



Equity Research | UAC of Nigeria Plc

ARM Research

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Initial View

12months ended 31st December 2014

**Recommendation: NEUTRAL (₦46.83)**

- UAC of Nigeria Plc (UACN) released audited results for 12 months ending 31st December 2014 wherein revenues rose 8.8% YoY to ₦85.7 billion. PBT over the period was flat (+0.9%) at ₦14.1billion, while PAT gained 8.3% YoY to ₦10.7billion.
- UACN also announced a 175 kobo dividend per share which implies a payout ratio of 51.5% (FY 13: 60%) and a yield of 4.4% using its last trading price.

### ***Surge in UPDC revenue underpins group top-line growth***

- Revenue rebounded in Q4 14 (Q3 14: -10.6% YoY) rising 34.4% YoY to ₦25.1 billion-- 3% higher than our forecasts. Disaggregating the sub-components, sales expansion largely stemmed from upswing at listed real estate subsidiary UACN Property Development Company (UPDC) which nearly tripled YoY to ₦3.5 billion aided by gains from other listed companies such as Livestock Feeds (+37% YoY to ₦2.5 billion), Chemical and Allied Paints (8.4% YoY to ₦1.9 billion) and Portland Paints (+6% YoY to ₦748 million). Top-line growth also received a boost from its ex-listed subsidiaries (which comprise Grand Cereals Limited, UAC Foods, UAC Restaurants and MDS Logistics) where sales rose 25.4% YoY to ₦16.5 billion. Over 2014, top-line gains largely reflected increased volumes particularly in the animal feeds category (where its vital fish is now the market leader at

#### **Income Statement Data**

	2014- 12'm	2013 - 12'm	%chg
Revenue	85,654	78,714	9%
PBT	14,097	13,964	1%
Tax	3,370	4,062	-17%
PAT	10,727	9,903	8%

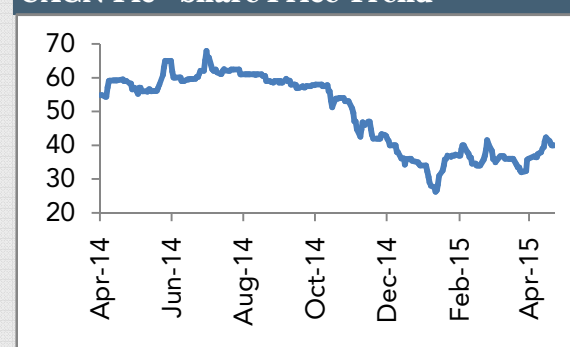
#### **Balance Sheet Data**

	2014-dec 'm	2013 -Dec 'm	%chg
Inventory	27,767	26,617	4%
Receivables	15,950	13,796	16%
Cash	7,957	8,894	-11%
Payables	14,789	17,253	-14%
Net Assets	74,451	72,237	3%

#### **Stock Data**

Price	₦44.00
52 week range	₦26.00 - ₦67.85
Market Cap. (N'm)	76,834.58
1-month Avg. Vol	5,923,817
Curr. PE	11.77x
Bloomberg Ticker	UACN: NL
Reuters Ticker	UACN.LG

#### **UACN Plc - Share Price Trend**



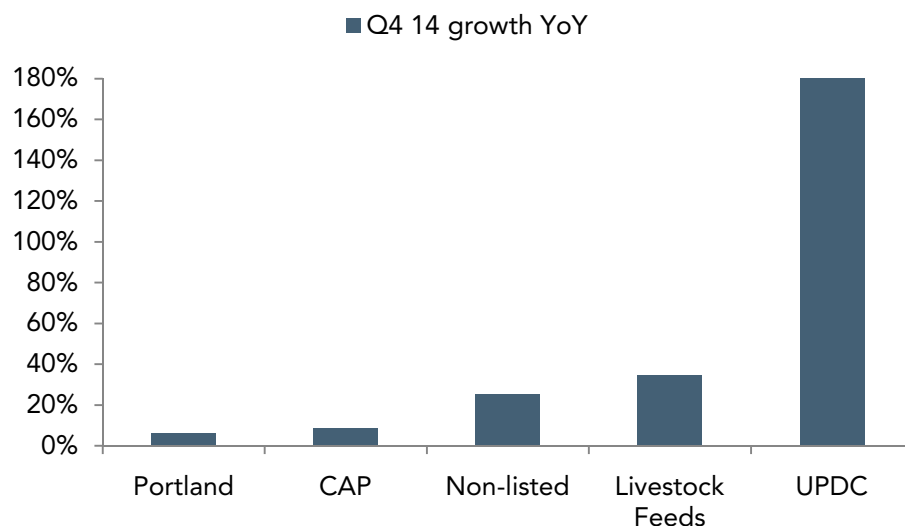
#### **Analyst(s)**

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16% share) as well as commissioning of a new 12 MT/Hour Ikeja mill in June 2014. The volume gains were supported by price increases across its paints business.

**Figure 1: YoY Revenue growth across UACN subsidiaries**



Source: Company presentation, ARM Research

***Spike in soybean prices drive margin contraction***

- At ₦19.6 billion, Q4 14 COGS rose faster (+40.2% YoY) than revenues and our estimates (₦18.2 billion) resulting in gross margins shrinking 3.2pps YoY to 22% (Gross profits: +17.1% YoY to ₦5.5 billion). Management links up-thrust in input costs to 40% YoY climb in soybeans prices faced by GCL following disruptions to supply stemming from pastoral-farmer conflicts in the north central region during Q4. The higher soyabean prices offset impact of softer maize prices (-22% YoY) in Q4 14 using FEWSNET data.
- Opex rose 13.5% YoY to ₦2.2billion as UACN slowed down on its RTM expenditure resulting in opex-to-sales ratio shrinking 1.6pps to 8.6%. Nonetheless, the input costs pressures filtered through to EBIT with margins contracting 1.7pps YoY to 13.4% (EBIT: +19.5% YoY to ₦3.4 billion).

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### ***Profits from UPDC REIT powers earnings expansion***

- Notwithstanding an 87% contraction in finance costs reflecting UPDC's restructure of its debt from ST to LT borrowings, absence of finance income in the period (Q4 13: ₦1.7 billion) underpinned a net finance expense of ₦198.8 million in Q4 14 as against net finance income of ₦241.6 million in Q4 13. However, UACN recorded ₦2.98 billion as its share of associate company profits in Q4 14 (vs. Q4 13: nil), reflecting its 51.1% share in UPDC's REIT which recorded profit over 2014. The company stated that its lack of control of operational and financial activities of the REIT necessitated the associate classification. The associate's profit bolstered UACN's earnings with PBT and PAT rising 40.2% and 50.3% YoY to ₦7.3 billion and ₦6.1 billion respectively while corresponding margins expanded 1.2pps and 2.6pps YoY to 29.2% and 24.1% respectively.

### ***Robust outlook of agro-allied business and cost containment to offset concerns over UPDC***

- Going forward, heightened political activity and uncertainty following the change in government should drive slowdown in real estate activity which should impact UPDC. Indeed, management guides to potential headwind at its real estate division with mention of a strategic review. Nonetheless, pressures from UPDC should be tempered by UACN's agro-allied business, where recent capacity expansions on animal feed units amid favourable government policy disposition towards local agriculture should buoy outlook. Furthermore, management guidance to scale down on RTM expenditure should sustain top-line. However, we remain cautious over the sustainability of associate profits from UPDC given UACN's earlier guidance to moderate its stake in the REIT. Incorporating all of the foregoing concerns into our model and adjusting our discount rate to capture changes in sovereign yields results in a moderation in our FVE estimate to **₦46.83**. UACN trades at current P/E of 11.77x vs. 22.86x for Bloomberg regional peers. The stock has gained 18% YTD with last trading price at a 17% discount to our FVE which translates to a **NEUTRAL** rating.
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## Summary of forecasts

Quarterly Forecasts	Q1 2014A	Q2 2014A	Q3 2014F	Q4 2014A	
Turnover	19,889	20,367	20,290	25,109	
COGS	15,528	15,556	15,801	19,587	
Gross Profit	4,361	4,811	4,488	5,522	
Operating Costs	2,515	2,860	2,643	2,161	
Operating Profit	1,846	1,951	1,845	3,361	
PBT	2,624	2,438	1,216	7,321	
Taxation	653	928	526	1264	
PAT	1,971	1,510	690	6,057	
Income Statement ('000)	2013A	2014A	2015E	2016E	2017E
Revenue	78,714	85,654	96,454	107,518	120,955
Cost of Goods Sold	59,878	66,472	71,376	78,488	88,297
Gross Profit	18,836	19,183	25,078	29,030	32,658
Operating Cost	9,238	10,180	10,803	11,827	13,063
Operating Profit	9,598	9,003	14,950	17,955	20,441
Interest expense	(1,257)	(1,276)	(1,413)	(1,115)	(1,179)
Pre-tax Profit	13,964	14,097	16,431	19,529	21,681
Tax	4,062	3,370	5,258	6,249	6,938
Post-tax Profit	9,903	10,727	11,173	13,280	14,743
Balance Sheet ('000)					
Assets	2013A	2014A	2015F	2016F	2017F
Fixed Assets	35,764	36,613	39,746	42,794	46,281
Stocks	26,617	27,767	31,694	35,876	41,507
Trade debtors	13,796	15,950	16,034	17,632	19,583
Cash and other bank balances	8,894	7,957	15,342	15,434	17,827
Total Asset	125,014	130,361	141,834	150,310	163,335
Liabilities					
Trade Creditors	17,253	14,789	29,589	32,098	35,649
Long Term Liabilities	10,965	13,706	7,466	6,190	7,466
Total liabilities	53,695	55,909	60,767	62,941	69,743
Shareholders' fund	72,237	74,451	81,066	87,370	93,593
Key Ratios	2013A	2014E	2015F	2016F	2017F
EPS	2.94	3.40	3.19	3.74	4.10
P/E	19.43	11.77	12.54	10.69	9.75
EV/EBITDA	16.32	14.36	8.02	6.86	6.09
ROA	8.0%	8.4%	7.7%	8.6%	8.8%
ROE	15.0%	14.63%	13.7%	15.0%	15.3%

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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