



Equity Research | UAC of Nigeria Plc

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Initial View

FY 2013 ended 31st December 2013

Recommendation: BUY

- UAC of Nigeria Plc (UACN) reported 13% YoY growth in revenues to ₦78.7billion for 12 months ended December 2013 while both PBT and PAT rose 49% YoY to ₦8.7billion and ₦5.8billion.
- UACN announced a dividend of ₦1.75 per share (FY 12: ₦1.60) which represents a 60% payout ratio and translates into an 3.2% dividend yield as at last close.

Deceleration at UPDC weighs on top-line growth

- Q4 13 revenues contracted 18% YoY to ₦18.2billion largely on the back of a sharp decline (-71% YoY) in sales at real estate subsidiary UACN Property Development Corporation (UPDC). The declines in the final quarter, which management links to the accounting recognition for sales under IFRS, effectively derailed UPDC 9M 13 revenue trajectory (+29.7% YoY) into negative territory for FY 13 (-6% YoY).
- In addition, there was also some softness (-7.3% YoY) in revenues from non-listed subsidiaries which comprises animal feeds, logistics, foods and quick service restaurants (QSR). Although no quarterly breakdowns were provided, we believe this possibly emerged from UAC Restaurants where FY 13 revenues dropped 26% YoY. Elsewhere, UACN's paint subsidiary Chemical and Allied Paints (CAP)

Income Statement Data

	2013- 12 'm	2012 - 12 'm	%chg
Revenue	78,714	69,632	13%
PBT	13,964	10,745	30%
Tax	4,062	3,642	12%
PAT	9,903	7,103	39%

Balance Sheet Data

	2013-Dec 'm	2012 -Dec 'm	%chg
Inventory	26,617	28,484	-7%
Receivables	13,796	11,834	17%
Cash	8,894	13,397	-34%
Payables	17,253	23,543	-27%
Net Assets	71,320	60,601	18%

Stock Data

Price	₦54.37
52 week range	₦44.83 - ₦71.20
Market Cap. (N'm)	104,437.4
1-month Avg. Vol	323,290
Curr. PE	18.5x
Bloomberg Ticker	UACN: NL
Reuters Ticker	UACN.LG

UACN Plc - Share Price Trend



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maintained its strong growth track with revenues rising 27% YoY to ₦1.78billion. Q4 13 revenues also consolidated results from newly acquired paints subsidiary Portland Paints which reported a 3% YoY decline in turnover to ₦2.8billion.

Still elevated cereal prices crimp gross profits

- At ₦13.6billion, Q4 13 COGS declined slower (-12.9% YoY) than revenues resulting in gross profits 29% lower YoY at ₦4.6billion. This caused a 3.5pps YoY contraction in gross margins to 25.3%. We believe these pressures emanated from higher input costs at its animal feeds subsidiaries Grand Cereals and Livestock feeds. Although domestic maize prices eased upon harvests in Q4 13, FEWSNET reports over the period indicated that prices remained higher than 2012 levels on account of low inventory carry-over stocks. Similarly, on FY basis, the elevated cereal prices over much of 2013—largely a fall-out of the 2012 floods that negatively impacted harvest—translated into higher input costs for UACN with FY COGS tracking faster than revenues (+18% YoY to ₦59.9billion). Consequently, FY 13 gross margins contracted 3pps YoY to a five year low of 24%.

Opex from acquisitions combine with gross margin weakness to pressure operating profits

- Q4 13 operating expenses rose 9% YoY to ₦1.8billion likely driven by the incorporation of Portland Paints whose consolidation was carried out in Q4. Thus, Q4 13 EBIT declined 42% YoY to ₦2.8billion with related margins 6.3pps lower YoY at 15.4%. A similar trend played out in FY numbers with the consolidations of the two acquisitions Portland and Livestock, largely accounting for 20% YoY increase in OPEX to ₦9billion. Accordingly, FY 13 operating profits contracted 15% YoY to ₦9.5billion with margins 4pps lower than 2012 levels at 12% though this largely reflects the feed through from gross margin contraction.
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Again, earnings higher on revaluation gains

- Q4 13 net finance income declined 18% YoY to ₦224million as finance income remained flat (₦912million) YoY even as six-fold rise in ST borrowings to ₦20.3billion amidst a 60% decline in LT borrowings to ₦5.9billion drove a 7% YoY rise in finance expenses to ₦688million. Notwithstanding these pressures, earnings were boosted, as in Q3 13, by revaluation gains of ₦2.4billion in Q4 13 vs. a loss of ₦172million in Q4 12. These gains largely from UPDC, resulted in 7% and 27% YoY increments in Q4 13 PBT and PAT to ₦5.2billion and ₦4.1billion respectively. Correspondingly, PBT and PAT margins expanded 7pps and 8pps to 29% and 22% respectively with a 12pps YoY contraction in Q4 13 effective tax rates to 23% accounting for the higher net margin expansion.
 - UACN concluded its corporate restructuring program in 2013 with disposal of its interest in the registrars and automobile divisions, and sale of minority stakes—in the form of joint venture agreements—in its logistics and QSR divisions to South African based Imperial Logistics and Famous Brands, respectively.(Imperial Logistics is South Africa's leading third party logistics provider while Famous Brands currently manages over 2000 QSR and casual dining franchises) In addition, the company acquired fast growing animal feeds and paints businesses in the course of the year. At this point, we believe UACN's outlook is hinged on the ability of management to synergize current businesses and new acquisitions to bolster top-line growth, even as the minority partners who now manage the JV subsidiaries push through efficiency gains to support bottom-line expansion. Given the track record of current management—double digit revenues over the last three years—and the clout of the JV partners, we remain positive on UACN and expect results in coming quarters to increasingly reflect progress on these twin fronts.
 - UACN trades at current PE of 19.3x vs. 20.6x for Bloomberg regional peers. Having declined 12% YTD, our last fair value estimate of UACN at ₦64.05 implies an **OVERWEIGHT** rating. Our valuation model is under review.
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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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