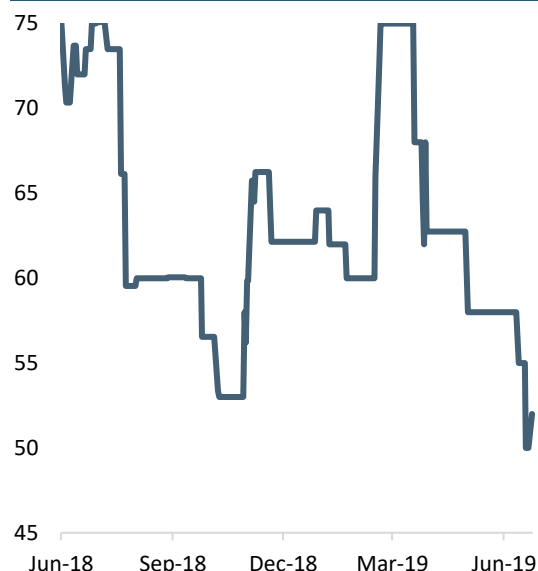


Rating	NEUTRAL
Price	₦44.8
FVE	₦51.9
52-week range	₦40.35 – ₦75.00
Market Cap. (₦'bn)	44.80
1-month Avg. Vol	51,424
Current. PE	9.26x

Quarterly EPS	Q1	Q2	Q3	Q4
2017 A	3.90	1.65	-0.2	15.85
2018 A	2.60	1.39	1.29	-0.26
2019 E	2.14	0.87	0.91	0.94

PRESKO:NL - Share Price Trend



Analyst(s)

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Presco Plc. (PRESKO.NL)

Stock report

Underlying Pressures persist

- **We beam our light on Presco Plc and revise our numbers in the light of the release of its FY 18 and Q1 19 financial result, ongoing trend in the sector and our discussion with management. We cut our FVE by 23% to ₦51.9 and downgrade to a NEUTRAL rating. This chiefly reflects cut in our FY19E product prices by 22% following expectation of lower product prices this year, underpinned by passthrough of lower global CPO prices and infiltration of imported CPO into Nigeria.**
- We remain largely bearish on Presco's product prices following lower global CPO prices which is reminiscent of persisting glut in the global CPO market and its direct pass through on local prices. This, alongside stability and availability of FX has paved way for infiltration of CPO into Nigeria from Neighboring countries. For context, according to USDA, total CPO imports (238,511MT) into Benin Republic from Malaysia outweighed its total consumption in 2018 (145,000MT). Similarly, over H1 19 alone, Benin Republic's CPO importation from Malaysia is 82% higher YoY. In our view, we think a large chunk of the excess CPO imports into Benin has been finding its way into Nigeria, thereby intensifying the downslide in local CPO prices. Based on the foregoing, we slash Presco's refined CPO prices by 20% in FY 19E.
- On volumes, while 7,706 hectares is staged to mature this year in its Sakponba plantation, we highlight capacity constraint as underpinning for our modest 11% YoY increase in volumes in FY 19E. As a result, following faster decline in prices relative to the increase in volumes, we forecast a 10.3% YoY decline in revenue to ₦18.9 billion.
- **Better cost containment:** While we expect pick up in agricultural cost in subsequent quarters as planting season kicked off in May, benefits from better economies of scale due to higher volumes produced this year should

keep cost subdued. Thus, we forecast a 15% YoY decline in cost of goods sold to ~~₦4~~ billion (cost to sales: -60bps YoY to 21.7%). Contrarily, due to ongoing construction works at the company, we left our Opex to sales ratio unchanged (31.6%) from last year. Although our expectation for revenue and lower cost to sales translates to FY 19E EBIT margin expansion of 96bps to 49.1%, operating profit (-10.5% YoY to ~~₦9.2~~ billion) remain low in value terms.

- **Capex spend spur higher borrowings:** To fund its ongoing expansion plan which requires CAPEX spend of ~~₦33.4~~ billion over the next 5 years, Presco resorted to taking on additional debt which prompted a 5% YoY jump in total borrowings to ~~₦12.4~~ billion in Q1 19 (Debt to equity: 47%). Following ramp up in borrowings, we model a 59.5% YoY jump in interest expense to ~~₦2~~ billion. Cumulative impact of our adjustments translates to a softer EPS ex biological loss (-30% YoY to) over FY 19E.
- Following changes to our forecast – chiefly from lower product prices and higher borrowings – we cut FY 19E EPS ex biological loss by 30% YoY to ~~₦4.84~~. Presco trades at a forward P/E of 9.26x relative to 8.26x for Okomu and Bloomberg Middle East and Africa (MENA) peers of 8.33x. On our revised of ~~₦51.9~~, we downgrade to a **NEUTRAL** rating.
- **Catalyst:** Significant rise in global CPO prices, sizeable depreciation in parallel market USDNGN and tighter border controls by the FG.

ANNUAL					
Income Statement (N'000)	2017A	2018A	2019E	2020F	2021F
Revenue	22,365,372	21,344,730	18,875,282	22,074,964	23,488,539
Cost of Goods Sold	5,941,308	4,753,275	4,095,936	4,966,867	5,402,364
Gross Profit	16,424,064	16,591,455	14,779,346	17,108,097	18,086,175
Operating Cost	7,501,666	6,751,352	5,966,477	6,291,365	6,224,463
Other operating income (loss)	213,358	389,845	339,755	397,349	422,794
Operating Profit	8,709,040	9,450,258	8,473,114	10,419,383	11,438,919
Net Interest expense	973,479	1,276,868	2,036,768	2,046,970	1,825,599
Pre-tax Profit	7,815,063	6,321,010	7,115,857	9,167,112	10,458,907
Tax	2,088,858	2,036,822	2,277,074	2,933,476	3,346,850
PAT	5,726,205	4,284,188	4,838,783	6,233,636	7,112,057
Balance Sheet (N '000) *					
Fixed Assets	28,122,101	42,345,519	47,276,138	50,014,496	51,954,321
Inventory	4,704,706	4,631,715	2,297,820	2,786,412	3,030,726
Trade debtors	3,607,661	5,062,572	3,510,803	4,105,943	4,368,868
Cash & other bank balances	5,892,483	2,551,685	3,715,508	6,001,879	10,229,015
Total Assets	45,986,205	58,678,749	60,887,527	66,995,988	73,670,188
Liabilities					
Trade Creditors	7,428,137	8,034,114	4,300,733	5,215,210	5,672,482
Current Liabilities	12,974,500	21,208,741	9,983,470	10,881,624	11,419,494
Total liabilities	11,137,169	13,295,666	18,662,138	19,945,255	21,600,989
Shareholders' fund	21,874,536	24,174,342	27,222,775	31,149,966	35,630,562
Key Ratios	2017A	2018A	2019E	2020F	2021F
Gross Margin	73%	78%	78%	78%	77%
EBIT Margin	41%	48%	48%	51%	52%
PBT Margin	35%	30%	38%	42%	45%
Net Margin	26%	20%	26%	28%	30%
EPS	5.7	4.3	4.8	6.2	7.11
P/E	11.96	14.94	9.26	7.19	6.30
EV/EBITDA	6.64	6.36	5.10	4.16	3.61
ROA	14.3%	8.2%	8.1%	9.7%	10.1%
ROE	30.1%	19.9%	18.1%	21.0%	20.9%

Source: ARM Research *unless otherwise stated

Ratings, Disclosure & Disclaimer – [Click here](#)