

UAC Nigeria Plc & UPDC Plc

Company Update

Restructuring exercise: Are UACN or UPDC shareholders better-off?

- UACN's shares gained 10% yesterday, following the announcement of a restructuring exercise by both UAC Nigeria and UPDC Nigeria on Monday. The exercise includes: 1) equity capital raise by UPDC, 2) the unbundling of UPDC's interest in UPDC REIT to its shareholders, and 3) the unbundling of UACN's interest in UPDC to the shareholders of UACN on a pro rata basis.
- UPDC plans to raise ₦15.96 billion from the capital market via rights issue. The proceeds will be used to expunge its long-term debt which as at H1 19, stands at ₦7 billion. This leaves the company with a balance of ₦8 billion with no guidance on the use. Using the market price on the day of the announcement of ₦0.82, the company would have to issue 18.3 billion additional shares. However, we note that if the company decides to price the shares at 3-month average price (₦1.30) or volume weighted average price (₦1.21), the additional shares could be below our working estimate at 11.5 billion and 12.4 billion respectively. With UACN's holdings at 64.1% and a cash position of ₦26.4 billion at the end of H1 2019, we believe UACN is in a good position to take up its holdings, if not more, without necessarily taking up additional capital from shareholders.
- Posts rights issue, UPDC is expected to divest its 61.5% holdings from UPDC REITS by allocation to UPDC shareholders in proportion to their post rights holdings. On that backdrop, UAC will hold 40% of UPDC REITS. Given that UPDC carries the REIT on its financial statement at a significant premium to current market value, we expect an impairment charge of ₦11.7 billion which will be passed through UPDC's book as a non-cash charge. Adjusting the impairment charge on the post rights issue equity, we estimate a decline in UPDC's book value to ₦13.5 billion and BVPS of ₦0.65.

Analyst(s)

Olamide Adeboboye
Olamide.adeboboye@arm.com.ng

Table 1: UPDC post and pre-rights issue and Impairment charge scenario.

(₦)	Post Rights and impairment	Pre rights and impairment	Pre rights issue (ex-impairment)
Share Capital	10,445,539,463	1,299,198,000	1,299,198,000
Share premium	6,685,145,257	6,065,397,000	6,065,397,000
Retained Earnings	9,579,489,000	9,579,489,000	9,579,489,000
Impairment charge	(11,700,000,000)	(11,700,000,000)	0
Ann. H2 19 PAT	(1,288,696,000)	(1,288,696,000)	(1,288,696,000)
Equity Value	13,543,604,720	3,777,515,000	15,477,515,000
Shares Outstanding	20,891,078,927	2,598,396,000	2,598,396,000
BVPS	0.65	1.45	5.96

- On completion of the second phase, UAC Nigeria has also decided to unbundle its holdings in UPDC to UAC's shareholders. This comes as a positive news for the holding company (UAC Nigeria) as it saves the company from impairment and financing charges reported historically. From our analysis, should UPDC decide to take the impairment charge, without a capital raise, the company's BVPS drops to N1.45. This implies shareholders might be able to get better value via an outright sale to a third party, rather than a pro rata share of the company to shareholders. Notwithstanding, at the conclusion of the exercise, UACN shareholders will now directly hold shares in three separate entities (UACN, UPDC and UPDC REITS).
- As earlier stated, while we believe the unbundling exercise unlocks value for UACN shareholders as impairment and financing burden is lifted. For context, UPDC accounts for 75% of UAC's debt, 90% of UAC's reported finance cost and impairment charge. With the unbundling, we see improvement in earnings in coming years. Excluding UPDC from UACN 2018 operations, we note the UACN would have reported EPS of ₦1.27. From our estimates, without ₦11.7 billion impairment charge from UPDC, we estimate FY 19 EPS of ₦1.44. However, if the transaction is delayed till the end of the year and UPDC impairs the excess of the carrying value of UPDC REITS during the year, UACN is set a report a loss for the second consecutive year. The exercise is subject to regulatory approval and a 75% vote from both UPDC and UACN shareholders.
- The management of both companies will be hosting a joint conference call tomorrow at 14:00 Lagos and London time. Click [here](#) for details.

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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