



Equity Research | Mobil Oil Nigeria Plc

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Initial View

12 months ended 31st December, 2014

Recommendation: SELL (₦96.68)

- Mobil Oil Nigeria Plc “**Mobil**” reported 1.1% YoY rise in FY 14 revenues to ₦79.5 billion. Reflecting impact of property sale in Q1 14, FY 14 PBT jumped 65% YoY to ₦8.4 billion, with lower effective taxes pushing FY 14 EPS 84% higher YoY to ₦17.73k.
- Despite the strong earnings, management proposed a dividend of ₦6.60k per share (+10% YoY), which implies a 37% payout ratio (FY 13: 62%) and 4.5% dividend yield as at yesterday’s closing price.

Lower gasoline volumes weigh on topline

- After recording 6% YoY decline in Q3 14, Mobil’s revenue dipped by a similar margin in Q4 14 to ₦18.9 billion, pressured by weak gasoline throughput over the quarter. We had expected an increase in motorway miles during the dry season to support volumes, but with revenues falling 10% shy of our estimate, it appears management trimmed PMS exposure on concerns of outstanding subsidy payments as well as higher depot prices which crimps the already thin margins.
- Likely reflecting the relatively higher depot prices for gasoline, input costs fell a slower 4.5% YoY to ₦16.6 billion resulting in a steep decline (-12% YoY to ₦2.3 billion) in gross profits, with corresponding margins

Income Statement Data

	2014 – 12M'm	2013 – 12M'm	%chg
Revenue	79,584	78,744	1.1%
PBT	8,446	5,123	64.9%
Tax	(2,053)	(1,642)	25.0%
PAT	6,393	3,481	83.7%

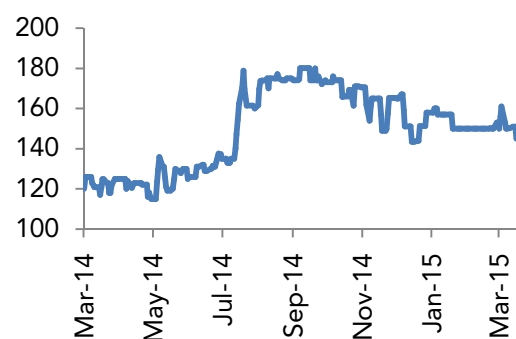
Balance Sheet Data

	2014-Dec.	2013 -Dec 'm	%chg
Inventory	4,364	4,510	-3%
Receivables	7,381	5,311	39%
Cash	373	962	-61%
Payables	9,877	7,914	25%
Net Assets	13,549	9,538	42%

Stock Data

Price	₦145.00
52 week range	₦115.00 – ₦182.00
Market Cap. (N'm)	52,286
1-month Avg. Vol	45,712
Curr. PE	8.2x
Bloomberg Ticker	Mobil:NL
Reuters Ticker	Mobil.LG

Mobil Plc- Share Price Trend



Analyst(s)

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contracting to 90bps YoY to 12.1% (lowest in 7 quarters) vs. our estimate of 14.3%. Indeed, the level of GM contraction comes as a surprise, particularly on the heels of drop in oil prices over H2 14.

High opex levels amplify GM softness

- Weakness at the gross levels, permeated into operating profits, with a modest 3.8% YoY increase in operating expenses to ₦2.1 billion driving a 61% decline in operating profit to ₦584 million and 4.4pts contraction in related margins to a decade low of 3.1%. Pressures reflect Mobil's relatively higher operating leverage relative to industry, with opex-sales ratio (~10% in the last decade vs. industry average of 7.5%).
- While "other income" of ~₦72 million over Q4 14, moderated net finance charges to ₦104 million (+26% YoY), weak operating performance permeated to profitability, with PBT and PAT plummeting 59% and 57% YoY to ₦551 million and ₦400 million, with similar deviations from our estimates. Respective PBT and PAT margins shrank 380 bps and 250 bps YoY to 2.9% and 2.1%, the lowest since 2012 subsidy saga.

Margin expansion on depressed oil prices to moderate weak topline

- Notwithstanding the deviations to our estimates, weak Q4 14 performance, affirms the pessimism we had expressed on the sustenance of the robust Q3 14 earnings performance in our last update. Looking ahead, the 10% reduction in PMS price combined with flat to lower volume growth—due to heightened apprehension that weak fiscal position could elongate subsidy reimbursement—should exert downward pressure on topline. That said, soft input cost for deregulated products, particularly lubricants and AGO increases scope for margin expansion. Specifically, base oil prices (a key ingredient for lubes) is ~30% lower, even as Mobil's current retail price for AGO remains at a healthy ~13% premium to recommended sell price based on PPPRA's pricing template, even after adjusting for naira devaluation. By our estimates, the foregoing should drive profitability higher over 2015. Nevertheless, an increase in risk free rate to capture upswing in sovereign yields offsets impact on valuations and drives our FVE 10% lower to ₦96.68. Mobil trades at 2015E P/E of 12x a premium to Bloomberg domestic peer average of 7.7x and justified forward P/E of 5.6x. We retain our **SELL** rating on Mobil.
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Summary of Results and Forecasts

QUARTERLY					
	Q1 2014A	Q2 2014F	Q3 2014F	Q4 2014F	
Income Statement ('mln)					
Turnover	18,866	18,927	18,702	18,852	
COGS	(16,587)	(16,227)	(15,972)	(16,036)	
Gross Profit	2,279	2,699	2,731	2,816	
Operating Costs	(2,086)	(1,907)	(1,870)	(1,870)	
Operating Profit	656	1,460	1,515	1,601	
Profit Before Taxation	551	1,438	1,494	1,580	
Taxation	(154)	(460)	(478)	(505)	
Profit After Taxation	397	978	1,016	1,074	
ANNUAL					
	2014A	2015F	2016F	2017F	2018F
Income Statement (mln)					
Turnover	79,584	74,809	79,297	83,262	85,760
COGS	(68,846)	(63,887)	(67,878)	(71,439)	(73,754)
Gross Profit	10,737	10,922	11,419	11,823	12,006
Operating Costs	(7,342)	(7,479)	(7,659)	(7,939)	(8,180)
Operating Profit	8,621	6,061	6,535	6,799	6,828
Profit Before Taxation	8,595	5,823	6,287	6,590	6,657
Taxation	(2,089)	(1,863)	(2,012)	(2,109)	(2,130)
Profit After Taxation	6,505	3,959	4,275	4,481	4,527
Balance Sheet ('mln)					
Fixed Assets	7,275	7,413	7,419	7,426	7,421
Stocks	4,364	4,119	4,339	4,586	4,725
Trade Debtors	7,381	5,992	6,853	6,933	7,276
Creditors	9,877	6,526	8,336	8,035	8,676
Net Assets	13,549	13,296	15,174	17,068	18,884
Key Ratios					
Operating Margin	11%	8%	8%	8%	8%
Net Margin	8%	5%	5%	5%	5%
P/E	8.2	13.2	12.2	11.7	11.5
P/BV	3.9	3.5	3.1	2.8	2.5
P/Sales	0.7	0.7	0.7	0.6	0.6

Source: Company financials, ARM Estimates

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	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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