like cocoa powder, cocoa butter, cocoa cake and cocoa liquor for local consumption and exports. Over the years, **CADBURY** has gained brand acceptance and has stayed the course to drive value.

In April 2013, CADBURY Nigeria plc acquired 99.66% equity in Stanmark cocoa processing company limited, located in Ondo State, Nigeria. Stanmark cocoa processing company provides all the cocoa powder required to produce Cadbury Bournvita. Stanmark is also responsible for processing the cocoa beans into by-products such as cocoa powder, cocoa cake, cocoa liquor, and cocoa butter, which CADBURY sells locally and export to contribute to its topline growth. The company brands fall into three main categories: refreshment beverages, intermediate cocoa products, and confectionery. Its refreshment beverages consist of its flagship product, CADBURY Bournvita, and 3-in-1 chocolate. The intermediate cocoa products consist of cocoa powder, cocoa butter, cocoa cake, and the confessionary products consist of the e four TomTom variants, Clorets, and Buttermint. The refreshment beverages segment contributes c.58% to the overall company's revenue

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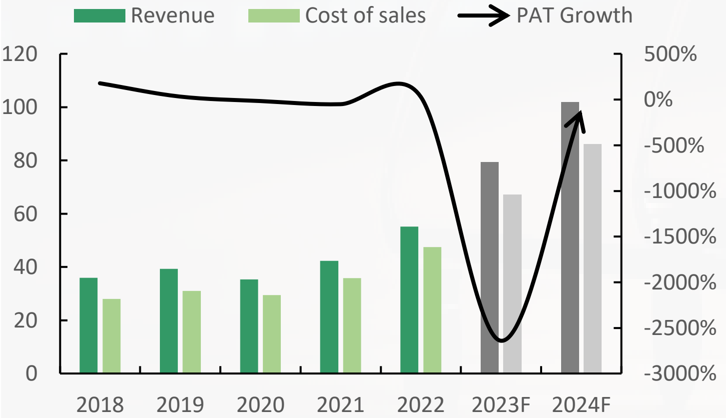
## Domestic Demand Bolsters Revenue Growth

Over the past five years, the company's revenue has shown consistent improvement, with a CAGR of 10.79% to NGN55.21bn in 2022FY. In 2022FY, the company reported a 30.30% topline growth driven by considerable uptick in domestic sales (soaring by 24.69% YoY) to NGN40.27bn in 2022FY due to upward price reviews for certain of their products in the confectionery and refreshment beverages segment as well as a growth in volumes. Notably, in 2021FY, export revenue from the sale of intermediate cocoa products declined (32.42% YoY to NGN2.10bn) due to the impact of FX volatilities on their business and gridlocks at the ports.

Similarly, in 9M:2023, **CADBURY** delivered a double-digit growth in topline by 39.17% YoY to NGN59.20bn from NGN42.54bn in 9M:2022. This was anchored on increases in both domestic sales (36.58% to NGN56.07bn, typically the major driver of revenue– *contributing c. 95% to total revenue*) and export sales (110.73% to NGN3.13). Across its business segments, increased sales was recorded in the beverages segment (35.88% YoY), confectionery (22.70% YoY), intermediate cocoa product (220.88% YoY), and the introduction of its biscuit business (which contributed NGN1.04bn during the period).

**We expect upward price reviews and the essential nature of the company's products to support revenue performance. Thus, we project a 27.79% YoY growth in revenue to NGN101.44bn. However, we note that declining consumer purchasing power and the stiff competition from other market participants, remains a significant to this outlook.**

**Chart 10: Revenue, Cost of Sales (NGN'bn), and PAT Growth (%)**




Source: Company Financials, Meristem Research

Production costs spiked (+32.30% YoY) to NGN47.49bn in 2022FY from NGN35.89bn in the previous period. This surge was primarily due to inflation-driven increases in the costs of raw materials and packaging material. Also, in 9M:2023, Production cost shot up by 25.55% YoY to NGN42.89bn during the period due to inflation-induced spikes in input costs. However, the faster growth of revenue resulted in the improvement of the cost-to-sales ratio to 72.45% (vs. 80.31% in Q3:2022).

Similarly, operating cost surged by 30.73% YoY to NGN6.72bn, fueled by the increase in both selling and distribution costs (+28.23% YoY to NGN5.19bn), and administrative expenses (+39.98% YoY to NGN1.53bn). Nonetheless, operating income margin increased to xxx (from xx in 9M:2022) on the back of the impressive revenue performance during the period. Notably, **CADBURY** incurred a NGN20.99bn foreign exchange loss from unrealized exchange difference on the company's debt. Consequently, net finance cost spiked greatly by +2893.15% YoY to NGN19.98bn from a positive of NGN712.16mn in 9M:2022. This in turn dragged the company's bottom line to a Loss after Tax of NGN10.24bn from a Profit after Tax of NGN2.82bn in 9M:2022.

**For 2024FY, we anticipate that revenue performance, alongside the implementation of strategic initiatives to navigate the challenging operational landscape, would contribute to supporting bottom-line growth. We also note the lower impact of FX losses on its bottom line. Thus, we modelled an increase to NGN1.78bn in 2024FY.**

The company's liquidity position has shown and declining trend over the period, highlighted by decreases in both the current ratio and quick ratio from 1.39x and 0.81x in 2018FY to 1.23x and 0.91x in 2022FY, respectively. **CADBURY's** leverage position increased gradually over the period, evinced by an increase in the debt-to-equity and total debt ratio from zero levels to 1.79x and 0.40x, respectively in 2022FY. Also, due to negative operating cashflow, the company's earnings quality took a hit in 2022FY, declining to -4.38 from 8.03x in 2018FY.

MERISTEM

## Valuation and Recommendation

Valuation and Recommendation

### Summary

| Metrics | Value |
|---|---|
| Fair Value | **28.87** |
| Current Share Price | 19.00 |
| Discount to fair value | 51.94% |
| Recommendation | BUY |

### Basis for Recommendation

In arriving at a fair value of NGN28.87 per share for CADBURY, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model) , Residual Income  and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

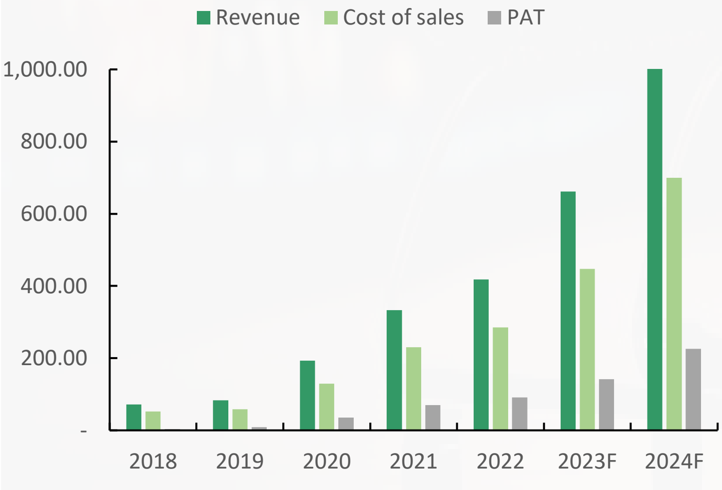
In conclusion, a BUY recommendation is extended for underpinned by a positive medium to long-term outlook.

## BUA Foods Plc

BUA Foods Plc (**BUAFOODS**) is a market leader in the food and Fast-Moving Consumer Goods (FMCG) business. It processes, manufactures, and distributes food produce across Nigeria. The company's business operations comprise five divisions, including Sugar, Flour, Pasta, Rice, and Edible Oils. The company is a member of the BUA Group, a leading conglomerate in Nigeria with business interests spread across the food and infrastructure sectors. Currently, **BUAFOODS'** products include fortified and non-fortified industrial sugar, flour, and pasta. The company kickstarted the processing, manufacturing, and distribution of rice in Q3:2023, while its edible oils segment is due to commence by 2024

**BUAFOODS** is one of the top sugar producers in West Africa, boasting a refining capacity of 1.50mn metric tons. The company is engaged in the comprehensive production, milling, processing, and refining of sugar and its by-products, including bagasse, molasses, and mud cakes. In the southeastern region, the company operates a flour milling facility with an annual capacity of 500.00 MT (metric tons). There are plans underway to expand this milling facility to reach an annual capacity of 1.30mn MT. Amongst others are its Pasta brand, Edibles Oils brand, and Rice brand.

**Chart 11: Revenue, Cost of Sales, and Profit (NGN'bn), (2018-2024)**




Source: Company Financials, Meristem Research

The company sources its main raw materials and food commodities from agricultural producers both domestically and outside the country. **BUAFOODS** maintains an extensive supply chain and is actively involved in backward integration initiatives, particularly focusing on sugar and promotion of local paddy rice sourcing. To further develop the agricultural value chain and enhance local sourcing, as part of its initiative, **BUAFOODS** plans to expand its farm-to-table initiatives to involve collaboration with external growers to source wheat and edible oils.

**BUAFOODS** reported consistent revenue growth over the past five years, maintaining a robust CAGR of 42.41% from 2018FY to 2022FY. Notably, the company achieved significant double-digit revenue growth in consecutive years, with an increase of 17.18% in 2019FY, followed by a remarkable growth of 130.45% YoY in 2020FY and 72.81% YoY in 2021FY. The notable surge in turnover in 2021FY primarily stems from increased sales across the company's business segments, encompassing the sugar, flour, and pasta divisions. Notably, considerable growth was observed in sales from fortified sugar (+91.14% YoY to NGN129.84bn) and non-fortified sugar (+136.18% to NGN79.16bn) in 2021FY.

In its most recent financial scorecard, topline showed an impressive growth of 80.95% YoY to NGN524.43bn from NGN289.82bn in 9M:2022. Growth in revenue was supported by the significant increase in sales volumes, upward prices reviews and the commissioning of some of their expansion projects. Across all business segments, increased sales was recorded – Flour (126.63% to NGN149.96bn), Sugar (74.16% to NGN315.15bn), Pasta (36.61% to NGN58.32bn), and the contribution from the Rice business (of which production began in Q3:2023) at NGN995mn.

**Looking ahead into 2024FY, we anticipate a robust 52.05% YoY growth in revenue, reaching NGN1.01trn. This projection is based on inflation-reflective price adjustments, ongoing expansions in their rice business, and the introduction of vegetable oil production in 2024.**

Likewise, production cost has followed a similar trend increasing from NGN52.55bn in 2018FY to NGN285.56bn in 2022FY. This consistent increase is largely attributable to increases in input cost over the period due to effects from foreign exchange instability and inflationary pressures. Production cost in 9M:2023 also surged by 74.12% YoY to NGN340.65bn (vs. NGN195.64bn in 9M:2022) stemming from the higher cost environment and continued depreciation of the Naira against the green back, thus significantly impacting raw material prices and subsequently escalating production costs.

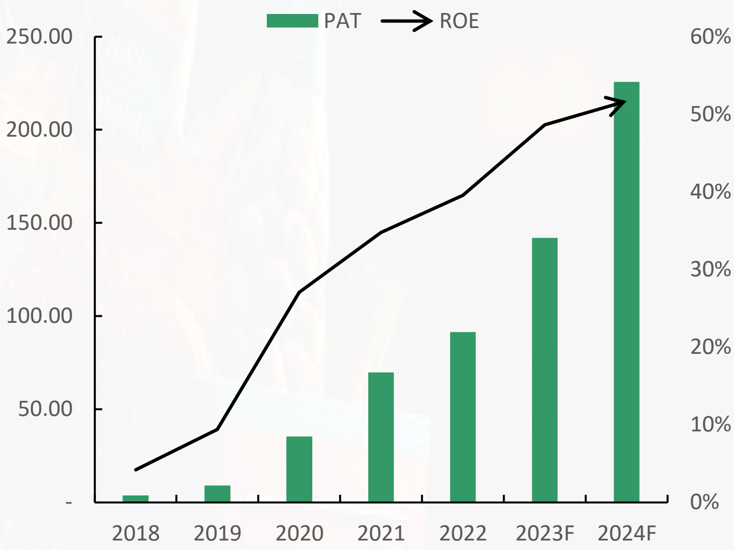
Also, in 9M:2023, operating costs saw an uptick of 89.90% YoY to NGN28.19bn owing to an increase in selling & distribution expenses (95.81% YoY to NGN20.27bn) and administrative expenses (76.27% YoY to NGN7.91bn). Notably, the increase in operating costs is attributable to increases in diesel costs (+85.15% YoY), salaries & wages (+47,36% YoY), general expenses (+41.13% YoY) as well as the impact of the company's strategies to drive promotions and sales volumes (which contributed to the increase in distribution expenses). Furthermore, net finance cost came in higher (90.75% YoY to NGN12.20bn) due to significant increase in the company's debt balance (75.45% to NGN379.77bn). Consequently, the leverage position increased (debt-to-equity 0.97x vs.0.94x). Also, the company raked in NGN33.28bn in foreign exchange loss on the group's foreign-denominated balances.

Riding on substantial revenue growth and efficient management practices, **BUAFOODS** has consistently upheld profit growth, staying on course to generate value for its shareholders. Profit after Tax grew from NGN3.65bn in 2018FY to NGN91.34bn in 2022FY at a 4-year CAGR of 90.42%. In the same vein, the company's return on equity (ROE) grew significantly from 4.17% in 2018FY to 39.55% in 2022FY. Despite these cost increases, **BUAFOODS** delivered a solid growth in a PAT of 53.60% YoY to NGN105.62bn in 9M:2023.

Due to a 128.77% YoY increase in trade receivables and a 13.67% YoY decline in trade payables, **BUAFOODS** liquidity ratios (cash, current, and quick ratios) improved to 0.10x, 0.90x and 0.81x in 2022FY, from 0.09x, 0.79x, and 0.72x, respectively in 2021FY.

Similarly, its earnings quality showed an improvement to 1.36x in 2022FY from 0.01x in 2021FY.

**Chart 12: PAT (NGN'bn) and ROE (%)**




Source: Company Financials, Meristem Research

Feeding from a solid revenue performance and the company's cost optimization strategies, we expect an expansion in BUAFOODS's bottom-line to NGN174.75bn, representing a growth of 53.80% YoY.

Valuation and Recommendation

# Valuation and Recommendation

## Summary

| Metrics | Value |
|---|---|
| Fair Value | **172.59** |
| Current Share Price | 193.40 |
| Premium to fair value | -10.76% |
| Recommendation | SELL |

## Basis for Recommendation

In arriving at a fair value of NGN172.59 per share for **BUAFOODS**, we utilized blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model), Residual Income and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 93.72% over the last two years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a **SELL** recommendation is extended for underpinned by a positive medium to long-term outlook.

# NASCON Allied Industries Plc

NASCON Allied Industries Plc ("NASCON" or "the company") was originally established in 1973 as a salt refining and distribution company under National salt company. Originally named National Salt Company of Nigeria, it was established as a joint venture between the Federal Military Government of Nigeria and Atlantic Salt & Chemical Inc. of Los Angeles, California, USA, due to an identified need for self-sufficiency in the production of salt, an essential commodity.

The company is now a member of Dangote Group of companies and is one of the major players in the food and agriculture sector in Nigeria. It has since evolved to include other business lines to its product portfolio. This expansion which necessitated its name change in 2014 to NASCON Allied Industries Plc added other business segments in manufacturing, refining, marketing and distribution of salt, seasoning, tomato paste and vegetable oil products. NASCON has operating facilities in Lagos (Apapa and Oregun), Ogun (Ota) and Rivers State (Port Harcourt). The Apapa refinery was commissioned in 2001 with an installed capacity of 275,000 metric tonnes per annum.


The company's seasoning and spice products enjoy significant patronage in Northern Nigeria, where it leverages on its knowledge of local consumer tastes, distribution network and loyalty to the Dangote brand name. **NASCON**'s seasoning products also competes in the saturated market with big brands such as **UNILEVER**'s Knorr and **NESTLE**'s Maggi.

**NASCON**'s growth strategy is hinged on capacity expansion, market penetration (by offering price discounts), and leveraging on brand loyalty which are significant factors driving it's continued market dominance.

The company launched the Dangote Stew Mix, Dangote Curry and Dangote Classic Seasoning product portfolio, expanding its product portfolio and leveraging on its market dominance to drive sales.

In 2023, Dangote Sugar Refinery Plc (**DANGSUGAR**) unveiled its proposed merger plan with **NASCON** Allied Industries Plc (**NASCON**) and Dangote Rice Limited (DRL). In the weeks following this merger announcement, **DANGSUGAR** presented the intended consideration to be extended to **NASCON** and DRL shareholders as part of the scheme. Within this scheme framework, each shareholder of **NASCON** will receive eleven (11) fully paid-up ordinary shares, valued at 50 Kobo each, in **DANGSUGAR** for every twelve (12) **NASCON** shares with the same value.

## Brand Loyalty drives revenue in Northern Regions.

**NASCON** grew revenue at a 5-year CAGR of 16.78% and 6.67% YoY in 2019 to NGN 27.49bn representing a new high for the company within the period. Over the years, the company has maintained a steady growth in revenue, with the exception being 2018FY, when revenue dipped slightly by 5% to NGN 25.77bn due to a reduction in both prices and volume sold during the year. **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. In the same vein, **NASCON's** 9M:2023 revenue increased by 45.57% YoY to NGN59.11bn (from NGN40.61bn in 9M:2022).

This performance was propped by price increments across its salts and seasoning segments, higher sales volume from sale of salt in the B2C (Sachet) market, and the introduction of a new seasoning product (Dangote Classic). On a regional basis, we highlight that the Northern region remains the major contributor (c.70%) of the firm's total revenue expanding by 96.55% YoY, while the Eastern (+30.14% YoY) and Western (+46.50% YoY) regions also recorded significant upticks.

We expect the firm's discounted pricing strategy, and introduction of the new seasoning products in the North to continually boost performance. 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 afore-mentioned 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 26.00% growth in topline to NGN90.37bn in 2024FY. We also premise that the Dangote Foods merger is likely to be completed in 2024FY and which should improve synergy benefits for the salt business.**

## Margins Undeterred by Rising Costs

Despite the tense inflationary environment, discounted pricing strategy and significant increase in revenue, NASCON's production cost increased by 6.559%YoY to NGN26.79bn (vs NGN25.14bn in 9M:2022). Thus, its cost to sales ratio improved to 45.32% (from 61.92% 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 (+4.04%YoY) and manufacturing expenses (+30.12%YoY). Gross margin thus increased to 54.68% vs. 38.08% in 9M:2022).

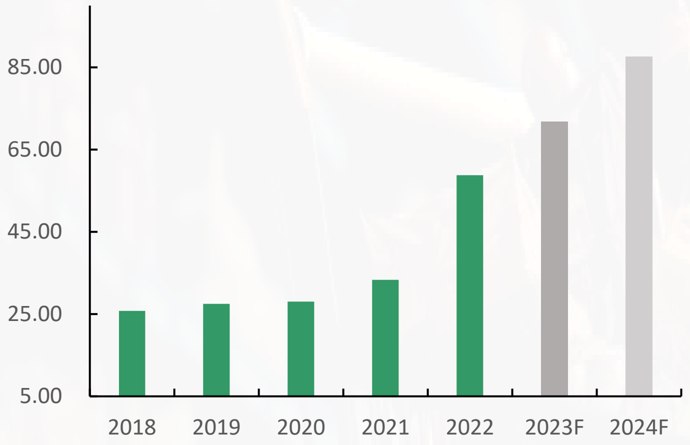
The firm's operating expenses shot up by 48.73%YoY to NGN15.73bn (from NGN10.58bn) on the back of an increase in delivery expenses by 57.59%YoY as the firm relies on third party distributors. A new salary structure was also implemented during the period resulting in a 66.74%YoY increase in employee cost. Operating profit margin however remained sturdy improving to 28.27% (from 12.04% in 9M:2022). We note the +85.87%YoY increase in finance costs, anchored on the +218.29% YoY upshoot in current debt obligations (letters of credit obtained for importation). Nevertheless, interest coverage improved to 19.08x (from 10.37x). Supported by the increase in topline and lower production cost pressure, NASCON's profit after taxes increased by 235.41%YoY to NGN11.00bn from NGN3.28bn in 9M:2022). The financial performance during the period improved trailing shareholders' returns on equity as it shot up to 48.16% (from 28.72% in 2022FY) mainly propped by higher net margin (18.62% vs 9.30%), while asset turnover (0.99x vs. 1.06x) and financial leverage declined (2.86x vs. 2.92x).

### FX Revaluation Improves Liquidity Metrics

Owing to the 137.25% increase in trade receivables (due to revaluation gains) and inventory (+5.36%) the firm's liquidity metrics improved: Current, quick and cash ratio increased to 1.12x, 0.85x and 0.36x (from 1.28x, 1.01x and 0.43x in 2022FY). The increase in trade payables (+51.17%Ytd) also propped up its cash flow from operation (+277.79%). Thus, the firm's cashflow ratios improved compared to 2022FY: CFO-to-capex (8.06x vs. 2.71x), CFO-to-current liabilities (0.29x vs. 0.11x) and Earnings quality (1.20x vs 0.64x). These metrics signal NASCON's ability to fund capacity expansion and re-pay its current liabilities without resorting to external financing.

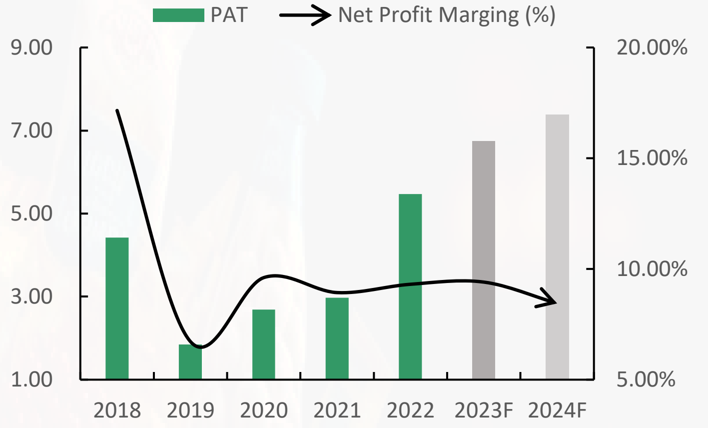
**In 2024FY, we expect cost pressures to continue weighing on the firm. We opine that the firm's existing cost management strategies would help to cushion its impact on prices and profitability. We project a 23.78% YoY improvement in earnings to NGN8.35bn for 2024FY hinged on our optimistic projection for revenue performance.**

**Chart 13: Revenue (NGN'bn) 2018-2024**




Source: Company Financials, Meristem Research

**Chart 14: PAT (NGN'bn) Net Profit Margin (%)**




Source: Company Financials, Meristem Research

# Valuation and Recommendation

## Summary

| Metrics | Value |
|---|---|
| Fair Value | **67.76** |
| Current Share Price | 53.75 |
| Discount to fair value | +26.07% |
| Recommendation | BUY |

## Basis for Recommendation

In arriving at a fair value of NGN67.76 per share for NASCON, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model) , Residual Income and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a BUY recommendation is extended for underpinned by a positive medium to long-term outlook.

# Dangote Sugar Refinery Plc

Dangote Sugar Refinery PLC (**DANGSUGAR**) is an integrated sugar business, established in 1999 and started its sugar business in 2000. It is a leading brand in the sugar refining sector of the Nigerian Food and Beverage Industry. The company commenced business with an initial refining capacity of 600,000MT/a, but upgraded into one of the world's largest producer with 1.44MMT/a in 2004. The company imports raw sugar from Brazil, refines it into Vitamin A-fortified white sugar, and sells the final product under the brand name 'Dangote sugar' across Nigeria.

The company's principal activity remains the refining of raw sugar into edible sugar and selling the refined sugar. The Company has a Backward Integration Program (BIP) with a 10-year sugar development plan to produce 1.5million MT/PA of sugar from locally grown sugarcane. The project commenced with its acquisition of Savanna Sugar Company Limited at Numan, in Adamawa state and other Green Project sites across Nigeria as well as four other Backward-Integration-Program sugar companies; Dangote Taraba Sugar Limited, Dangote Adamawa Sugar Limited, Nasarawa Sugar Company Limited and Dangote Niger Sugar Limited. The Dangote Sugar refinery, produces 45 ICUMSA Vitamin-A Fortified refined granulated white sugar, packaged and distributed in 50kg, 1kg, 500g, 250g and non-fortified granulated sugar in 50kgbags.

## Growth Volumes Drive Topline Performance

An assessment of the firm's financials from 2017FY to 2022FY reveals that its revenue grew at 14.55% CAGR from NGN204.42bn in 2017 to NGN403.25bn within the 5-year period.

In 2018, revenue declined sharply by 26.44% to NGN150.37bn – the first decline since 2014 mainly due to reduced sales volumes and reduction in net selling price per unit. Group sugar sales volumes decreased by 12% YoY to 587,899 metric tonnes (mt). Similarly, the average net selling price per 50kg bag reduced year-on-year by 17% to NGN12,429. In addition, low-priced smuggled sugar were smuggled into key markets in the country. The topline performance however rebounded, recording steady growth since then on the back of higher sales volume and price increments on products. In its 9M:2023 financial scorecard, **DANGSUGAR** recorded meagre growth in revenue of 7.42% YoY to NGN309.71bn from NGN288.32bn. This performance reflected the trickle-down effect of the crunch in the global sugar market coupled with intense competition from rival products. Across product lines, growth was majorly recorded in Sugar (7.55% YoY to NGN306.51bn) and Molasses (14.28% YoY to NGN1.96bn) (which contributed c. 2% to total revenue).

**For 2024FY, we project a 19.64% YoY increase in topline to NGN576.99bn driven in part by higher sugar prices due to the supply constraints in the global scene from major sugar exporters like India and Thailand. Also, we anticipate the proposed merger between DANGSUGAR and NASCON (to be completed in 2024FY) to bolster revenue performance as the new company is expected to yield from the synergy advantage.**

## Rising Cost Pressures Encroach on Profitability

Similarly, **DANGSUGAR** witnessed a rise in its cost of sales from 2018 to 2022, averaging a total of 76.43% of its revenue and reaching NGN311.28bn in 2022FY (a 43.78% YoY uptick from NGN225.85bn in 2021FY). This increase can be attributed to the prevailing inflationary environment and the impact of the Naira depreciation, affecting input costs. Particularly in 2018FY, cost declined greatly reflecting the reduction in sales volumes during the period. Additionally, production expenses increased marginally by 6.14% YoY to NGN245.06bn due to inflation-driven hikes in raw material expenses.

However, despite these cost escalations, the company experienced an improvement in the cost-to-sales ratio, reaching 79.12% compared to 80.08% in Q3:2022, mainly owing to faster revenue growth. As a result, gross profit also increased by 12.57% YoY to NGN64.66bn, thus the gross margin improved slightly to 20.88% (vs. 19.92% in 9M:2022).

In the same vein, operating costs has increased over the years from NGN7.77bn in 2018FY to NGN11.05bn. However, costs declined marginally by 4.21% YoY due to a 18.21% decline in selling and distribution expenses. In 9M:2023, operating cost surged by 20.91% YoY to NGN9.58bn, fuelled by the increase in employee costs (24.04% YoY to NGN3.73bn) due to upward salary reviews during the period. Nonetheless, operating income (EBIT) improved (+12.57% YoY) during the period to NGN56.14bn from NGN49.87bn in 9M:2022 on the back of the revenue growth and increase in other income from insurance claims and the sale of scrap of during the period. Notably, **DANGSUGAR** incurred a NGN90.99bn FX revaluation loss (534.99% YoY) and a spike in finance cost on letters of credit (293.87% to NGN17.59bn) following the devaluation of the Naira in June 2023. Consequently, total finance cost spiked greatly by 473.00% YoY to NGN108.72bn (vs. NGN18.97bn 9M:2022).

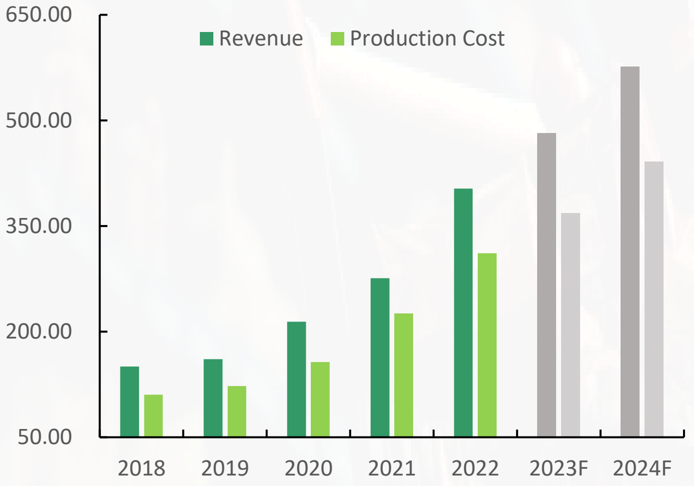
Leveraging topline expansions and effective and improved operational efficiencies, **DANGSUGAR** has exhibited an upward trajectory in profit generation over time. Over the past five years, its Profit after Tax has grown from NGN39.78bn in 2017FY to NGN53.31bn in 2022FY, achieving a 5-year CAGR of 6.03%. Simultaneously, the company's Return on Equity (ROE) improved marginally from 42.90% in 2018FY to 53.86% in 2022FY. Due to mounting cost pressure and the effect of the FX revaluation loss in 9M:2023, the company's bottom line was dragged to a Loss after Tax of NGN27.03bn from a Profit after Tax of NGN24.83bn in 9M:2022.

**We expect anticipated hikes in raw material costs driven by elevated import prices, coupled with an overall rise in operational expenses, are likely to exert pressure on total costs for 2024FY. Additionally, the company's substantial exposure to FX fluctuations is expected to have a lower impact on its profitability. Consequently, we forecast a Profit after Tax of NGN47.24bn for 2024FY, following an expected Loss after Tax of NGN3.78bn recorded in 2023FY.**

The company's liquidity position has significantly strengthened over time, indicating an enhanced ability to promptly meet its short-term obligations as they emerge. This is evinced by uptrend in the current ratio, quick ratio and cash ratio from 0.98x, 1.31x and 0.19x in 2017FY to 1.49x, 1.81x, and 2.52x in 2022FY, respectively. The sharp increases in trade receivables (+114.20% to NGN107.43bn in 2022FY) and cash balance (+69.75% YoY to NGN174.86bn in 2022FY) underscores this improvement.

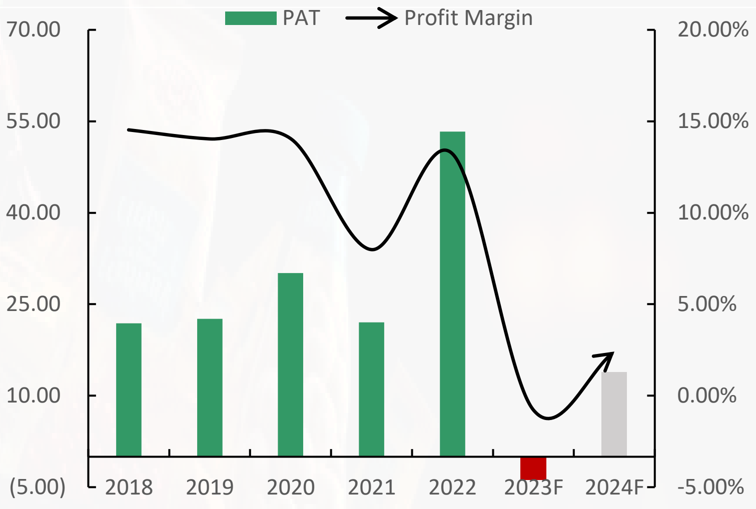
**DANGSUGAR** has consistently maintained a robust operating cash position, supported by increased profitability over the years. This is evinced by the improved cashflow-to-revenue ratio, rising from 0.13x in 2017FY to 0.26x, and the cashflow-to-debt ratio, escalating from 16.94x in 2017FY to 60.00x in 2022FY (owing to a significant decline in **DANGSUGAR's** debt level). Notably, despite the decline in operating cashflows, driven by a 114.20% increase in trade receivables in 2022FY, the company managed to strengthen its financial standing. Additionally, the earnings quality has generally ranged from 1.00x to 2.00x, except for 2021FY when it surged to 5.86x, attributed to the rise in operating cash flow during that period.

**Chart 15:** **Revenue and Cost of Sales (NGN'bn) 2018 - 2024F**




Source: Company Financials, Meristem Research

**Chart 16:** **PAT (NGN'bn) Net Profit Margin (%)**




Source: Company Financials, Meristem Research

# Valuation and Recommendation

## Summary

| Metrics | Value |
|---|---|
| Fair Value | **67.17** |
| Current Share Price | 57.00 |
| Discount to fair value | 17.84% |
| Recommendation | **BUY** |

## Basis for Recommendation

In arriving at a fair value of NGN67.17 per share for **DANGSUGAR**, we utilized a blended Discounted Cash Flow (DCF) valuation models (Equity Discounted Cash Flow Model, Dividend Discount Model and Economic Profit Model) , Residual Income  and the Relative Valuation Approach. The valuation process considered the group's growth prospects, inherent risks, and both positive and negative factors influencing its outlook. We note that this fair value is based on a 5-year forecast and would be beneficial for investors favouring a long-term market approach.

Also, the stock has been actively traded in terms of liquidity, with a trading frequency of 100.00% over the last 5 years (2018-2023). This high liquidity indicates that investors can easily buy or sell shares, facilitating efficient market entry and exit.

In conclusion, a **BUY** recommendation is extended for underpinned by a positive medium to long-term outlook.

## Summary of Fair Values

MERISTEM

| Ticker | Fair Value (NGN) | Current Price (NGN) | Upside Potential (%) | Forecast Drivers |
|---|---|---|---|---|
| FLOURMILL | 60.88 | 33.05 | 84.21% | ✓ Sustained revenue and earnings growth |
| NB | 48.02 | 36.00 | 33.39% | ✓ Market share presence and product expansion |
| GUINNESS | 79.36 | 66.00 | 20.24% | ✓ Broad product portfolio and improved profitability |
| NESTLE | 1,326.79 | 1,100.00 | 20.62% | ✓ Sustained revenue and earnings growth. |
| UACN | 17.81 | 12.85 | 38.57% | ✓ Cost optimization strategies. |
| UNILEVER | 17.90 | 14.80 | 20.95% | ✓ Revenue growth from food segment.<br>✓ Expansions in bottom line. |
| CADBURY | 28.87 | 19.00 | 51.94% | ✓ Upward price reviews.<br>✓ PPE expansions |
| BUAFOODS | 172.59 | 193.40 | -10.76% | ✓ Introduction of new product lines.<br>✓ Plant expansions.<br>✓ Cost optimization strategies. |
| NASCON | 67.76 | 53.75 | 26.07% | ✓ Upward price reviews.<br>✓ Synergy benefits from upcoming merger. |
| DANGSUGAR | 67.71 | 57.00 | 17.84% | ✓ Upward price review.<br>✓ Synergy benefits from upcoming merger. |

MERISTEM

## Appendix - FLOURMILL

Financial Highlights and Forecasts (NGN billion)

| *Profit & Loss Account* | 2022FY | 2023FY | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|---|---|
| Revenue | 1,163.80 | 1,539.65 | 1,850.59 | 2,224.35 | 2,673.62 | 3,079.99 | 3,548.16 |
| Cost of sales | 1,055.71 | 1,362.55 | 1,682.68 | 2,022.59 | 2,431.19 | 2,800.80 | 3,226.65 |
| Gross profit | 108.09 | 177.10 | 167.91 | 201.76 | 242.43 | 279.18 | 321.51 |
| Operating expense | 42.86 | 56.01 | 68.25 | 77.81 | 89.25 | 99.73 | 114.89 |
| Operating profit | 65.51 | 97.76 | 97.08 | 120.85 | 149.46 | 175.16 | 201.68 |
| Finance cost | 25.48 | 55.73 | 70.63 | 77.72 | 77.38 | 76.34 | 83.18 |
| PBT | 41.12 | 42.75 | 28.69 | 45.83 | 75.32 | 102.55 | 122.79 |
| PAT | 28.02 | 29.50 | 19.23 | 30.71 | 50.47 | 68.71 | 82.27 |
| ***Balance Sheet*** | **2022FY** | **2023FY** | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** |
| Property, Plant and Equipment | 226.84 | 340.80 | 387.30 | 442.28 | 506.76 | 582.64 | 670.06 |
| Total Debt | 176.42 | 400.17 | 314.66 | 399.61 | 324.01 | 344.75 | 368.34 |
| **Total Assets** | **667.01** | **1,097.40** | **1,038.17** | **1,248.68** | **1,330.34** | **1,508.41** | **1,714.28** |
| **Total Equity** | **195.90** | **225.22** | **240.62** | **264.28** | **301.55** | **350.30** | **408.49** |
| **Total Current Liabilities** | **293.59** | **584.09** | **529.79** | **646.31** | **716.82** | **815.95** | **929.02** |
| **Non-Current Liabilities** | **177.52** | **288.08** | **267.76** | **338.09** | **311.97** | **342.17** | **376.77** |
| **Total Liabilities** | **471.11** | **872.17** | **797.54** | **984.40** | **1028.79** | **1158.12** | **1305.79** |
| ***Financial Ratios*** | **2022FY** | **2023FY** | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** |
| Gross Margin | 9.29% | 11.50% | 9.07% | 9.07% | 9.07% | 9.06% | 9.06% |
| Operating Margin | 5.63% | 6.35% | 5.25% | 5.43% | 5.59% | 5.69% | 5.68% |
| Net Margin | 2.41% | 1.92% | 1.04% | 1.38% | 1.89% | 2.23% | 2.32% |
| Return on Asset | 4.20% | 2.69% | 1.85% | 2.46% | 3.79% | 4.56% | 4.80% |
| Return on Equity | 14.30% | 13.10% | 7.99% | 11.62% | 16.74% | 19.61% | 20.14% |
| Return on Invested Capital | 16.83% | 15.70% | 15.70% | 25.39% | 27.21% | 27.79% | 27.90% |
| Asset Turnover | 1.74x | 1.40x | 1.78x | 1.78x | 2.01x | 2.04x | 2.07x |
| Financial Leverage | 3.40x | 4.87x | 4.31x | 4.72x | 4.41x | 4.31x | 4.20x |
| Current Ratio | **1.40x** | **1.22x** | **1.13x** | **1.16x** | **1.06x** | **1.05x** | **1.05x** |
| Quick Ratio | **0.43x** | **0.64x** | **0.34x** | **0.37x** | **0.22x** | **0.20x** | **0.18x** |

Valuation and Recommendation

## Appendix - NB

Financial Highlights and Forecasts (NGN billion)

| *Profit & Loss Account* | 2021FY | 2022FY | 2023F | 2024F | 2025F | 2026F | 2027F |
|---|---|---|---|---|---|---|---|
| Revenue | 437.29 | 550.64 | 604.77 | 665.43 | 730.84 | 802.69 | 881.60 |
| Cost of sales | 235.57 | 297.71 | 332.62 | 365.99 | 401.96 | 433.45 | 476.06 |
| Gross profit | 201.71 | 252.93 | 272.14 | 299.44 | 328.88 | 369.24 | 405.54 |
| Operating expense | 123.55 | 163.98 | 170.90 | 188.04 | 206.53 | 226.83 | 249.13 |
| Operating profit | 36.87 | 49.39 | 54.51 | 52.75 | 58.24 | 70.90 | 76.72 |
| Finance cost | 11.07 | 8.42 | 34.22 | 51.33 | 52.94 | 58.23 | 64.05 |
| PBT | 23.70 | 17.38 | -66.34 | 8.68 | 13.30 | 21.50 | 22.37 |
| PAT | 9.39 | 13.23 | -66.34 | 5.90 | 9.05 | 14.62 | 15.21 |
| *Balance Sheet* | 2021FY | 2022FY | 2023F | 2024F | 2025F | 2026F | 2027F |
| Property, Plant and Equipment | 256.28 | 358.97 | 344.12 | 349.50 | 364.94 | 384.92 | 407.27 |
| Total Debt | 31.37 | 122.27 | 305.66 | 336.23 | 369.85 | 406.84 | 447.52 |
| **Total Assets** | **485.52** | **619.89** | **677.85** | **730.78** | **782.16** | **834.51** | **896.85** |
| **Total Equity** | **171.91** | **179.91** | **112.52** | **113.11** | **114.01** | **115.48** | **117.00** |
| **Total Current Liabilities** | **272.53** | **407.69** | **418.69** | **506.40** | **557.93** | **608.06** | **667.66** |
| **Non-Current Liabilities** | **41.08** | **32.27** | **188.99** | **211.98** | **233.32** | **256.94** | **282.52** |
| **Total Liabilities** | **313.61** | **0.15** | **607.68** | **714.38** | **791.25** | **865.01** | **950.18** |
| *Financial Ratios* | 2021FY | 17% | 2023F | 2024F | 2025F | 2026F | 2027F |
| Gross Margin | 46.13% | 45.93% | 45.00% | 45.00% | 45.00% | 46.00% | 46.00% |
| Operating Margin | 8.43% | 8.97% | 9.01% | 7.93% | 7.97% | 8.83% | 8.70% |
| Net Margin | 2.15% | 255.30% | -10.97% | 0.89% | 1.24% | 1.82% | 1.73% |
| Return on Asset | 1.94% | 228.70% | -9.79% | 0.81% | 1.16% | 1.75% | 1.70% |
| Return on Equity | 5.46% | 7.35% | -58.96% | 5.22% | 7.94% | 12.66% | 13.00% |
| Return on Invested Capital | 16.47% | 13.76% | 7.50% | 23.89% | 23.58% | 27.66% | 28.80% |
| Asset Turnover | 0.90x | 0.89x | 0.89x | 0.91x | 0.93x | 0.96x | 0.98x |
| Financial Leverage | 2.82x | 3.45x | 6.02x | 6.46x | 6.86x | 7.23x | 7.67x |
| Current Ratio | **0.44x** | **0.38x** | **0.54x** | **0.53x** | **0.53x** | **0.53x** | **0.53x** |
| Quick Ratio | **0.22x** | **0.18x** | **0.33x** | **0.34x** | **0.35x** | **0.35x** | **0.35x** |

# Appendix - GUINNESS

Financial Highlights and Forecasts (NGN billion)

| *Profit & Loss Account* | 2022FY | 2023FY | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|---|---|
| Revenue | 206.82 | 229.44 | 256.54 | 287.28 | 321.70 | 353.87 | 389.26 |
| Cost of sales | 134.16 | 151.31 | 157.70 | 176.60 | 197.76 | 217.53 | 239.28 |
| Gross profit | 72.66 | 78.13 | 98.84 | 110.68 | 123.95 | 136.34 | 149.98 |
| Operating expense | 51.06 | 58.22 | 65.44 | -73.29 | -82.07 | -90.27 | -99.30 |
| Operating profit | 13.00 | 19.91 | 16.71 | 18.91 | 20.95 | 23.29 | 25.35 |
| Finance cost | 2.13 | 53.29 | 14.50 | 21.93 | 23.69 | 21.32 | 23.03 |
| PBT | 15.07 | -22.14 | 10.10 | 5.82 | 7.17 | 12.87 | 14.31 |
| PAT | 7.04 | -18.17 | 6.77 | 3.90 | 4.80 | 8.62 | 9.59 |
| *Balance Sheet* | 2022FY | 2023FY | 2024F | 2025F | 2026F | 2027F | 2028F |
| Property, Plant and Equipment | 97.69 | 99.18 | 101.25 | 103.93 | 107.27 | 111.15 | 115.61 |
| Total Debt | 31.31 | 63.76 | 70.13 | 75.74 | 81.80 | 88.35 | 95.41 |
| **Total Assets** | **215.66** | **241.75** | **260.52** | **283.64** | **308.56** | **333.97** | **361.83** |
| **Total Equity** | **89.98** | **56.42** | **60.49** | **62.44** | **63.88** | **66.47** | **69.34** |
| **Total Current Liabilities** | **113.73** | **183.67** | **186.97** | **206.58** | **228.31** | **249.51** | **272.69** |
| **Non-Current Liabilities** | **11.95** | **1.65** | **13.06** | **14.62** | **16.37** | **18.00** | **19.79** |
| **Total Liabilities** | **125.68** | **185.32** | **200.03** | **221.20** | **244.68** | **267.51** | **292.49** |
| *Financial Ratios* | 2022FY | 2023FY | 2024F | 2025F | 2026F | 2027F | 2028F |
| Gross Margin | 35.13% | 34.05% | 38.53% | 38.53% | 38.53% | 38.53% | 38.53% |
| Operating Margin | 6.29% | 8.68% | 6.51% | 6.58% | 6.51% | 6.58% | 6.51% |
| Net Margin | 3.41% | -7.92% | 2.64% | 1.36% | 1.49% | 2.44% | 2.46% |
| Return on Asset | 3.27% | -7.52% | 2.60% | 1.38% | 1.56% | 2.58% | 2.65% |
| Return on Equity | 7.83% | -32.20% | 11.19% | 6.25% | 7.52% | 12.97% | 13.83% |
| Return on Invested Capital | 22.38% | 12.40% | 46.40% | 32.50% | 39.78% | 46.90% | 55.91% |
| Asset Turnover | 0.96x | 0.95x | 0.98x | 1.01x | 1.04x | 1.06x | 1.08x |
| Financial Leverage | 2.40x | 4.28x | 4.31x | 4.54x | 4.83x | 5.02x | 5.22x |
| Current Ratio | **1.03x** | **0.77x** | **0.85x** | **0.87x** | **0.88x** | **0.89x** | **0.90x** |
| Quick Ratio | **0.75x** | **0.58x** | **0.63x** | **0.64x** | **0.65x** | **0.66x** | **0.67x** |

# Appendix - NESTLE

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

| ***Profit & Loss Account*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
|---|---|---|---|---|---|---|---|
| Revenue | 351.82 | 446.82 | 574.07 | 682.35 | 791.92 | 926.97 | 1092.45 |
| Cost of sales | 219.99 | 291.05 | 387.77 | 451.82 | 522.52 | 625.54 | 748.04 |
| Gross profit | **131.84** | **155.76** | **186.29** | **230.53** | **269.40** | **301.43** | **344.42** |
| Operating expense | 59.87 | 68.87 | 87.78 | 98.84 | 107.92 | 124.18 | 148.08 |
| Operating profit | **71.69** | **86.87** | **98.51** | **131.69** | **161.48** | **177.25** | **196.34** |
| Finance cost | 12.08 | 20.53 | 133.28 | 80.58 | 45.31 | 29.42 | 14.40 |
| PBT | **61.60** | **71.11** | **-31.36** | **55.10** | **120.98** | **154.17** | **189.68** |
| PAT | **39.76** | **48.97** | **-31.36** | **37.47** | **82.26** | **104.84** | **128.98** |
| ***Balance Sheet*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Property, Plant and Equipment | 98.96 | 116.74 | 124.16 | 137.90 | 154.87 | 173.86 | 195.49 |
| Total Debt | 77.34 | 155.48 | 286.77 | 341.79 | 354.91 | 358.95 | 359.72 |
| **Total Assets** | 310.24 | 415.04 | 521.88 | 620.32 | 719.93 | 842.70 | 993.14 |
| **Total Equity** | 21.38 | 30.29 | -0.98 | 10.27 | 26.73 | 47.72 | 73.56 |
| **Total Current Liabilities** | 195.52 | 218.40 | 275.90 | 355.97 | 442.72 | 510.48 | 597.37 |
| **Non-Current Liabilities** | 93.34 | 166.35 | 246.95 | 254.16 | 253.98 | 284.50 | 322.22 |
| **Total Liabilities** | 288.86 | 384.75 | 522.86 | 610.13 | 696.69 | 794.98 | 919.58 |
| ***Financial Ratios*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Gross Margin | 37.47% | 34.86% | 32.45% | 33.79% | 34.02% | 32.52% | 31.53% |
| Operating Margin | 20.38% | 19.44% | 17.16% | 19.30% | 20.39% | 19.12% | 17.97% |
| Net Margin | 11.30% | 10.96% | -5.46% | 5.49% | 10.39% | 11.31% | 11.81% |
| Return on Asset | 12.82% | 11.80% | -6.01% | 6.04% | 11.43% | 12.44% | 12.99% |
| Return on Equity | 185.98% | 161.65% | -3201.50% | 364.93% | 307.75% | 219.68% | 175.34% |
| Return on Invested Capital | 268.25% | 56.25% | -31.22% | 41.21% | 218.00% | 276.59% | 246.86% |
| Asset Turnover | 1.13x | 1.08x | 1.10x | 1.10x | 1.10x | 1.10x | 1.10x |
| Financial Leverage | 14.51x | 13.70x | -532.73x | 60.42x | 26.93x | 17.66x | 13.50x |
| Current Ratio | 1.04x | 1.33x | 1.41x | 1.32x | 1.25x | 1.28x | 1.30x |
| Quick Ratio | 0.74x | 0.93x | 1.06x | 0.98x | 0.92x | 0.94x | 0.96x |

MERISTEM

Valuation and Recommendation

# Appendix - UACN

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

| ***Profit & Loss Account*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
|---|---|---|---|---|---|---|---|
| Revenue | 101.38 | 109.27 | 120.36 | 132.84 | 146.58 | 163.37 | 180.87 |
| Cost of sales | 83.84 | 95.03 | 104.72 | 115.57 | 127.52 | 143.77 | 159.16 |
| Gross profit | **17.54** | **14.24** | **15.65** | **17.27** | **19.06** | **19.60** | **21.70** |
| Operating expense | 14.85 | 17.31 | 18.12 | 19.26 | 21.99 | 23.61 | 27.13 |
| Operating profit | **5.03** | **-2.32** | **5.90** | **-0.58** | **-1.38** | **-2.27** | **-3.51** |
| Finance cost | 1.57 | 3.53 | 3.62 | 3.64 | 4.00 | 3.45 | 2.42 |
| PBT | **4.12** | **-4.30** | **8.02** | **-1.46** | **-2.33** | **-2.33** | **-2.16** |
| PAT | **2.60** | **-3.94** | **5.46** | **-0.99** | **-1.58** | **-1.58** | **-1.47** |
| ***Balance Sheet*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Property, Plant and Equipment | 22.22 | 25.04 | 28.88 | 32.67 | 36.37 | 40.24 | 45.01 |
| Total Debt | 20.52 | 20.59 | 22.65 | 24.91 | 27.40 | 28.77 | 30.21 |
| **Total Assets** | 98.93 | 93.83 | 100.30 | 110.70 | 122.15 | 136.14 | 150.72 |
| **Total Equity** | 50.84 | 45.28 | 47.80 | 47.04 | 47.20 | 47.48 | 47.80 |
| **Total Current Liabilities** | 42.70 | 42.57 | 43.14 | 52.70 | 62.34 | 74.31 | 86.75 |
| **Non-Current Liabilities** | 5.35 | 5.98 | 7.77 | 9.03 | 10.33 | 11.66 | 13.05 |
| **Total Liabilities** | 48.09 | 48.55 | 52.50 | 63.66 | 74.95 | 88.66 | 102.92 |
| ***Financial Ratios*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Gross Margin | 17.30% | 13.03% | 13.00% | 13.00% | 13.00% | 12.00% | 12.00% |
| Operating Margin | 4.96% | -2.13% | 4.90% | -0.44% | -0.94% | -1.39% | -1.94% |
| Net Margin | 2.56% | -3.60% | 4.53% | -0.75% | -1.08% | -0.97% | -0.81% |
| Return on Asset | 2.63% | -4.20% | 5.44% | -0.90% | -1.30% | -1.16% | -0.98% |
| Return on Equity | 5.11% | -8.70% | 11.41% | -2.11% | -3.36% | -3.33% | -3.08% |
| Return on Invested Capital | 4.29% | -8.38% | 10.29% | -1.80% | -2.70% | -2.54% | -2.29% |
| Asset Turnover | 1.02x | 1.16x | 1.20x | 1.20x | 1.20x | 1.20x | 1.20x |
| Financial Leverage | 1.95x | 2.07x | 2.10x | 2.35x | 2.59x | 2.87x | 3.15x |
| Current Ratio | 1.32x | 1.11x | 1.21x | 1.08x | 1.00x | 0.94x | 0.88x |
| Quick Ratio | 0.47x | 0.54x | 0.58x | 0.51x | 0.45x | 0.39x | 0.36x |

# Appendix - UNILEVER

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

| ***Profit & Loss Account*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
|---|---|---|---|---|---|---|---|
| Revenue | 70.52 | 88.57 | 100.60 | 60.99 | 76.48 | 99.82 | 126.56 |
| Cost of sales | 46.63 | 54.97 | 62.87 | 35.12 | 49.71 | 67.88 | 86.06 |
| Gross profit | **23.90** | **33.60** | **37.73** | **25.87** | **26.77** | **31.94** | **40.50** |
| Operating expense | 18.44 | 23.31 | 27.32 | 16.47 | 18.44 | 22.96 | 29.70 |
| Operating profit | **1.13** | **7.54** | **5.80** | **8.80** | **5.44** | **5.34** | **7.87** |
| Finance cost | 0.10 | 1.57 | 0.93 | 0.72 | 0.64 | 0.65 | 0.46 |
| PBT | **2.06** | **7.81** | **7.58** | **9.30** | **6.09** | **6.54** | **10.01** |
| PAT | **0.69** | **4.47** | **5.15** | **6.32** | **4.14** | **4.45** | **6.81** |
| ***Balance Sheet*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Property, Plant and Equipment | 22.38 | 21.49 | 20.16 | 13.72 | 14.92 | 18.67 | 24.63 |
| Total Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total Assets** | 108.29 | 125.39 | 127.19 | 111.15 | 127.23 | 147.84 | 170.71 |
| **Total Equity** | 65.76 | 67.56 | 75.59 | 81.91 | 86.05 | 90.49 | 97.30 |
| **Total Current Liabilities** | 40.22 | 55.38 | 50.65 | 28.27 | 40.22 | 56.37 | 72.42 |
| **Non-Current Liabilities** | 2.31 | 2.45 | 0.96 | 0.97 | 0.97 | 0.97 | 0.99 |
| **Total Liabilities** | 42.53 | 57.83 | 51.61 | 29.24 | 41.18 | 57.35 | 73.41 |
| ***Financial Ratios*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Gross Margin | 33.89% | 37.93% | 37.51% | 42.41% | 35.00% | 32.00% | 32.00% |
| Operating Margin | 1.60% | 8.52% | 5.77% | 14.44% | 7.11% | 5.34% | 6.22% |
| Net Margin | 0.98% | 5.04% | 5.12% | 10.37% | 5.41% | 4.45% | 5.38% |
| Return on Asset | 0.64% | 3.56% | 4.05% | 5.69% | 3.25% | 3.01% | 3.99% |
| Return on Equity | 1.05% | 6.61% | 6.82% | 7.72% | 4.81% | 4.91% | 7.00% |
| Return on Invested Capital | 13.17% | 129.40% | 23.89% | 64.95% | 48.23% | 58.27% | 73.87% |
| Asset Turnover | 1.10x | 1.33x | 1.41x | 0.77x | 0.91x | 1.13x | 1.35x |
| Financial Leverage | 1.65x | 1.86x | 1.68x | 1.36x | 1.48x | 1.63x | 1.75x |
| Current Ratio | 2.14x | 1.88x | 2.11x | 3.45x | 2.79x | 2.29x | 2.02x |
| Quick Ratio | 1.76x | 1.58x | 1.76x | 3.07x | 2.40x | 1.92x | 1.66x |

# Appendix - CADBURY

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

| *Profit & Loss Account* | 2021FY | 2022FY | 2023F | 2024F | 2025F | 2026F | 2027F |
|---|---|---|---|---|---|---|---|
| Revenue | 42.37 | 55.21 | 79.38 | 101.44 | 128.10 | 153.72 | 178.05 |
| Cost of sales | 35.89 | 47.49 | 67.22 | 85.91 | 109.56 | 132.55 | 153.63 |
| Gross profit | **6.48** | **7.72** | **12.15** | **15.53** | **18.54** | **21.17** | **24.42** |
| Operating expense | 6.01 | 7.61 | 9.26 | 10.47 | 12.64 | 14.54 | 18.01 |
| Operating profit | **0.49** | **0.19** | **3.03** | **5.25** | **6.13** | **6.87** | **6.73** |
| Finance cost | 0.25 | 0.50 | 18.78 | 4.00 | 1.83 | 0.73 | 0.38 |
| PBT | **1.10** | **1.29** | **-13.75** | **2.62** | **5.36** | **7.18** | **7.07** |
| PAT | **0.45** | **0.58** | **-13.75** | **1.78** | **3.65** | **4.88** | **4.81** |
| ***Balance Sheet*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Property, Plant and Equipment | 13.02 | 14.07 | 15.71 | 18.99 | 21.76 | 25.77 | 30.68 |
| Total Debt | 10.49 | 23.87 | 45.52 | 51.68 | 56.83 | 62.06 | 68.03 |
| **Total Assets** | 43.69 | 59.71 | 75.34 | 104.24 | 115.05 | 136.58 | 153.86 |
| **Total Equity** | 13.64 | 13.30 | -0.46 | 1.01 | 3.81 | 7.27 | 9.25 |
| **Total Current Liabilities** | 22.02 | 37.09 | 58.50 | 77.95 | 87.08 | 102.16 | 113.73 |
| **Non-Current Liabilities** | 8.03 | 9.32 | 17.30 | 25.28 | 24.16 | 27.15 | 30.88 |
| **Total Liabilities** | 30.05 | 46.41 | 75.80 | 103.23 | 111.24 | 129.32 | 144.61 |
| ***Financial Ratios*** | **2021FY** | **2022FY** | **2023F** | **2024FY** | **2025F** | **2026F** | **2027F** |
| Gross Margin | 15.29% | 13.99% | 15.31% | 15.31% | 14.47% | 13.77% | 13.72% |
| Operating Margin | 1.16% | 0.34% | 3.82% | 5.18% | 4.79% | 4.47% | 3.78% |
| Net Margin | 1.06% | 1.05% | -17.32% | 1.76% | 2.85% | 3.18% | 2.70% |
| Return on Asset | 1.03% | 0.97% | -18.25% | 1.71% | 3.17% | 3.57% | 3.13% |
| Return on Equity | 3.30% | 4.35% | 3014.43% | 176.65% | 95.81% | 67.17% | 51.98% |
| Return on Invested Capital | 5.82% | 5.08% | -101.82% | 58.46% | 32.90% | 45.39% | 32.41% |
| Asset Turnover | 0.97x | 0.92x | 1.05x | 0.97x | 1.11x | 1.13x | 1.16x |
| Financial Leverage | 3.20x | 4.49x | -165.16x | 103.26x | 30.22x | 18.79x | 16.63x |
| Current Ratio | 1.39x | 1.23x | 1.02x | 1.09x | 1.07x | 1.08x | 1.08x |
| Quick Ratio | 1.02x | 0.91x | 0.74x | 0.83x | 0.78x | 0.78x | 0.77x |

## Appendix - BUAFOODS

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

| ***Profit & Loss Account*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
|---|---|---|---|---|---|---|---|
| Revenue | 333.27 | 418.35 | 661.52 | 1005.86 | 1582.65 | 2210.44 | 3381.51 |
| Cost of sales | 230.31 | 285.56 | 446.94 | 676.76 | 1074.00 | 1497.37 | 2286.29 |
| Gross profit | **102.96** | **132.79** | **214.58** | **329.10** | **508.64** | **713.07** | **1095.22** |
| Operating expense | 24.76 | 32.92 | 34.00 | 51.70 | 81.35 | 113.62 | 173.81 |
| Operating profit | **79.89** | **117.49** | **182.90** | **280.92** | **432.84** | **607.19** | **933.25** |
| Finance cost | 5.05 | 8.72 | 13.23 | 20.12 | 31.65 | 44.21 | 67.63 |
| PBT | **77.47** | **107.23** | **167.09** | **256.98** | **395.17** | **554.59** | **852.77** |
| PAT | **69.77** | **91.34** | **113.62** | **174.75** | **268.71** | **377.12** | **579.88** |
| ***Balance Sheet*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Property, Plant and Equipment | 321.68 | 330.52 | 353.36 | 392.15 | 473.24 | 588.68 | 769.31 |
| Total Debt | 253.23 | 216.45 | 264.61 | 402.34 | 633.06 | 884.18 | 1352.60 |
| **Total Assets** | 593.47 | 607.22 | 826.91 | 1257.32 | 1978.31 | 2456.05 | 3757.23 |
| **Total Equity** | 200.72 | 230.96 | 263.58 | 357.33 | 518.04 | 787.16 | 1259.04 |
| **Total Current Liabilities** | 340.36 | 306.53 | 451.75 | 722.09 | 1171.95 | 1336.62 | 2000.32 |
| **Non-Current Liabilities** | 52.39 | 69.74 | 111.57 | 177.91 | 288.32 | 332.27 | 497.87 |
| **Total Liabilities** | 392.75 | 376.26 | 563.32 | 899.99 | 1460.26 | 1668.89 | 2498.19 |
| ***Financial Ratios*** | **2021FY** | **2022FY** | **2023F** | **2024FY** | **2025F** | **2026F** | **2027F** |
| Gross Margin | 30.89% | 31.74% | 32.44% | 32.72% | 32.14% | 32.26% | 32.39% |
| Operating Margin | 23.97% | 28.08% | 27.65% | 27.93% | 27.35% | 27.47% | 27.60% |
| Net Margin | 20.93% | 21.83% | 17.18% | 17.37% | 16.98% | 17.06% | 17.15% |
| Return on Asset | 12.12% | 16.48% | 15.04% | 15.19% | 14.88% | 16.81% | 16.89% |
| Return on Equity | 34.76% | 39.55% | 43.11% | 48.90% | 51.87% | 47.91% | 46.06% |
| Return on Invested Capital | 13.63% | 17.29% | 19.79% | 23.46% | 24.26% | 24.02% | 23.49% |
| Asset Turnover | 0.56x | 0.69x | 0.80x | 0.80x | 0.80x | 0.90x | 0.90x |
| Financial Leverage | 2.96x | 2.63x | 3.14x | 3.52x | 3.82x | 3.12x | 2.98x |
| Current Ratio | 0.79x | 0.90x | 1.05x | 1.20x | 1.28x | 1.40x | 1.49x |
| Quick Ratio | 0.72x | 0.81x | 0.96x | 1.08x | 1.13x | 1.23x | 1.32x |

MERISTEM

Valuation and Recommendation

# Appendix - NASCON

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

| ***Profit & Loss Account*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
|---|---|---|---|---|---|---|---|
| Revenue | 33.28 | 58.79 | 71.72 | 90.37 | 112.05 | 137.83 | 168.15 |
| Cost of sales | 21.32 | 34.24 | 43.03 | 54.22 | 67.23 | 82.70 | 100.89 |
| Gross profit | **11.96** | **24.54** | **28.69** | **36.15** | **44.82** | **55.13** | **67.26** |
| Operating expense | 9.49 | 15.18 | 18.93 | 24.21 | 32.33 | 40.93 | 50.13 |
| Operating profit | **4.32** | **8.67** | **9.88** | **12.19** | **12.69** | **15.02** | **18.07** |
| Finance cost | 0.13 | 0.69 | 0.54 | 0.57 | 0.60 | 0.63 | 0.66 |
| PBT | **4.24** | **8.37** | **9.92** | **12.27** | **12.99** | **15.54** | **18.87** |
| PAT | **2.97** | **5.47** | **6.74** | **8.35** | **8.83** | **10.57** | **12.83** |
| ***Balance Sheet*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Property, Plant and Equipment | 14.06 | 12.47 | 12.91 | 13.09 | 13.28 | 13.21 | 13.17 |
| Total Debt | 3.68 | 8.83 | 9.28 | 9.74 | 10.23 | 10.74 | 11.27 |
| **Total Assets** | 40.52 | 55.53 | 74.50 | 91.50 | 110.36 | 134.02 | 152.64 |
| **Total Equity** | 14.63 | 19.04 | 23.76 | 29.60 | 35.79 | 43.19 | 52.17 |
| **Total Current Liabilities** | 20.22 | 30.49 | 44.04 | 54.37 | 66.52 | 82.12 | 90.90 |
| **Non-Current Liabilities** | 5.67 | 6.00 | 6.70 | 7.53 | 8.05 | 8.71 | 9.58 |
| **Total Liabilities** | 25.89 | 36.49 | 50.74 | 61.89 | 74.57 | 90.84 | 100.48 |
| ***Financial Ratios*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Gross Margin | 35.94% | 41.75% | -40.00% | -40.00% | -40.00% | -40.00% | -40.00% |
| Operating Margin | 12.97% | 14.76% | 13.77% | 13.49% | 11.33% | 10.90% | 10.75% |
| Net Margin | 8.93% | 9.30% | 9.40% | 9.24% | 7.88% | 7.67% | 7.63% |
| Return on Asset | 7.47% | 10.20% | 9.02% | 9.06% | 7.82% | 7.62% | 8.05% |
| Return on Equity | 20.31% | 28.72% | 28.38% | 28.19% | 24.68% | 24.47% | 24.59% |
| Return on Invested Capital | 33.06% | 73.83% | 252.45% | 1561.68% | -593.92% | -163.54% | -277.71% |
| Asset Turnover | 0.82x | 1.06x | 0.96x | 0.99x | 1.02x | 1.03x | 1.10x |
| Financial Leverage | 2.77x | 2.92x | 3.14x | 3.09x | 3.08x | 3.10x | 2.93x |
| Current Ratio | 1.12x | 1.28x | 1.30x | 1.35x | 1.38x | 1.40x | 1.47x |
| Quick Ratio | 0.91x | 1.01x | 1.06x | 1.11x | 1.13x | 1.17x | 1.20x |

Valuation and Recommendation

# Appendix - DANGSUGAR

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

| ***Profit & Loss Account*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
|---|---|---|---|---|---|---|---|
| Revenue | 276.05 | 403.25 | 482.29 | 577.00 | 634.37 | 697.52 | 767.03 |
| Cost of sales | 225.85 | 311.28 | 368.95 | 441.40 | 482.12 | 530.11 | 582.94 |
| Gross profit | **50.21** | **91.96** | **113.34** | **135.59** | **152.25** | **167.40** | **184.09** |
| Operating expense | 11.54 | 11.05 | 12.68 | 15.00 | 16.49 | 18.14 | 19.94 |
| Operating profit | **39.00** | **82.35** | **102.82** | **123.19** | **138.61** | **152.41** | **167.60** |
| Finance cost | 6.63 | 9.80 | 120.82 | 67.86 | 41.61 | 25.96 | 22.05 |
| PBT | **34.01** | **82.24** | **-5.56** | **69.47** | **112.54** | **143.53** | **164.34** |
| PAT | **22.04** | **53.31** | **-3.78** | **47.24** | **76.53** | **97.60** | **111.75** |
| ***Balance Sheet*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Property, Plant and Equipment | 144.68 | 157.76 | 169.52 | 182.62 | 197.32 | 213.59 | 231.54 |
| Total Debt | 3.34 | 1.76 | 1.89 | 2.03 | 2.18 | 2.35 | 2.52 |
| **Total Assets** | 359.51 | 492.43 | 510.14 | 572.16 | 680.87 | 809.04 | 921.40 |
| **Total Equity** | 128.63 | 171.23 | 169.15 | 197.76 | 239.82 | 293.53 | 354.97 |
| **Total Current Liabilities** | 218.54 | 307.44 | 330.59 | 362.05 | 427.49 | 500.62 | 550.09 |
| **Non-Current Liabilities** | 12.33 | 13.77 | 10.40 | 12.35 | 13.56 | 14.89 | 16.35 |
| **Total Liabilities** | 230.87 | 321.21 | 340.99 | 374.40 | 441.05 | 515.51 | 566.44 |
| ***Financial Ratios*** | **2021FY** | **2022FY** | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Gross Margin | 18.19% | 22.81% | 23.50% | 23.50% | 24.00% | 24.00% | 24.00% |
| Operating Margin | 14.13% | 20.42% | 21.32% | 21.35% | 21.85% | 21.85% | 21.85% |
| Net Margin | 7.98% | 13.22% | -0.78% | 8.19% | 12.06% | 13.99% | 14.57% |
| Return on Asset | 7.03% | 16.72% | 20.16% | 21.53% | 20.36% | 18.84% | 18.19% |
| Return on Equity | 17.14% | 53.86% | -3.49% | 37.88% | 59.50% | 57.00% | 66.07% |
| Return on Invested Capital | 57.42% | 523.14% | -5.04% | 66.04% | 168.75% | 429.42% | 514.95% |
| Asset Turnover | 0.77x | 0.82x | 0.95x | 1.01x | 0.93x | 0.86x | 0.83x |
| Financial Leverage | 2.79x | 2.88x | 3.02x | 2.89x | 2.84x | 2.76x | 2.60x |
| Current Ratio | 1.34x | 1.49x | 1.29x | 1.24x | 0.98x | 1.09x | 1.03x |
| Quick Ratio | 1.44x | 1.81x | 1.81x | 1.40x | 1.31x | 1.40x | 1.18x |

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## Contact Information


**Brokerage and Retail Services**

| | |
|---|---|
| saheedbashir@mersitemng.com | (+234 802 454 6575) |
| topeoludimu@meristemng.com | (+234 905 569 0627) |
| adaezeonyemachi@meristemng.com | (+234 808 369 0213) |
| contact@meristemng.com | |

**Investment Banking/Corporate Finance**

| | |
|---|---|
| rasakisalawu@meristemng.com | (+234 806 022 9889) |
| davidadu@meristemng.com | (+234 810 940 4836) |

**Wealth Management**

| | |
|---|---|
| funmilolaadekola-daramola@meristemng.com | (+234 803 355 0008) |
| crmwealth@meristemng.com | (+234 01 738 9948) |

**Registrars**

| | |
|---|---|
| oluseyiowoturo@meristemregistrars.com | (+234 802 321 0561) |
| www.meristemregistrars.com | (+234 01-280 9250) |

**Group Business Development**

| | |
|---|---|
| sulaimanadedokun@mersitemng.com | (+234 803 301 3331) |
| ifeomaanyanwu@meristemng.com | (+234 802 394 2967) |
| info@meristemng.com | |

**Trust Services**

| | |
|---|---|
| damilolahassan@meristemng.com | (+234 803 613 9123) |
| trustees@meristemng.com | |

**Investment Research**

| | |
|---|---|
| praiseihansekhien@meristemng.com | (+234 817 007 1512) |
| research@meristemng.com | |

**Finance**

| | |
|---|---|
| olasokomubo@meristemfinance.com | (+234 803 324 7996) |
| matthewawotundun@meristemfinance.com | (+234 802 390 6249) |

**Client Services**

| | |
|---|---|
| adefemitaiwo@meristemng.com | (+234 803 694 3034) |
| car@meristemng.com | (+23401-280 9250) |

**Analysts**

| | |
|---|---|
| temiloluwaoyenuga@meristemng.com | (+234 809 549 0743) |
| feliciaawolope@meristemng.com | (+234 812 188 9748) |

**Corporate websites:** www.meristemng.com, www.meristemwealth.com, www.meristemregistrars.com

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