



Initial View

6 months ended 30<sup>th</sup> June, 2014**Recommendation: SELL**

- Mobil Oil Nigeria Plc “Mobil” reported an 8.8% YoY increase in H1 14 revenues to ₦42.2 billion, with a surge in other operating income driving PBT and PAT 151% and 190% higher YoY to ₦6.2 and ₦4.8 billion respectively.

**Revenue growth tapers**

- Q2 14 revenues increased a modest 0.8% YoY (-12% QoQ) to ₦19.7 billion, significantly slower than Q1 14, where unusually high gasoline volumes drove sales 17% higher YoY. Though we had expected some moderation, actual declines which tracked ~3.2% behind our estimates, suggest some moderation in lubricant sales, a view corroborated by pressures on GM.
- Indeed, a quicker (+1.62% YoY) rise in COGS in Q2 14 to ₦17.2 billion—also shy of our forecast by a similar margin—drove gross profits 4.3% lower YoY to ₦2.6 billion, but broadly in line with estimate (+2%). Accordingly, gross margins shrank 70bps YoY to 13%. Specifically, Mobil typically holds 3-4 month stock of base oil—a key input for lubricants—and given relatively flat prices in Q1 14 vs. Q1 13, we infer that product mix tilted in favour of gasoline, suggesting some moderation in lube sales crimped margins.

**Income Statement Data**

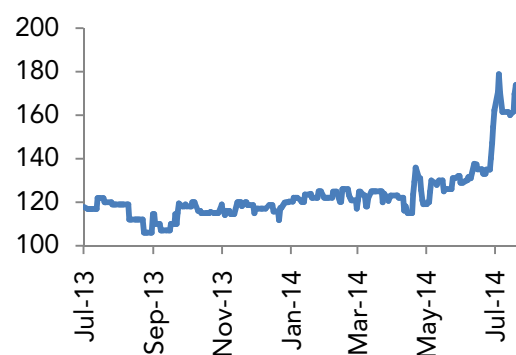
	2014 – 6M'm	2013 – 6M'm	%chg
Revenue	42,168	38,741	8.8%
PBT	6,153	2,451	151%
Tax	(1,337)	(793)	69%
PAT	4,816	1,658	190%

**Balance Sheet Data**

	2014-June	2013 -Dec 'm	%chg
Inventory	4,211	7,111	-6.6%
Receivables	6,049	5,311	13.9%
Cash	61	962	-92%
Payables	8,097	7,914	2.3%
Net Assets	12,190	9,538	27.8%

**Stock Data**

Price	₦171.05
52 week range	₦106.00 – ₦178.84
Market Cap. (N'm)	63,104
1-month Avg. Vol	152,184
Curr. PE	18.1x
Bloomberg Ticker	Mobil:NL
Reuters Ticker	Mobil.LG

**Mobil Plc- Share Price Trend****Analyst(s)****Oyekunle Omotayo-Benson**[oyekunle.omotayo-benson@arm.com.ng](mailto:oyekunle.omotayo-benson@arm.com.ng)

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### ***Higher depreciation charges crimps earnings***

- The foregoing, alongside a 10% YoY rise in other operating expenses to ₦1.9 billion, despite the 10.4% uptick in other operating income, caused a 14% YoY decline in EBIT to ₦1.3 billion with related margins contracting 120bps YoY to 6.7%. Whilst available results do not provide a breakdown of operating expenses, we believe the key driver is higher depreciation charge associated with the capitalised cost on the renovated Mobil court house.
- Net finance income of ₦81 million in Q2 14 vs. net finance expense of ₦16 million in Q2 13, however, pared declines in both PBT and PAT to 8% YoY at ₦1.4 billion and ₦952 million, respectively, ~8.8% behind our estimate. Accordingly, PBT and PAT margins contracted 60bps and 40bps YoY to 7.1% and 4.8%, and trailed our estimates by similar margin.

### ***Earnings likely to remain supported in H2***

- Overall, though weak earnings largely reflect higher input costs and opex charges, recent developments suggest earnings is likely to remain supported for the rest of the year. For input cost, given the slight moderation (-2% YoY) in base-oil prices we see easing pressures on GM. On the other, though opex has been largely driven by depreciation charges, expected income from the related property, as renovation gets completed early H2 14, is set to boost earnings.
  - Mobil has rallied 40% since our Q1 14 update with current price of ₦161.10 implying that it trades at a current P/E (based on adjusted Q1 14 earnings) and P/B of 15.1x and 6.1x, relative to 12x and 4.6x, respectively for Total. More importantly, given that current prices imply a 48% premium to our (FV: ₦108.10), we retain our **SELL** rating on Mobil
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## Summary of Results and Forecasts

QUARTERLY					
	Q1 2014A	Q2 2014A	Q3 2014F	Q4 2014F	
Income Statement ('mln)					
Turnover	22,411	19,757	21,091	21,785	
COGS	(19,379)	(17,441)	(17,403)	(19,379)	
Gross Profit	3,032	2,316	3,688	2,407	
Operating Costs	(1,756)	(1,867)	(1,868)	(1,866)	
Operating Profit	4,697	1,325	1,652	1,929	
Profit Before Taxation	4,747	1,406	1,567	1,838	
Taxation	(883)	(454)	(509)	(596)	
Profit After Taxation	3,864	952	1,059	1,241	
ANNUAL					
	2013A	2014F	2015F	2016F	2017F
Income Statement (mln)					
Turnover	78,744	85,044	86,745	88,479	90,249
COGS	(68,804)	(74,110)	(75,503)	(76,920)	(78,182)
Gross Profit	9,940	10,934	11,242	11,559	12,067
Operating Costs	(7,373)	(7,356)	(7,503)	(7,653)	(7,581)
Operating Profit	5,224	9,786	7,035	7,180	7,825
Profit Before Taxation	5,123	9,386	6,561	6,663	7,280
Taxation	(1,642)	(3,004)	(2,100)	(2,132)	(2,330)
Profit After Taxation	3,481	6,382	4,462	4,531	4,950
Balance Sheet ('mln)					
Fixed Assets	8,911	9,500	10,321	10,992	11,456
Stocks	5,698	7,092	7,538	7,671	7,806
Trade Debtors	5,745	1,745	2,003	2,023	2,036
Creditors	9,249	7,580	8,057	8,199	8,344
Net Assets	9,538	12,083	13,494	14,902	16,681
Key Ratios					
Operating Margin	7%	8%	8%	8%	9%
Net Margin	4%	5%	5%	5%	5%
P/E	22	18	14	14	14
P/BV	7.7	6.4	5.2	4.7	4.2
P/Sales	0.8	0.8	0.7	0.7	0.7

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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