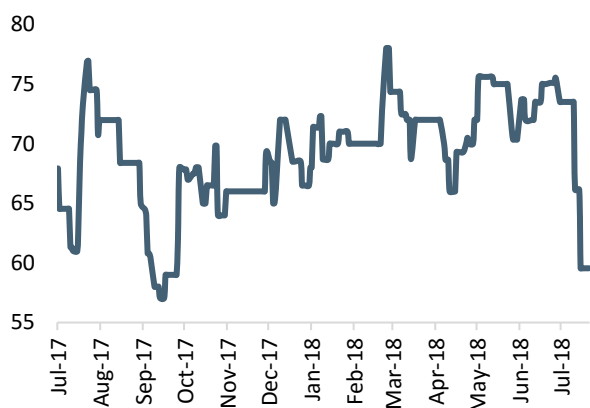


Rating	<b>UNDER REVIEW</b>
Price	₦59.55
52-week range	₦57.06– ₦78.00
Market Cap. (₦'bn)	59.6
1-month Avg. Vol	156,939
Current PE	2.5x

#### PRESCO:NL - Share Price Trend



#### Analyst(s)

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## Presco Plc (PRESCO.NL)

### Initial View

#### Lower CPO prices submerge earnings

- Yesterday, Presco Plc (Presco) released its Q2 2018 result wherein earnings declined 16% YoY to ₦1.39 billion, translating to an EPS of ₦1.39. This represents its second consecutive plunge in earnings as cumulative PAT in H1 2018 dipped 28.2% YoY to ₦3.99 billion.
- Further breakdown reveals that the company recorded revenue contraction of 10.4% to ₦5.1 billion largely driven by falling prices with FEWSNET reporting a 11% QoQ deceleration in refined CPO prices. This is in consonance with plunging global CPO prices—an offshoot of widening surplus in the global CPO market. Elsewhere, with cost of sales (-24.1% YoY to ₦1.3 billion) falling faster than revenue (-10.4% YoY), gross margin expanded 460bps to 74.6% while gross profit dipped 4.5% YoY to ₦3.8 billion.
- Despite the contraction in gross profit, Presco's EBIT for the quarter grew slightly by 2.7% YoY to ₦2.6 billion following a 7.5% YoY slump in operating expenses on account of fall in Administrative expenses (-10.5% YoY) and sizable jump in other operating income (Q2 18: ₦169.4 million vs ₦31.4 million in Q1 18). Elsewhere, Presco continues to encounter pressures on its finance expense line (+68% YoY to ₦313.2 million) owing to higher short-term borrowings (+15% YoY to ₦9.9 billion) as at Q2 2018.
- Overall, the blend of contracting revenues (Q2 2018: -10.4% YoY) and finance expense burden led the company to report weaker PAT which plunged 16% to ₦1.4 billion in Q2 2018. Presco trades

at a current P/E of 10.8x versus 8.0x for main peer Okomu. Our estimate is under review.

- **More analysis to follow.**

## Summary of Results

Income statement – (₦million)	Q2 18	YoY growth	QoQ growth	Deviation from forecast	H1 18	H1 17
<b>Revenue</b>	5,068	-10.36%	-23.10%	4.00%	11,658	12,826
<b>Cost of sales</b>	1,285	-24.06%	-11.81%	12.00%	2,743	3,139
<b>Gross profit</b>	3,782	-4.50%	-26.31%	1.06%	8,915	9,687
<b>OPEX</b>	1,352	-7.48%	-7%	2.66%	2,802	2,510
<b>Operating profit</b>	2,600	2.72%	-30%	-4.33%	6,322	7,245
<b>Finance expense</b>	313	62.81%	8.05%	-20%	603	316
<b>PBT</b>	2,287	-10.83%	-33%	-2.20%	5,719	7,598
<b>PAT</b>	1,393	-15.76%	-46%	9.20%	3,990	5,555

Key Ratios	Q2 18	Q2 17	Change(pps)	H1 18	H1 17	Change(pps)
Gross margin	74.64%	70.06%	4.58%	76.47%	75.52%	0.95%
EBIT margin	51.30%	44.77%	6.53%	54.23%	56.49%	-2.26%
PBT margin	45.12%	45.36%	-0.24%	49.06%	59.24%	-10.18%
PAT margin	27.48%	48.10%	-20.62%	34.22%	43.31%	-9.09%
Effective tax rate	39.10%	29.24%	9.86%	30.24%	26.88%	3.35%

Source: ARM Research \*unless otherwise stated

## 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>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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