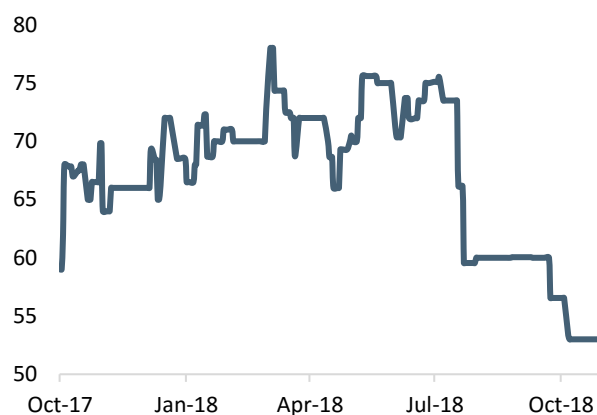




Rating	BUY
Price	₦53
52-week range	₦53 – ₦78.00
Market Cap. (₦'bn)	53
1-month Avg. Vol	45,187
Current PE	8.63x

PRESKO:NL - Share Price Trend



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Presco Plc (PRESKO.NL)

Initial View

Gain on biological asset flatter earnings

- Presco released its Q3 18 result late yesterday, wherein it reported 11.7% YoY growth in profit after tax of ₦4.58 billion (vs ₦195.6 million loss after tax in the prior year). The impressive Q3 18 performance trimmed plunge in earnings reported over 6M 18 (-21.6% YoY) as cumulative earnings over the nine months period only declined by a tamer 1.5% YoY to ₦5.28 billion translating to an EPS of ₦5.28 (vs ₦5.36 in 9M 17).
- **Stronger volumes boost revenue:** In the review quarter, revenue grew 11.7% YoY to ₦4.58 billion on the back of higher volumes in the period. According to FEWSNET, local refined Crude palm oil (CPO) prices were down ~20% YoY in Q3 18 following plunge in global CPO prices hence, the revenue growth largely reflects stronger volumes in the period. This is in line with higher volumes reported by Nestle over Q3 18, which is a large off taker of Presco's refined CPO. This in addition to a 33.6% YoY slump in Cost of sales to ₦1.2 billion led to gross profit growth of 47.6% YoY to ₦3.38 billion, translating to gross margin expansion to 73.8% from 55.8% in the prior year.
- **Higher OPEX trim operating profit:** Despite expansion in gross profit, Presco's operating profit for the quarter contracted 19.1% YoY to ₦1.71 billion in Q3 18. This mirrors higher operating expenses (Q3 18: ₦1.78 billion vs ₦358.7 million in Q3 17) in the period following higher Administrative expenses in the period which jumped six-fold to ₦1.71 billion.

-
- **Gain on biological asset flatter earnings:** However, as against loss on biological asset reported last year (~~₦~~1.39 billion), Presco reported a ~~₦~~369.6 billion gain on biological asset. Overall, the combination of higher revenues, lower cost of sales and gain on biological asset reported in the period translated to a Profit after tax of ~~₦~~1.29 billion vs a loss after tax of ~~₦~~195.6 million in Q3 17 and an EPS of ~~₦~~1.29. However, after stripping out the volatile biological gains from Presco's earnings, Profit before tax would have declined 22.1% YoY to ~~₦~~1.38 million over Q3 18.
 - Presco currently trades at a P/E of 8.63x which is at a Premium to 7.62x for Okomu, but discount to 13.5x for MENA peers. We have **FVE** of ~~₦~~67.47 which represent a 27% upside, hence our **BUY** rating on the stock.
 - **More analysis to follow.**
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Summary of Results

Income statement – (₹ million)	Q3 18	YoY growth	QoQ growth	Deviation from forecast	9M 18	9M 17
Revenue	4,578	11.70%	-9.66%	-3.00%	16,236	16,924
Cost of sales	1,201	-33.64%	-6.54%	-10.00%	3,944	4,950
Gross profit	3,377	47.58%	-10.72%	-1.00%	12,292	12,292
OPEX	1,779	395.99%	32%	-47.00%	4,581	4,581
Operating profit	1,709	-19.08%	-34%	-20.00%	8,031	8,031
Finance expense	326	-38.91%	3.94%	-31%	929	929
PBT	1,753	399.69%	-23%	-6.90%	7,472	7,472
PAT	1,291	N/M	-7%	-1.38%	5,280	5,280

Key Ratios	Q3 18	Q3 17	Change(pps)	9M 18	9M 17	Change(pps)
Gross margin	73.76%	55.83%	17.93%	75.71%	70.75%	4.95%
EBIT margin	37.32%	51.53%	-14.20%	49.46%	55.29%	-5.83%
PBT margin	38.29%	8.56%	29.73%	46.02%	46.97%	-0.95%
PAT margin	28.19%	-4.77%	32.96%	32.52%	31.67%	0.85%
Effective tax rate	26.37%	155.76%	-129.39%	29.33%	32.57%	-3.24%

*N/M means not meaningful

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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	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
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	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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