

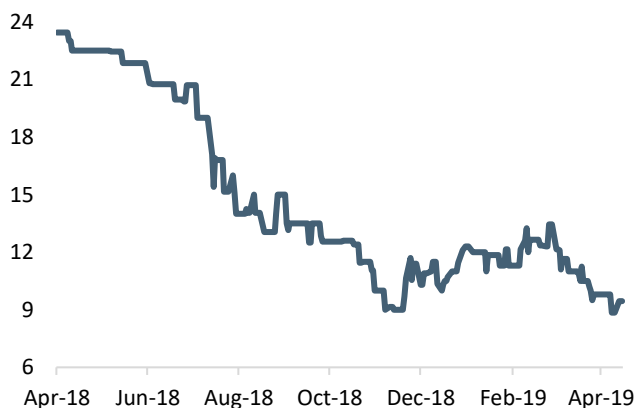
PZ Cussons Nigeria Plc. (PZ .NL)

Stock Report

Rating	SELL
Price	₦9.45
FVE	₦8.71
52-week range	₦8.85 - ₦22.5
Market Cap. (₦bn)	37,521
1-month Avg. Vol	251,438
Curr. PE	N/A

Quarterly EPS	Q1	Q2	Q3	Q4
2017 A	0.40	0.33	0.48	0.53
2018 A	0.03	0.18	0.19	0.15
2019 (E*)	0.05	0.36	0.10	0.28*

PZ Cussons: NL - Share Price Trend



Analyst(s)

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Will the pressures abate?

- PZ Cussons Nigeria Plc (PZ) FQ3 19 numbers showed the intensity of ongoing competition across products in the home and personal care segment. Particularly, dish washing liquid “**Mama lemon**” and “**Sunlight**” are competing favorably with “**Morning Fresh dish wash**”. Also, “**Tura supreme**” which has a better price point and matching appearance with PZ’s “**Premier bar soap**” further intensified the volume pressure, with PZ booking 13% decline in sales to ₦55.1 billion over nine-month 2019 financial year. Coupled with sticky input and higher distribution cost, after tax profit came in lower by 39.6% YoY to ₦807.1 million, with EPS printing at ₦0.20. For its last quarter in 2019, while we see no change to the tough operating environment, our view of a stable FX environment guides our expectation of a little or no FX losses as seen in a similar period of the prior year – leaving the earnings for full year flat at ₦1.9 billion (+0.09% YoY) with EPS at ₦0.49.
- For its 2020 financial year, while we still expect the company’s products to remain threatened as FX remains stable, support for earnings would stem from moderation in petrochemical prices and distribution expenses. For clarity, PZ launched its re-branded dish washing liquid (“**Morning fresh**”) in the second half of 2018 (i.e the company’s FQ2 19), which we believe necessitated increase in selling & distribution expenses as the company embarked on promotional offers to drive sales. Given the offers were unfruitful in driving sales, which we believe is due to the fact that the product trades at a higher pricing point relative to its peers (“**Mama Lemon**”, “**Sunlight**”, “**Brite**” and “**Klean Mate**”) we expect PZ to gradually normalize its distribution expenses going

forward. That said, coupled with our expectation of tamer production cost, we expect after tax profit to print at ₺2.1 billion (+26 YoY).

- ***Pressures on sales will subsist.*** For us, in the face of competition from “*mama lemon*”, “*supreme bar soap*” and other smaller brands, we believe PZ’s star product “*Morning Fresh dish wash*” and “*Premier bar soap*” will remain pressured, given its higher price point relative to its competitors. For clarity, PZ’s premier has always traded at a ₺20 to ₺30 increase relative to “*supreme bar soap*”, while its “*Morning Fresh*” brand offers a lesser quantity relative to its close competitor “*mama lemon*” at same price. To add, increase in the use of the home-made dish washing liquid and incessant competition in its white goods segment further guides our view on pressured sales over 2019. That said, we expect revenue to dip further by 6% YoY to ₺67.6 billion.
 - ***Tamer production cost, the sunshine in winter.*** Furthermore, our expectation of a moderation in petrochemical prices which is one of its major input coupled with depressed CPO prices will support moderation in input cost. Also, following the introduction of its rebranded anti-bacterial morning fresh, the company incurred additional selling and distribution expenses which we expect to normalize in its 2020 financial year. That said, we expect the cost pressures to moderate, culminating in gross margin of 200bps YoY to 27% and EBIT margin of 21% (+430bps YoY).
 - Mirroring slower sales, the company’s cash conversion cycle expanded to 41 days as at nine-month 2019 (9M 18: 16 days) reflecting its struggle in converting its stock into cash. Consequently, the company’s cash balance dropped further to ₺3.5 billion (FY 18: ₺14.3 billion). On that backdrop, we do not see much movement in its financing, with our net finance cost estimate of ₺123.9 million (-3% YoY). Overall, overlaying our expectation of moderating cost on the slower revenue, we expect after tax profit to expand 26% YoY to ₺2.4 billion (Previous: ₺3.6 billion).
 - Notwithstanding the earnings improvement, we believe the stock is expensive at current price. Thus, we have a **SELL** rating with a revised FVE of **₺8.71** (previously ₺10). PZ trades at FY 19E P/E of 20.9x, compared to Bloomberg MENA peer average of 14.8x.
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Summary of Results and Forecasts - Naira (₦)

ANNUAL					
Income Statement (₦' m) *	2018A	2019E	2020F	2021F	2022F
Revenue	80,553	72,128	67,561	65,173	65,118
COGS	56,097	54,096	49,320	46,273	45,582
Gross Profit	24,456	18,032	18,242	18,900	19,535
Operating Cost	16,228	15,147	14,526	12,839	11,526
Operating Profit	8,357	3,029	3,851	6,191	8,140
Interest Income	181	167	89	65	107
Interest Expense	832	295	212	159	100
PBT	2,314	2,452	3,278	6,097	8,146
Tax	386	523	850	1,580	2,111
PAT	1,927	1,929	2,429	4,517	6,035
Balance Sheet (₦ '000) *					
Fixed Assets	28,430	27,520	28,216	28,110	28,465
Stocks	26,040	27,759	27,126	25,450	27,349
Trade debtors	15,053	19,596	15,619	16,293	16,279
Cash & other bank balances	14,260	3,521	9,435	11,908	12,260
Total Assets	88,616	81,527	83,774	83,998	86,590
Liabilities					
Trade Creditors	40,205	32,591	33,345	31,285	30,818
Non-current Liabilities	2,525	3,269	3,319	3,362	3,420
Total liabilities	43,507	36,207	37,038	35,003	34,578
Shareholders' fund	45,109	45,320	47,364	49,623	52,640
Key Ratios					
	2018A	2019E	2020F	2021F	2022F
Gross Margin	30.36%	25.00%	27.00%	29.00%	30.00%
EBIT Margin	10.37%	4.20%	5.70%	9.50%	12.50%
PBT Margin	2.87%	3.40%	4.85%	9.35%	12.51%
Net Margin	2.39%	2.67%	3.59%	6.93%	9.27%
EPS	0.46	0.42	0.53	0.99	1.32
P/E	37.55	20.94	16.63	8.94	6.69
EV/EBITDA	4.39	5.33	6.57	4.74	3.14
ROA	2.16%	2.27%	2.94%	5.38%	7.08%
ROE	4.27%	4.27%	5.24%	9.31%	11.80%

Source: ARM Research *unless otherwise stated

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	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
RESTRICTED	In certain circumstances, Asset & Resource Management (“ARM”) Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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