



Initial View

9 months ended 28th February, 2014**Recommendation: NEUTRAL**

- PZ Cussons Nigeria Plc (PZ) reported 2% YoY growth in revenues to ₦52.5billion for 9 months ended February 2014 while PBT and PAT rose 32% and 33% YoY to ₦5.2billion and ₦3.9billion respectively.

Weakness in HPC drives revenue declines

- FQ3 14 revenues declined 2% YoY to ₦20billion over seasonally strong festive quarter in contrast to positive trend observed in H1 14 where top-line growth averaged ~5% YoY each quarter. In its recently released interim statement, PZ's parent hints at volume softness from commodity based products in its Home and Personal Care (HPC) portfolio which management links to intensifying competition from cheaper substitutes. This fits into a trend observed across the HPC space with closest peer Unilever also reporting a challenging trading environment as pressured discretionary incomes resulted in consumers increasingly trade down the price ladder.

Softer commodity prices and supply optimization drive margin expansion

- FQ3 14 COGS declined faster (-4.8% YoY) than revenues resulting in gross profits rising 6.5% YoY at ₦5.5billion. This in part reflects tamer crude oil prices (-3% YoY) linked to petrochemical inputs and the continued impact of supply

Income Statement Data

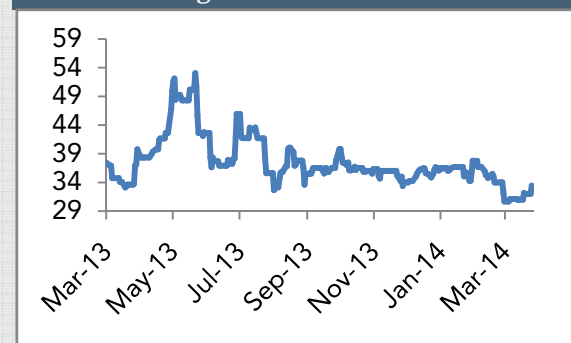
	2014 – 9M'm	2013 – 9M'm	%chg
Revenue	52,594	51,543	2%
PBT	5,174	3,910	32%
Tax	1,308	1,009	30%
PAT	3,867	2,901	33%

Balance Sheet Data

	2014-Feb 'm	2013-May 'm	%chg
Fixed Assets	25,213	24,370	3%
Stocks	19,720	18,021	9%
Trade Debtors	17,253	20,494	-16%
Trade Creditors	18,533	18,893	-2%
Cash & Bank bal	7,193	8,872	-19%
Net Assets	46,441	46,437	0.0%

Stock Data

Price	₦33.45
52 week range	₦30.08 – ₦58.91
Market Cap. (N'm)	132,812.4
1-month Avg. Vol	334,434
Curr. PE	21.6x
Bloomberg Ticker	PZ: NL
Reuters Ticker	PZ.LG

PZ Cussons Nigeria Plc- Share Price Trend**Analyst(s)**

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chain optimization initiatives embarked upon by PZ's parent to moderate input costs across global subsidiaries. Thus, FQ3 14 gross margins expanded 2pps YoY to 27% extending the trend of gross margin expansion observed over H1 14 (avg: +3pps YoY).

- Following PZ's expansive brand renovation program and route-to-market(RTM) expenditure over FQ4 13/FQ1 14 when it opened several distribution points, trends in PZ's operating expenses have been relatively subdued in contrast to an emerging pattern of higher OPEX across our FMCG universe driven by increased marketing and distribution expenditure. Thus, FQ3 14 OPEX rose only 1.1% YoY to ₦3.5billion with opex-to-sales rising 1ppt YoY to 17%. Consequently, EBIT rose 14% YoY to ₦2billion with related margins expanding only 1ppt YoY to 10% reflecting the net effect of gross margin expansion.
 - FQ3 14 finance income rose 56% YoY to ₦63million tracking a 9% QoQ increase in cash balances to ₦7.2billion. Ultimately, the gross margin gains filtered through to earnings with FQ3 14 PBT and PAT rising 10% and 12% YoY to ₦2.1billion and ₦1.5billion respectively. Correspondingly, respective PBT and PAT margins expanded 1ppt YoY to 10.4% and 7.7%.
 - The softness in HPC (which has accounted for ~69% of sales over the last five years) on account of the tighter trading environment suggests a tame revenue outlook for PZ and other peers in the near term. Nonetheless, PZ's earlier RTM expenditure which suggests a moderate OPEX outlay in coming quarters relative to peers as well as subdued outlook for crude oil prices suggests current double digit earnings trajectory is likely to be sustained in FQ4 14.
 - PZ trades at current PE of 21.6x vs. 27.7x for Bloomberg Middle East and Africa peers. Having declined 11% YTD, our last fair value estimate of PZ at ₦35.05 implies a **NEUTRAL** rating to its last trading price. Our model is under review.
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Summary of forecasts

Quarterly Forecasts	FQ1 2014A	FQ2 2014A	FQ3 2014A	FQ4 2014E	
Turnover	15,067	17,394	20,134	19,984	
COGS	11,091	12,420	14,652	14,820	
Gross Profit	3,976	4,975	5,481	5,165	
Operating Costs	2,952	3,212	3,478	1,971	
Operating Profit	1,064	1,789	2,034	3,260	
Net Finance Income	197	27	63	96	
Profit Before Taxation	1,261	1,816	2,097	3,355	
Taxation	340	419	549	918	
Profit After Taxation	921	1,397	1,549	2,438	
Income Statement ('000)	FY 2013A	FY 2014E	FY 2015F	FY 2016F	FY 2017F
Revenue	71,343	72,579	75,888	79,962	84,660
COGS	52,246	52,982	55,474	58,532	62,056
Gross Profit	19,097	19,596	20,414	21,430	22,604
Operating Cost	11,941	11,613	10,017	10,075	10,159
Operating Profit	4,497	7,421	8,147	10,568	11,535
Interest expense	218	306	322	339	359
Interest Income	447	252	445	555	677
PBT	4,307	7,650	8,093	10,691	11,751
Tax	2,329	2,226	2,940	3,231	3,562
PAT	1,978	5,425	5,153	7,459	8,188
Balance Sheet ('000)					
Assets					
Fixed Assets	24,370	24,503	24,609	24,701	24,955
Stocks	18,021	18,275	18,861	19,901	21,099
Trade debtors	20,494	20,849	21,249	22,389	23,705
Cash and other bank balances	8,872	11,242	13,872	16,773	19,761
Total Assets	72,296	75,418	79,350	84,564	90,367
Liabilities					
Trade Creditors	18,987	19,255	19,416	20,486	21,720
Long Term Liabilities	4,462	4,520	4,595	4,678	4,770
Total liabilities	25,860	26,184	26,421	27,574	28,899
Shareholders' fund	46,437	49,234	52,929	56,990	61,468
Key Ratios					
Gross margin	27%	27%	27%	27%	27%
Operating margin	6%	10%	11%	13%	14%
Net margin	3%	7%	7%	9%	10%
P/E	41.54	22.64	17.14	15.59	14.14
P/B	20.79	18.31	15.84	14.79	13.81
EV/EBITDA	26.40	15.21	11.47	10.26	9.13
Return on Assets ROA	8%	8%	10%	10%	11%
Return on Equity ROE	12%	12%	15%	16%	16%

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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