



Presco Plc. (PRESCO.NL)

Initial View

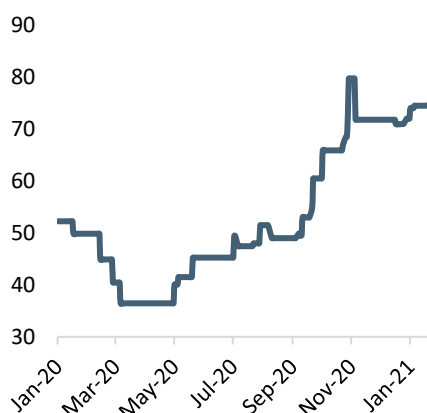
Operating success makes up for weak topline

Presco's Q420 results showed that revenue growth slowed to 10%YoY while cost of sales more than doubled over the same period. This combination meant that gross profit fell 33%YoY, its steepest decline since 2017, with gross margin also declining to its lowest level since 2014. Away from the topline, Presco cut its operating expenses by 47%YoY which helped lead EBIT higher by 10%YoY to ₦2.68 billion. PBT printed at ₦2.37 billion while PAT came in at ₦2.0 billion, both of which are improvements from a year ago. For FY20, both gross profit (+11%) and EBIT (+29%) rose but the margin for the former was lower at 59% vs (65% in FY19) while there was an improvement in the latter to 44% (vs 41% in FY19). PBT was 48% higher in FY20 at ₦8.95 billion.

- Cost of sales doubles as revenue growth slows:** Presco's YoY revenue growth slowed for the third consecutive quarter to 10.3% bringing revenue for the period to ₦4.99 billion (Q419: ₦4.53 billion). Costs, meanwhile, rose by 136%YoY to ₦2.75 billion leading to a lower gross profit of ₦2.24 billion (Q419: ₦3.36 billion); this is the lowest quarterly gross profit Presco has reported since 2016. Subsequently, gross profit margin came in lower at 45% (Q419: 74%) which highlights the cost pressures they are currently facing. Over FY20, Presco recorded a 21.2% increase in its revenue to ₦23.91 billion which marked the first annual revenue growth since 2017. On the other hand, cost of sales rose at a faster rate of 39% (vs 28% in FY19) to ₦9.75 billion. Despite this faster rise in costs, Presco recorded a higher gross profit for FY20 of ₦14.16 billion (FY19: ₦12.72 billion) but a lower margin of 59% (vs 65% in FY19).
- Presco were able to cut their operating expenses ('OPEX') by 46.5%YoY over Q420 to ₦1.58 billion. This improvement came on the back of a 48.6%YoY cut in admin expenses; sales & distribution costs were up by 63.3%YoY. This, coupled with a 12%YoY increase in the gain on biological assets to ₦2.05 billion, led to a 9.5%YoY improvement in EBIT to ₦2.68 billion (Q419: ₦2.45 billion). Over FY20, OPEX fell 25% to ₦5.11 billion and the gain in biological assets was higher by 12% leading EBIT 29% higher to ₦10.5 billion.

Rating	UR
Price	₦75.00
FVE	UR
52-week range	₦35.20 – ₦79.75
Market Cap (₦bn)	75.00
1-month Avg. Vol	12,014,240
Current. PE	10.66

PRESCO:NL - Share Price Trend



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- Despite no finance income being reported in 2020 (vs ~~₺67~~ million in 2019) Presco still managed to reduce their net finance expense by 26% over FY20 to ~~₺1.54~~ billion as finance expense was cut by 28%. FY20 PBT printed at ~~₺8.95~~ billion, a 48% increase from 2019's ~~₺6.06~~ billion while PAT was up 83% to ~~₺7.03~~ billion (FY19: ~~₺3.84~~ billion). This translates to an **EPS of ~~₺7.03~~** which marks a sharp improvement from 2019's ~~₺3.84~~. For the quarter, Q420, PBT was up 39%YoY to ~~₺2.37~~ billion while PAT was up over 200% to ~~₺2.0~~ billion.
 - The balance sheet shows that Presco's total borrowings has remained almost stable QoQ (~~₺13.25~~ billion at Q420 vs ~~₺13.81~~ billion at Q320) but diving into the numbers we notice a slight pivot in the composition of that debt. Short-term borrowings now account for 40% of total borrowings compared to 25% in the previous quarter. In absolute terms, that is an increase of 53%QoQ to ~~₺5.31~~ billion (Q319: ~~₺3.46~~ billion). Even within short term borrowings there has been a rebalancing of sort as Presco has reduced the amount of overdrafts (-14%QoQ to ~~₺8.04~~ billion) while increasing the amount of short term loans (+54% to ~~₺5.31~~ billion). On the other hand, long term borrowings, which now account for 60% of total borrowings, fell 23%QoQ to ~~₺7.94~~ billion. We assume the decision to focus more on short term borrowings may be a ploy to benefit from low rates while the future direction of rates remains unclear.
 - This stock remains under review while we wait for the audited results and for more clarity around their numbers.
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Summary of Results and Forecasts

QUARTERLY					
Income Statement (N'000) *	Q419	Q120	Q220	Q320	Q420
Revenue	4,526,530	5,375,112	8,125,556	5,458,740	4,992,293
COGS	1,164,944	1,175,605	2,881,560	2,583,126	2,751,975
Gross Profit	3,361,586	4,199,507	5,243,996	2,875,614	2,240,318
Operating Cost	2,942,959	1,332,735	1,211,782	1,458,432	1,575,796
Operating Profit	2,450,108	2,852,986	4,245,049	1,194,977	2,683,842
Net Interest Expense	746,479	499,226	333,114	388,216	315,437
PBT	1,703,629	2,353,760	3,911,935	806,761	2,368,405
Tax	1,081,777	553,576	827,030	166,392	364,145
PAT	621,852	1,800,184	3,084,905	640,369	2,004,260
Balance Sheet (N'000) *	12M19	3M20	6M20	9M20	12M20
Fixed Assets	49,859,826	51,276,871	49,867,385	50,659,280	51,486,539
Inventories	3,226,884	4,257,890	4,260,199	3,880,326	3,643,078
Receivables	6,759,060	6,965,461	6,467,527	5,944,915	5,682,766
Total Assets	70,732,623	72,450,230	70,204,172	69,110,633	70,119,926
Liabilities					
Payables	8,180,957	9,330,494	5,851,088	6,627,281	7,343,585
Non-current Liabilities	16,558,462	17,694,790	16,129,836	16,200,142	13,809,163
Total liabilities	42,844,745	42,761,988	37,926,176	38,192,376	37,197,410
Key Ratios	Q419	Q120	Q220	Q320	Q420
Gross Margin	74.3%	78.1%	64.5%	52.7%	44.9%
EBIT Margin	54.1%	53.1%	52.2%	21.9%	53.8%
PBT Margin	37.6%	43.8%	48.1%	14.8%	47.4%
PAT Margin	13.7%	33.5%	38.0%	11.7%	40.1%
EPS	0.62	1.80	3.08	0.64	2.00

Source: ARM Research, NSE

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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