

**Mobil Nigeria Plc. | Stock Update**
**Acquisition premium: Is sentiment more important than fundamentals?**

- Following ExxonMobil Oil Corporation's (EMOC) divestment of its 60% stake in Mobil Nigeria Plc (Mobil) to Nipco Plc. (NIPCO), the company filed a formal application to SEC, seeking 'Authority to Proceed' with the acquisition. More importantly, the application stated that NIPCO would pay a consideration of \$301million for the 60% stake in MOBIL subject to price adjustment for dividend and other factors.

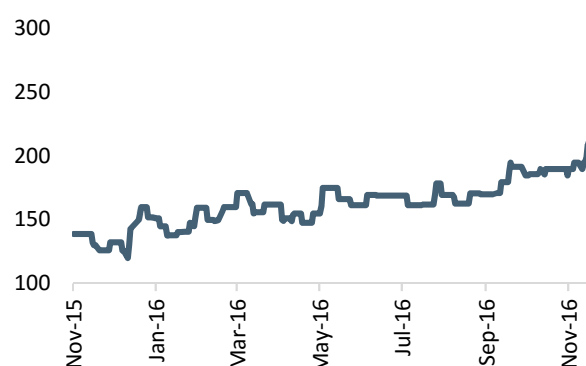
*Deal size places significant acquisition premium on Mobil*

- By our analysis, using the exchange rate of ₦305/\$, the consideration of \$301 million for 216,357,157 ordinary shares in Mobil implies a price of ₦424/share—a significant premium (+120%) to Mobil's closing price on the day of the initial announcement (19th October) of ₦186/share. Pertinently, NIPCO's acquisition value of ₦91.8 billion implies an additional ₦51.6 billion (₦34.1 billion using last closing price) above market value on the initial announcement date.
- Shares of Mobil surged to an all-time high of ₦294.00 (+58%) after the announcement hit the market, leaving its last trading price 31% shy of the deal price. Mobil trades at current and FY 16e P/E of 18.5x and 15.4x compared to peer average of 13.7x and 10.3x respectively.

Income Statement Data			
	2016 – 9M'm	2015 – 9M'm	%chg
<b>Revenue</b>	71,869	45,326	58.6%
<b>PBT</b>	8,476	5,307	59.7%
<b>Tax</b>	(2,732)	(1,598)	70.9%
<b>PAT</b>	5,744	3,650	57.4%

Balance Sheet Data			
	2016-Sept 'm	2015-Dec 'm	%chg
<b>Inventory</b>	6,894	5,878	17%
<b>Receivables</b>	6,878	6,029	14%
<b>Cash</b>	4,542	3,218	41%
<b>Payables</b>	12,078	9,824	23%
<b>Net Assets</b>	18,511	15,363	20%

Stock Data	
<b>Price</b>	₦294.00
<b>52-week range</b>	₦118.06 – ₦294.00
<b>Market Cap. (N'b)</b>	106.015
<b>1-month Avg. Vol</b>	254,679
<b>Curr. PE</b>	18.5x
<b>Bloomberg Ticker</b>	MOBIL:NL
<b>Mobil Nigeria - Share Price Trend</b>	


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### *MTO prospects induce price rally*

- In recent years, the increasingly competitive landscape in the downstream sector has buoyed consolidation and acquisition interest by foreign players. The rising attraction reflects positive sentiments about more flexible pricing of petroleum products. Earlier in the year, global trading company Vitol, and Helios Investment Partners acquired 49% stake in Oando downstream and retail portfolio for a consideration of \$461million, with the acquired business now renamed OVH. Prior to this, in October 2015, Mercuria Energy Holdings SA (Mercuria) acquired 17% of Forte Oil valued at \$200 million. Mercuria, the world's third largest independent energy traders and asset operators, aims to increase its exposure to the attractive and growing African market via this acquisition.

**Table 1: Acquisition multiples for recent deals in the downstream sector**

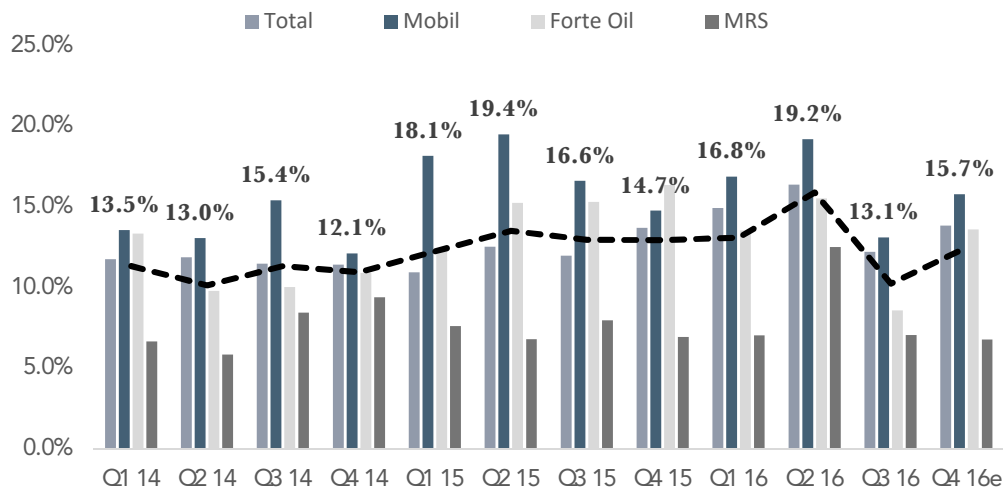
	<b>Mobil</b>	<b>Forte Oil</b>	<b>Oando</b>
Number of Retail Outlets	200	450	420
Consideration (\$'mn)	301.0	200.0	461.3
NGN/USD	305	199	199
Consideration (N'mn)	91,805	39,800	91,799
Sales FY 15 (N'mn)	64,221	124,617	113,512
<b>Price to Sales</b>	<b>1.43</b>	<b>0.32</b>	<b>0.81</b>
Buyer	Nipco	Mercuria	Vitol/Helios
Shares Outstanding (mn units)	360.60	1302.48	
Stake	<b>60%</b>	<b>17%</b>	
Acquisition interest (mn units)	216.4	221.4	
<b>Consideration price per share</b>	<b>424.3</b>	<b>179.7</b>	

Source: Company financials, NSE, ARM Research

- With regards to the transaction, while details remain sketchy, we think the premium paid for Mobil's stock is based on the following:
  - Mobil's historically higher margin business (c.300bps) above its peers, largely supported by its premium play in lubricants.
  - Real Estate/Property with carrying value of ₦29.3 billion and deferred revenue on advance rent on properties of ₦25 billion.

- Branding License (s) from ExxonMobil on its retail outlets as well as to blend and sell the Mobil brand of lubricants.

**Figure 1: Gross Margin across coverage vs. peer average**



Source: Company financials, ARM Research

- However, as the current transaction is between two shareholders with no cash-payouts to other shareholders, we think current price rally is driven by sentiment over a potential Mandatory Take-Over (MTO). Current regulatory requirements regarding MTO as contained in the Amended SEC Rule 445(1), read as follows:
  - a) “No person shall acquire, through a series of transactions or otherwise, more than 30% of the shares of a public quoted Company without making a bid.
  - b) Where an existing shareholder, together with persons acting in concert, holds not less than 30% but not more than 50% of the shares of a company acquires additional shares, such person(s) shall make a takeover bid to the other shareholders of the company.
  - c) A takeover made in violation of sub rules (a) and (b) shall be void.”
- Thus, interpreting the SEC rule on MTO, the transaction which brings NIPCO’s holdings (direct and indirect) to circa 70% from current 10% raises prospects for a follow-on MTO. That said, management of NIPCO had earlier

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stated that it intends to keep Mobil as a separate, distinct, and independent company from NIPCO's downstream business implying limited appetite for an MTO in the near term.

Beyond the prospect of an MTO, we note that the Mobil acquisition increases NIPCO's retail footprint by 133% to 350 and importantly, diversifies NIPCO's retail presence to Lagos and the south west—away from the company's region of dominance in the North. We will be reaching out to NIPCO's management to discuss about its agenda for the Mobil acquisition as well as company outlook.

### *Still on track for strong FY 16E*

- Mobil remains on track to deliver sturdy earnings in FY 16 with 9M 16 EPS of ₦15.9 at 84% of our FY 16 forecasts. Over Q4 16, we assume further decline in volumes (-10% QoQ to 94 million litres), which on current pricing, translates to petroleum revenue of ₦13.6 billion (-10% QoQ and +3% YoY). Assisted by lubricant sales of ₦7.3 billion, we see Q4 16E revenue at ₦20.9 billion (-3.1% QoQ, and +10.8% YoY). In addition, we have adjusted input cost to reflect improved FX sourcing as NNPC's FX intervention program comes into effect in Q4 16. Accordingly, we now expect tamer COGS of ₦17.6 billion (-6.1% QoQ) which should drive modest recovery in gross margin (YoY: +266bps, QoQ: +100bps to 15.7%).
  - Further down, the other income line in 9M 16 at ₦3.9 billion (17.7% YoY) was impacted by foreign exchange losses of ₦278 million (9M 15: ₦16 million). Excluding foreign exchange losses, income was 26% higher YoY to ₦4.2 billion largely due to the 25% rise in rental income of ₦3.9 billion, which now stands at 90.3% of FY 15 other income (84% including FX losses). Thus, our expectation of an almost flattish movement in USDNGN over Q4 16 underpins our ₦1.4 billion (+6.6% YoY) projection for other income in Q4 16 and in extension FY 16E income of ₦5.3 billion (+14.5% YoY).
  - Our Q4 16E revisions drive modest changes to our 2016E financial performance for the company. Primarily driven by a downward revision in
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input cost to ~~¥~~77.8 billion (+45.7% YoY), FY 16E gross margin is only 71bps lower YoY to 16.4%. The foregoing combined with higher other income of ~~¥~~5.3 billion (+14.5% YoY) as well as net finance income of ~~¥~~113 million (vs. net finance cost of ~~¥~~48.9 million in FY 15) drive our EPS estimate to ~~¥~~18.99 (~~¥~~18.75 previously).

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## Summary of Results and Forecasts

### QUARTERLY

Income Statement (₹'mn)*	Q1 2016A	Q2 2016A	Q3 2016A	Q4 2016F
Sales	22,681	27,577	21,611	20,931
Cogs	(18,861)	(22,295)	(18,786)	(17,638)
Gross profit	3,819	5,282	2,825	3,293
Operating cost	(2,566)	(2,420)	(2,501)	(3,123)
Operating profit	2,676	3,788	1,910	1,582
Profit before taxation	2,693	3,805	1,967	1,587
Tax	(871)	(1,222)	(639)	(491)
Profit after taxation	1,822	2,584	1,328	1,096
EPS	5.05	7.16	3.68	3.04

### ANNUAL

Income Statement (₹'mn)*	FY 2015A	FY 2016E	FY 2017F	FY 2018F	FY 2019F
Sales	64,221	92,799	97,439	101,337	105,390
COGS	(53,230)	(77,580)	(80,875)	(84,109)	(87,474)
Gross profit	10,991	15,219	16,565	17,227	17,916
Operating cost	(8,685)	(10,610)	(10,391)	(10,578)	(10,808)
Operating profit	6,977	9,958	11,633	12,218	12,790
Net finance cost	(49)	112	152	191	259
PBT	6,928	10,071	11,785	12,409	13,049
Tax	(2,033)	(3,223)	(3,771)	(3,971)	(4,176)
PAT	4,894	6,848	8,013	8,438	8,873
Earnings per share	13.6	19.0	22.2	23.4	24.6
Dividend per share	7.2	10.1	11.8	12.4	13.1
Balance Sheet (₹'mn)*	FY 2015A	FY 2016E	FY 2017F	FY 2018F	FY 2019F
Assets					
Investment property	29,288	29,659	30,038	30,406	30,763
Inventories	5,878	8,568	8,931	9,289	9,660
Trade debtors	6,029	8,711	9,147	9,513	9,893
Cash and other bank balances	3,218	6,114	9,623	13,019	16,635
Total Assets	54,072	62,826	67,823	72,616	77,643
Liabilities					
Trade Creditors	9,824	14,319	14,927	15,524	16,145
Interest bearing loans & borrowings	413	422	430	439	447
Total liabilities	38,709	43,211	43,828	44,433	45,063
Shareholders' fund	15,363	19,637	24,017	28,205	32,602
Key Ratios	FY 2015A	FY 2016E	FY 2017F	FY 2018F	FY 2019F
Profitability margins					
Gross margin	17.1%	16.4%	17.0%	17.0%	17.0%
EBITDA margin	13.9%	13.0%	14.2%	14.4%	14.5%
Operating margin	10.9%	10.7%	11.9%	12.1%	12.1%
PBT	10.8%	10.9%	12.1%	12.2%	12.4%
Net margin	7.6%	7.4%	8.2%	8.3%	8.4%
Valuation multiples					
EV/EBITDA	6.2	5.1	4.0	3.8	3.6
P/CF	5.5	7.4	6.1	5.8	5.5
P/E	12.5	9.0	7.7	7.3	6.9

## ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimise exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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