

Rating	NEUTRAL
Price	₦5.90
FVE	₦6.71
52-week range	₦5.50-15.00
Market Cap. (₦bn)	23.426
1-month Avg. Vol	294,456
Curr. PE	12.77x

PZ Cussons: NL - Share Price Trend



Analyst

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PZ Cussons Nigeria Plc. (PZ .NL)

Stock Report

Fading pressures, but limited upside

- Coming from a low base in 2019 and falling petrochemical prices (tracking largely movement in global crude oil prices), we see gradual expansion in margins going into its financial year 2020 (albeit lower than our prior estimate). However, we believe pressure on sales volume will persist, limiting upside from moderating input cost. Accordingly, we cut our FVE to ₦6.71 (previously: ₦8.71), representing 14.5% upside, which translates to a NEUTRAL rating. PZ trades at FY 19E P/E of 12.27x, compared to Bloomberg MENA peer average of 27.1x.***
- PZ Cussons Nigeria Plc FQ4 19 result released last week showed further strain on operating performance, with gross margin and operating profit declining 1280bps and 951bps respectively. However, due to lower FX loss of ₦48 million compared to ₦2.1 billion same period in the prior year, PAT expanded 26% YoY to ₦745 million (EPS: ₦0.25). Notwithstanding, due to the weak operating performance over FQ4, FY 19 PAT of ₦1.2 billion (-40% YoY) was materially below our estimate. Notable drag to full year 19 performance were incessant competition in the HPC segment and elevated production cost. Management declared dividend of ₦0.15, which is 2.5% yield on current pricing.
- Clearly, the company struggled to grow its sales this year (FY 19), with revenue dipping by 7.7% YoY to ₦69.3 billion, 3% deviation from our estimate. Much of the pressure stemmed from the HPC segment which declined 19.3% YoY overshadowing a 23% YoY expansion in its receipts from white goods. Competing brands such as *Mama lemon*, *Sunlight*, *Tura supreme*, *Brite* and *Klean Mate* continues to take a toll on the company's sales. Generally, increasing substitutes of HPC products on the shelves at lower pricing, have consistently placed a strain on PZ's market share. Further compounding pressure on the bottom line is higher input cost. Petrochemical prices rose by 17% YoY, compressing gross margin to 23% (-700bps YoY).
- Similar to the 2019 financial year, pressure on sales is expected to persist with sector peer (Unilever), already reporting 14.4.% YoY decline for the first half of 2019 in the HPC segment. We recall, the influx of cheaper imported substitutes since 2018, limited ability of sector players to grow volume or adjust prices to reflect movement in input cost. For us, we do not see this pressure abating, given the competitive nature of the imported products

occasioned by FX availability and stability across the parallel and official windows. That said, we expect revenue to drop by 6.8% YoY to ~~₹~~69.3 billion in FY 20. On cost, while we maintain our view of reduced cost over 2020 due to lower petrochemical prices, we increased our cost estimate to reflect moderate increase in CPO prices towards the second half of its 2020 financial year. As a result, we lowered our gross and operating margins by 200bps to 25% (prior estimate of 27%) and 3.7% (prior estimate 5.7%) respectively.

Summary of Results and Forecasts - Naira (₹)

ANNUAL					
Income Statement (₹'m) *	2018	2019	2020F	2021F	2022F
Revenue	80,553	74,336	69,263	66,412	65,948
COGS	56,097	57,235	51,947	49,809	48,142
Gross Profit	24,456	17,101	17,316	16,603	17,806
Operating Cost	16,228	14,828	14,892	13,083	11,673
Operating Profit	8,357	2,396	2,563	3,653	6,265
Interest Income	181	295	84	53	88
Interest Expense	832	304	304	304	304
PBT	2,314	1,942	2,343	3,401	6,049
Tax	386	787	607	882	1,568
PAT	1,927	1,156	1,735	2,520	4,482
Balance Sheet (₹ '000) *					
Fixed Assets	28,430	27,341	28,332	28,257	28,634
Stocks	26,040	28,599	28,571	27,395	28,885
Trade debtors	15,053	15,166	16,013	16,603	16,487
Cash & other bank balances	14,260	2,519	8,008	9,684	9,099
Total Assets	88,616	79,937	86,328	86,166	87,323
Liabilities					
Trade Creditors	40,205	30,517	35,121	33,676	32,549
Non-current Liabilities	2,525	3,291	3,349	3,373	3,415
Total liabilities	43,507	34,184	38,663	37,241	36,157
Shareholders' fund	45,109	45,752	46,652	47,912	50,153
Key Ratios	2018	2019	2020F	2021F	2022F
Gross Margin	30.36%	23.01%	25.00%	25.00%	27.00%
EBIT Margin	10.37%	3.22%	3.70%	5.50%	9.50%
PBT Margin	2.87%	2.61%	3.38%	5.12%	9.17%
Net Margin	2.39%	1.55%	2.51%	3.79%	6.80%
EPS	0.46	0.25	0.38	0.55	0.98
P/E	37.55	23.55	15.78	10.87	6.11
EV/EBITDA	4.39	5.33	4.98	3.91	2.91
ROA	2.16%	1.37%	2.09%	2.92%	5.17%
ROE	4.27%	2.54%	3.76%	5.33%	9.14%

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 reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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