

# NASCON ALLIED INDUSTRIES PLC



...Higher Pricing Restores Margins

August 1, 2022

Earnings Note

## Event

Nascon Allied Industries ('the Company') reported a 56% YoY revenue growth in Q2 2022 to N14.37bn. Unlike in Q1 2022 when gross profit declined by 19% YoY, gross profit grew by 58% YoY in Q2 2022, reflecting the impact of higher pricing. We believe that persistent cost increases due to unfavourable raw material prices in the global commodity market necessitated the need to raise product prices. Accordingly, gross margin expanded by 100 basis points (bps) in Q2 2022.

Operating expense increased by 66% YoY to N3.80bn in Q2 2022, resulting from higher distribution expenses. We attribute this to higher diesel prices during the period. Notably, the war between Russia and Ukraine led to a spike in global crude oil prices. Hence, the spillover effect negatively impacted the Company's cost profile. In addition, heightened inflationary pressure added to the higher costs in Q2 2022. Overall, the operating expense margin increased by a 100 bps to 26% in Q2 2022.

Net profit grew by 58% YoY, with net margin flat at 8%. The bottomline growth was supported by a strong revenue generation during the period.

Nascon (N'mn)	Q2 2022	Q2 2021	Q1 2022	Q1 2021
Revenue	14,367	9,233	10,760	8,337
<b>Revenue growth</b>	<b>56%</b>		<b>29%</b>	
Gross profit	5,563	3,525	2,765	3,413
<b>Gross margin</b>	<b>39%</b>	<b>38%</b>	<b>26%</b>	<b>41%</b>
Operating profit	1,774	1,233	587	1,063
<b>Operating margin</b>	<b>12%</b>	<b>13%</b>	<b>6%</b>	<b>13%</b>
Net profit	1,149	727	386	723
<b>Net margin</b>	<b>8%</b>	<b>8%</b>	<b>4%</b>	<b>9%</b>
<b>Earnings per share</b>	<b>N0.43</b>	<b>N0.27</b>	<b>N0.15</b>	<b>N0.27</b>

Source: Company Accounts, WSTC Research

## Outlook

In our last report, we emphasised that it could get to a point where the Company would have to raise prices to protect margins. Although we projected price increases in Q4 2022, the decision came earlier in Q2 2022. Therefore, we revised our projections, and we now expect earnings per share (EPS) of N1.21 for FY 2022 (previous: N0.46). Effectively, our valuation of the stock increased to N11.09. Notwithstanding, we recommend a HOLD. While we note the material jump in earnings growth, we are cautious about the sustainability of earnings in the medium term.

# HOLD

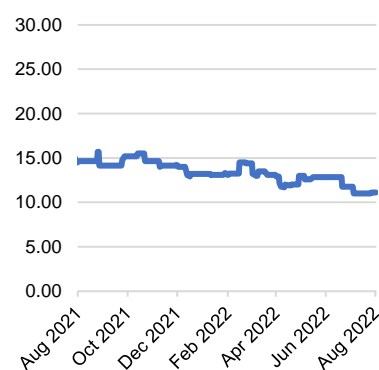
Fair Value Estimate:

**N11.09**

Price Return: 0%

### Stock Data

Current price (N)	11.10
Shares Outstanding (mn)	2,649
Market Cap (N'mn)	29,409
52-week high (N)	16.00
52-week low (N)	11.00
Trailing EPS (N)	1.12
Forward EPS (N)	1.21
Forward PE (X)	9.16
Justified PE Multiple (X)	9.15



### Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	10.93x	9.90x	9.16x
P/BV	2.31x	2.01x	1.75x
PBT Margin	14%	13%	10%
PAT Margin	10%	9%	6%
RoE	23%	22%	20%
Dividend Yield	4%	4%	4%

## Analysts

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## H1 2022 Financial Performance

Income Statement (N'mn)	H1 2022	H1 2021	%
<b>Revenue</b>	<b>25,128</b>	<b>17,570</b>	<b>43%</b>
Cost of Sales	(16,758)	(10,632)	58%
<b>Gross Profit</b>	<b>8,370</b>	<b>6,938</b>	<b>21%</b>
Other income (expenses)	25	7	272%
<b>Operating income</b>	<b>8,395</b>	<b>6,944</b>	<b>21%</b>
Selling and distribution expenses	(4,998)	(3,287)	52%
Administrative expense	(1,447)	(1,361)	6%
<b>Operating expenses</b>	<b>(6,445)</b>	<b>(4,648)</b>	<b>39%</b>
<b>Operating profit</b>	<b>1,950</b>	<b>2,296</b>	<b>-15%</b>
Net finance income	(87)	1	-8800%
Other gains	411	(165)	350%
<b>Profit before tax</b>	<b>2,275</b>	<b>2,133</b>	<b>7%</b>
Tax	(739)	(683)	8%
<b>Profit after tax</b>	<b>1,535</b>	<b>1,451</b>	<b>6%</b>
Balance Sheet (N'mn)	H1 2022	H1 2021	%
<b>Assets</b>			
PPE	13,759	15,714	-12%
Inventory	7,711	5,104	51%
Receivables	11,213	14,190	-21%
Prepayments & other assets	1,949	4,301	-55%
Cash	10,292	1,929	434%
Others	4,419	4,418	0%
<b>Total Assets</b>	<b>49,343</b>	<b>45,655</b>	<b>8%</b>
<b>Liabilities</b>			
Borrowings	5,310	3,696	44%
Trade payables	23,907	24,496	-2%
Others	5,020	4,354	15%
<b>Total Liabilities</b>	<b>34,237</b>	<b>32,545</b>	<b>5%</b>
<b>Net Assets</b>	<b>15,106</b>	<b>13,110</b>	<b>15%</b>

Source: Company Accounts, WSTC Research

## Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	33,280	49,659	54,544	59,440	64,781	70,608
EBITDA	5,102	8,272	9,346	10,982	11,981	13,587
EBIT	2,534	4,777	4,794	5,992	6,880	8,000
Profit before taxation (PBT)	4,238	4,720	4,706	5,914	6,816	7,944
Net profit (PAT)	2,971	3,210	3,200	4,021	4,635	5,402
EPS (₦)	1.12	1.21	1.21	1.52	1.75	2.04
DPS (₦)	0.40	0.40	0.60	0.76	0.87	1.02
Balance sheet (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	22,620	36,503	40,436	44,112	47,916	53,105
Non-current assets	17,901	17,914	19,019	19,394	20,141	20,927
Total assets	40,521	54,417	59,454	63,506	68,056	74,032
Current liabilities	20,218	30,713	33,358	35,161	37,346	40,063
Non-current liabilities	5,673	6,923	7,175	7,003	6,744	6,918
Long-term debt	39	39	39	39	39	39
Shareholders' equity	14,631	16,781	18,921	21,342	23,966	27,051
Book value per share (₦)	5.52	6.33	7.14	8.06	9.05	10.21
Cash flow statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	4,996	4,237	6,807	9,688	9,284	12,080
Cash from investing activities	1,098	(3,416)	(5,563)	(5,259)	(5,732)	(6,249)
Cash from financing activities	(1,676)	152	(855)	(1,930)	(2,358)	(2,259)
Net increase/ (decrease) in cash	4,418	973	390	2,499	1,194	3,572
Ratio analysis (%)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	15.33	16.66	17.14	18.48	18.49	19.24
Operating margin	7.61	9.62	8.79	10.08	10.62	11.33
ROAE	24.96	23.47	20.38	22.53	23.02	23.85
ROA	7.33	5.90	5.38	6.33	6.81	7.30
Dividend payout ratio	35.67	33.02	50.00	50.00	50.00	50.00

Source: Company Accounts, WSTC Research

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### Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is  $\geq 15\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $15\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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