

**UAC of Nigeria Plc. | Earnings Report**

12 months ended 31<sup>st</sup> December, 2015

**Struggling real estate business drags earnings lower**

- UAC of Nigeria Plc. (UACN) released audited FY 2015 results wherein revenue fell 14.6% YoY to ₦73.1 billion while PBT and PAT declined 43.6% and 52.0% YoY to ₦7.9 billion and ₦5.1 billion respectively.
- In addition, UACN proposed a FY 15 dividend per share of ₦1.00 (FY 14: ₦1.75) which translates to a dividend yield of 4.8% using last trading price.

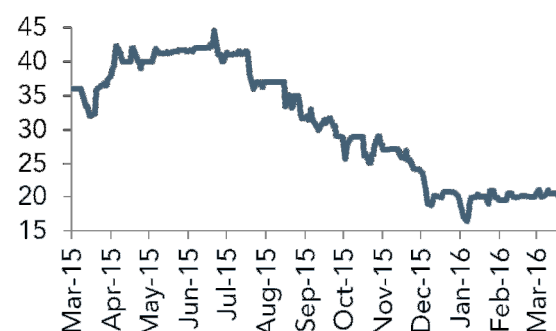
**Slowdown at real estate business induces top-line weakness**

- Extending recent run of negative growth, Q4 15 revenue contracted 26.1% YoY to ₦18.5 billion (FQ4 15E: ₦21.4 billion). Disaggregating the sub-components, weakness at ex-listed subsidiaries (which comprise Grand Cereals Limited, UAC Foods, UAC Restaurants and MDS Logistics), real estate subsidiary (UACN Property Development Company – UPDC), and Portland Paints more than offset top-line growth at Livestock feeds (+5.6% YoY to ₦2.6 billion) and Chemical and Allied Paints (+1.3% YoY to ₦2.0 billion). Recent discussions with management reveals that revenue downswing at its food business continues to reflect impact of subdued consumer spending as well as outbreak of avian flu. At UPDC, top-line contraction largely stemmed from its luxury real estate segment while softening growth picture at O&G and construction sectors weighed on Portland.

Income Statement Data			
	2015 – 12M'm	2014 – 12M'm	%chg
<b>Revenue</b>	73,146	85,654	-14.6%
<b>PBT</b>	7,944	14,097	-43.6%
<b>Tax</b>	2,797	3,366	-16.9%
<b>PAT</b>	5,147	10,731	-52.0%

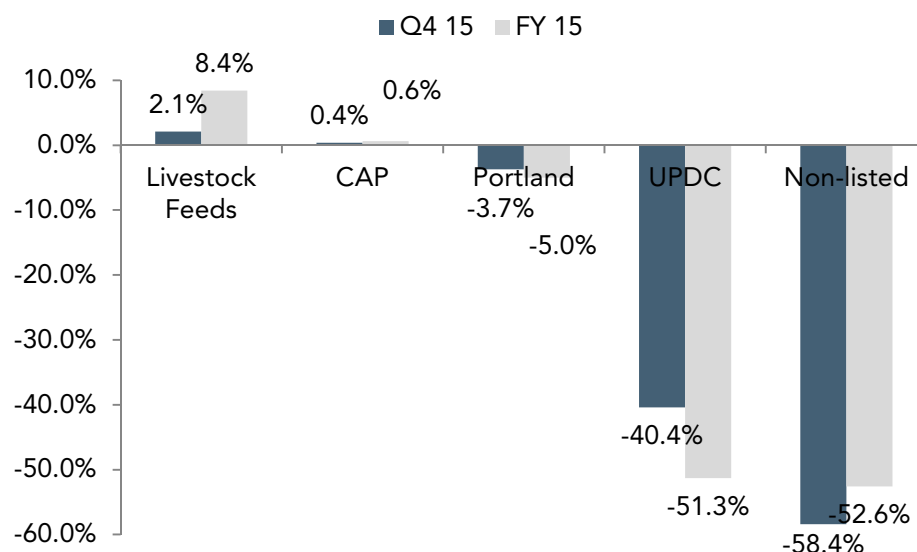
Balance Sheet Data			
	2015-Dec 'm	2014-Dec 'm	%chg
<b>Inventory</b>	25,283	27,767	-8.9%
<b>Receivables</b>	14,594	15,950	-8.5%
<b>Cash</b>	9,183	7,957	15.4%
<b>Payables</b>	14,941	13,961	7.0%
<b>Net Assets</b>	74,142	75,078	-1.2%

Stock Data	
<b>Price</b>	₦20.48
<b>52 week range</b>	₦16.40 – ₦44.49
<b>Market Cap. (N'm)</b>	39,281
<b>1-month Avg. Vol</b>	16,171,006
<b>Curr. PE</b>	13.1x
<b>Bloomberg Ticker</b>	UACN: NL
<b>Reuters Ticker</b>	UACN.LG

**UAC of Nigeria Plc- Share Price Trend**

**Analyst(s)**
**Usman Olubajo**
[usman-olubajo.ajibola@arm.com.ng](mailto:usman-olubajo.ajibola@arm.com.ng)

- Over FY 15, struggles at UPDC (-56% YoY to ₦5.1 billion), ex-listed subsidiaries (-11.4% YoY to ₦49.8 billion) and Portland (-22.5% YoY to ₦2.2 billion) offset revenue growth at Livestock feeds (+13.3% YoY to ₦9.0 billion) and Chemical and Allied Paints (+1.0% YoY to ₦7.1 billion) in driving weaker headline growth.

**Figure 1: Attribution analysis of revenue growth**



Source: Company financials, ARM Research

### **Broadly weaker commodity prices buoy gross margins**

- Despite higher flour prices (12% YoY), largely benign trends across refined sugar (-10% YoY) and sorghum (-5.7% YoY) helped drive a quicker decline in Q4 15 COGS, relative to revenue, (-28.6% YoY to ₦14.0 billion), resulting in gross margin expanding 258bps YoY to 24.6% (Gross profit: -17.5% YoY to ₦4.6 billion). Given UACN's sizable use of domestic inputs across business lines (70-80%), limited scope for FX pressures muted input cost trends over FY 15 (COGS: -14.9% YoY to ₦56.6 billion). Consequently, Gross margin expanded 30bps YoY to 22.6% (Gross profit: -13.6% YoY to ₦16.6 billion).
- Though Q4 15 OPEX contracted 8.7% YoY to ₦2.0 billion (OPEX-Sales ratio: +204bps YoY to 10.6%), its slower decline relative to revenue exacerbated top-line weakness driving operating profit 23.1% YoY lower to ₦2.6 billion (EBIT margin: +54bps YoY to 13.9%).

- 
- Over FY 15, an 8.5% YoY downswing in S&D expenses muted impact of higher admin costs (+5.1% YoY to ₦6.9 billion) leaving OPEX largely flat (+0.2% YoY to ₦10.2 billion). Thus, reflecting sales weakness at non-listed and real-estate subsidiaries, FY 15 EBIT declined 29.3% YoY to ₦6.4 billion with corresponding margin contracting 180bps YoY to 8.7%.

#### **Headwinds to real estate sector swings earnings lower**

- Notwithstanding slightly lower borrowings (-9.4% YoY to ₦25.7 billion) over the period, Q4 15 net finance expense more than double YoY to ₦256 million largely reflecting higher net borrowing costs at the real estate subsidiary.
  - Furthermore, second order impact of slowing real estate sector growth drove a steep drop in share of profit from UPDC REIT (-76.4% YoY to ₦356 million). Assisted by 6.7% YoY contraction in net other income to ₦2.4 billion, PBT and PAT fell 30.6% and 31.0% YoY to ₦5.1 billion and ₦4.2 billion with corresponding margins 170bps and 160bps lower YoY at 27.4% and 22.6%.
  - Going forward, the general economic slowdown and subdued consumer income—amid rising inflation—should drive continued weakness across UACN's business lines. Furthermore, the continued avian flu pandemic and adverse impact on poultry farming points to extended weakness at UACN's animal feeds businesses. On input costs, recent disclosure by flour millers and sugar refiners to pass-through devaluation costs and higher import costs should weigh on margins. With regards to share of profit from UPDC REIT, our prognosis for sustained weakness of real estate industry should drive slimmer profits. In summary, the economic landscape speaks to softer earnings for UACN over 2016.
  - Currently, UACN trades at a premium P/E to its Bloomberg Middle East & Africa peers both on a current (UACN: 13.1x, Peers: 12.4x) and forward (UACN: 14.2x, Peers: 10.9x) basis. Last trading price of ₦20.45 is at discount to our last published FVE of ₦31.30. Our estimates are under review.
  - **Conference call to hold on Tuesday, 5 April 2016, at 3:00pm Lagos time.**
-

## Summary of Results and Forecasts

QUARTERLY					
Income Statement (₹'mln)*	Q1 2016F	Q2 2016F	Q3 2016F	Q4 2016F	
Turnover	17,327	17,248	19,230	20,008	
COGS	13,550	13,488	15,038	15,646	
Gross Profit	3,777	3,760	4,192	4,362	
Operating Costs	2,408	2,398	2,673	2,781	
Operating Profit	1,369	1,363	1,519	1,581	
PBT	1,703	1,697	1,853	1,915	
Taxation	545	543	593	613	
PAT	1,158	1,154	1,260	1,302	
Turnover	17,327	17,248	19,230	20,008	
ANNUAL					
Income Statement (₹'mln)	FY 2015A	FY 2016F	FY 2017F	FY 2018F	FY 2019F
Sales	73,146	73,814	77,525	83,551	91,774
COGS	56,581	57,722	60,315	64,334	69,748
Gross profit	16,565	16,091	17,211	19,217	22,026
Operating cost	10,201	10,260	10,078	10,862	11,013
Operating profit	6,364	5,831	7,132	8,355	11,013
Interest expense	1,566	1,264	1,243	1,659	2,271
Interest income	(3,018)	2,791	2,693	2,756	2,961
PBT	7,944	7,168	8,557	10,635	14,036
Tax	2,797	2,294	2,834	3,403	4,491
PAT	5,147	4,874	6,023	7,232	9,544
Balance Sheet (₹'mln)	FY 2015A	FY 2016F	FY 2017F	FY 2018F	FY 2019F
<b>Assets</b>					
Fixed Assets	35,439	34,612	34,515	36,939	40,593
Biological Assets	25,283	25,398	26,539	28,307	30,689
Stocks	14,594	14,025	14,730	15,875	17,437
Trade debtors	9,183	12,936	17,351	18,684	19,668
Cash & Bank balance	128,655	130,825	136,792	143,268	151,657
<b>Total Assets</b>					
Liabilities	14,941	14,431	15,079	16,084	17,437
Trade Creditors	17,523	17,523	18,229	18,593	18,965
Long term liabilities	13,432	13,432	14,009	14,270	14,539
<b>Total liabilities</b>	54,513	54,002	55,934	57,564	59,558
<b>Shareholders' fund</b>	74,142	76,823	80,858	85,704	92,098
Key Ratios	FY 2015A	FY 2016F	FY 2017F	FY 2018F	FY 2019F
<b>Valuation multiples</b>					
EPS	1.56	1.45	1.79	2.15	2.83
P/E	13.12	14.14	11.44	9.53	7.22
EV/EBITDA	9.64	10.17	8.50	7.53	6.14
ROA	4.0%	3.8%	4.5%	5.2%	6.5%
ROE	6.9%	6.5%	7.6%	8.7%	10.7%

Source: ARM Research

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimise exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

---

Copyright © 2016 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorised use, reproduction, distribution or disclosure of this document is strictly prohibited.

This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM and its analysts believe to be reliable. Neither ARM nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.

---