

UAC Nigeria Plc. (UACN.NL)

Rating	SELL
Price	₦9.00
FVE	₦8.96
52-week range	₦4.30- ₦11.15
Market Cap. (₦'bn)	25,923
1-month Avg. Vol	4,591,784
Curr. PB	4.62x

UACN.NL – Share Price Trend



Analyst(s)

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Initial view

OPEX pressure wipes margin gains in Q4 19

- Yesterday, UAC Nigeria released its unaudited result for FY 2019 wherein it reported a profit from continuing operations of ₦6.1 billion (EPS: ₦2.14)-coming from its re-stated FY 18 PAT of ₦5.5 billion (EPS: ₦1.91). Relative to our estimate, revenue and profit deviated by 0.3% and 1.1% respectively. However, incorporating the loss from discontinued operations takes the earnings position to a loss of ₦9.3 billion. On its continuing operations, the outturn stemmed from one-off sale of its investment property which helped shoulder the OPEX pressure.**
- For us, the result further confirm our concerns on increasing OPEX (See our previous report: Old things have passed away...) which is yet to translate into improved sales. For context, operating expense increased by 23% YoY, while sales only increased by 11% YoY over FY 19. While the management has communicated its drive for operational efficiency as its key strategy this year, we are less optimistic of its success this year.**
- Elevated OPEX trump margin gains** . While we have seen a lot of re-structuring in UACN which started since last year and partly explains the jump in operating expense – both admin and S&D expenses. We believe a 71% YoY (45% QoQ) jump in OPEX to ₦4.8 billion is unjustified when compared to a 3% YoY growth in sales to ₦23.4 billion over Q4 19. Though we saw gross margin improve by 311bps YoY to 22.3%, increased operating expense left EBIT lower by 36.5% to ₦1.15 billion. and EBIT margin compressed by 200bps to 4.9%.
- Lower finance income further pressure earnings** . Overall, PAT declined by 42.9% YoY to ₦1.41 billion over Q4 19 with related EPS at ₦0.49. The bottom line was further pressured by the lower finance income – mirroring the lower cash balance – which offset the gains from lower effective tax rate (-214bps to 9.3%). While we await release of the audited numbers, our last-communicated FVE prints at ₦8.96 which translates to a SELL recommendation relative to the current market price. UAC trades at a P/E of 4.6x which is a discount to its Bloomberg MENA peer average of 16x.
- More analysis to follow.

Summary of Results and Forecasts - N'000

ANNUAL

Income Statement (N'm) *	2018A	2019A	2020F	2021F	2022F
Revenue	76,558	83,955	84,372	86,903	88,811
COGS	61,652	66,510	68,172	69,522	69,272
Gross Profit	14,906	17,446	16,199	17,381	19,538
Operating Cost	10,805	13,587	12,571	12,601	12,433
Operating Profit	4,976	5,781	3,628	4,780	7,105
Interest Income	3,373	2,774	3,833	3,820	2,955
Interest Expense	617	451	186	226	228
PBT	7,732	8,105	9,384	10,546	12,052
Tax	2,237	1,996	3,003	3,375	3,857
PAT	5,495	6,109	6,381	7,171	8,195
Balance Sheet (N '000) *					
Fixed Assets	21,824	21,247	20,788	20,240	19,209
Stocks	30,526	20,688	21,098	21,022	21,483
Trade debtors	10,234	7,373	7,594	7,761	7,931
Liabilities					
Trade Creditors	15,438	8,201	8,364	8,334	8,517
Non-current Liabilities	10,170	18,908	18,918	18,929	18,939
Total liabilities	56,885	41,057	41,267	41,285	41,479
Shareholders' fund	74,208	63,030	63,883	64,801	65,388
Key Ratios					
Gross Margin	19%	21%	19%	20%	22%
EBIT Margin	7%	7%	4%	5%	8%
PBT Margin	NA	10%	11%	12%	14%
Net Margin	NA	7%	8%	8%	9%
EPS	NA	2.12	1.55	1.74	1.99
P/E	NA	2.92	4.00	3.56	3.11
EV/EBITDA	3.43	-1.75	-2.23	-1.70	-1.10
ROA	NA	5.15%	6.15%	6.85%	8%
ROE	NA	9.29%	10.06%	11.15%	13%

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

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