

August 15, 2022



Earnings Note

Event

UACN recently released its Q2 2022 financial earnings performance. The Group underperformed, as reflected in the 461% YoY decline in PBT to a N966mn loss in Q2 2022 from a N267.71mn profit in Q2 2021. Higher costs of raw materials and losses from the Animal Feeds and Edible oil segment affected the Group's profitability.

Segmental Performance

Animal Feed and Other Edibles

Revenue was flat in the Animal Feeds and Other Edibles segment, although it contributed 55% to the total revenue generated in Q2 2022. The segment also recorded a 232% YoY decline in Operating profit to a N773mn loss in Q2 2022 from a N586mn profit in Q2 2021. The segment stocked up inventory purchases in anticipation of growing volume sales, but this expectation was not met. Thus, a higher cost of sales incurred in the segment dampened the bottomline.

Packaged Food and Beverages

The Packaged Food and Beverages segment contributed 25% of the total revenue growth in Q2 2022 but recorded a YoY revenue marginal growth of 2% to N6.13bn. This marginal revenue growth was on account of volume growth, amid improvement in production efficiency in the water category and improved distribution in the dairies category. Despite the increase in revenue, the segment recorded a 33% YoY operating profit decline to N200mn. This decline was on the back of higher input costs and operating expenses.

Paints

The Paint segment's operating profit grew by 42% YoY to N599mn. Although there were price increases across all product categories, lower sales volume caused the revenue to decline by 9% YoY to N4.09bn.

QSR

For the Quick Service Restaurant (QSR) segment, six corporate stores were opened across Lagos and Abuja in H1 2022, and this resulted in revenue growth of 27% YoY to N708mn. However, higher operating costs associated with the running of additional stores resulted in a N136mn operating loss.

Income Statement (N'mn)	Q2 2022	Q2 2021		Q1 2022	Q1 2021
Revenue	24,376	24,478		27,666	22,022
Revenue growth	0%			26%	
Gross profit	3,862	4,313		5,075	4,012
Gross margin	16%	18%		18%	18%
Operating profit	(462)	342		1,408	1,069
Operating margin	-2%	1%		5%	5%
Net profit	(1,320)	96		642	669
Net margin	-5%	0%		2%	3%
Net profit to parent	(987)	(180)		460	336
Earnings per share	(N0.34)	(N0.06)		N0.16	N0.12

Source: Company Accounts, WSTC Research

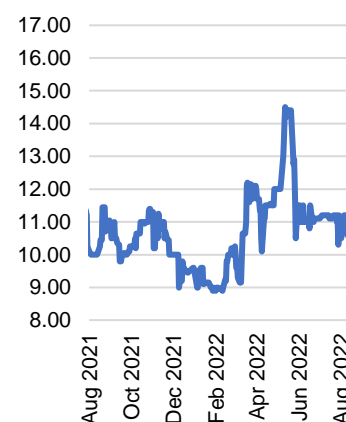
SELL

Fair Value Estimate:
N5.71

Total return: -41%

Stock Data

Current price (N)	10.80
Shares Outstanding (mn)	2,881
Market Cap (N'mn)	31,118
52-week high (N)	15.00
52-week low (N)	8.90
Trailing EPS (N)	0.63
Forward EPS (N)	0.52
Forward PE (X)	20.89
Justified PE Multiple (X)	11.05



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	12.01x	17.22x	20.89x
P/BV	0.51x	0.60x	0.61x
PBT Margin	6%	4%	3%
PAT Margin	4%	3%	2%
RoE	6%	5%	4%
Dividend Yield	11%	6%	6%

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Outlook

Clearly, higher operating costs - in the form of higher raw material costs and inflationary impact on operating expenses - weakened the operating performances of the Group's businesses, particularly in the Animal Feeds segment. Notably, the global supply chain disruption and trend of higher prices in the global commodity markets precipitated the high raw material costs.

However, we expect the high raw material costs to normalise in the near term. According to the management, the Group ramped up inventories in Q4 2021 based on an expectation of further increases in raw material costs. However, that did not happen. Hence, the Group had to report a higher cost of sales. We also expect to see additional price increases on products. This is in view of the impact of heightened inflation on operating expenses. Therefore, the combination of higher prices and cost normalisation is expected to result in operating margin expansion in H2 2022.

In the medium term, the ongoing efforts to improve profitability include capacity expansion of Swan (bottled water), deepened route-to-market in the foods business, consolidation and additional expansion of market share in the Paints segment, and a total shift from a franchise model to a corporate-owned store model in the QSR segment.

In our view, we think that most of the Group's businesses are fragile, particularly in Animal Feeds & Other Edibles which account for half of the Group's overall revenue. Heightened competition and inconsistent trend of cost margins are the two major obstacles facing this business.

On the other hand, we are relatively optimistic about the growth prospects of the Paints and Foods segments. For context, although the Animal Feeds business generates the most revenue, the combined profits from the Paints and Food segments typically account for 65% of the Group's overall profit.

We made a downward revision to our estimated fair value to N5.71 (previous: N7.30). The material decline in valuation stemmed from the impact of the weak Q2 2022 performance and lower growth expectations in subsequent quarters. We recommend a SELL.

H1 2022 Financial Performance Summary

Income Statement (N'mn)	H1 2022	H1 2021	%
Revenue	52,042	46,499	12%
Cost of sales	(43,105)	(38,175)	13%
Gross profit	8,937	8,324	7%
<i>Selling expense</i>	(3,770)	(3,040)	24%
<i>Admin expense</i>	(4,190)	(3,840)	9%
<i>Impairment losses on financial assets</i>	(30)	(34)	-10%
Operating expense	(7,991)	(6,914)	16%
Operating profit	946	1,410	-33%
Non-operating profit/(loss)	(934)	(115)	714%
<i>Finance income</i>	463	652	-29%
<i>Finance expense</i>	(2,003)	(753)	166%
<i>Other income</i>	664	367	81%
<i>Share of profit</i>	(58)	(380)	-85%
Profit before tax	12	1,296	-99%
Income tax	(690)	(531)	30%
Profit after tax	(677)	765	-189%
NCI	151	(609)	125%
Profit to parent	(527)	156	-438%
Balance Sheet (N'mn)	H1 2022	H1 2021	%
PPE	23,598	21,298	11%
Inventory	44,757	32,342	38%
Receivables	5,232	9,912	-47%
Cash	13,177	17,270	-24%
Others	20,129	20,312	-1%
Total Assets	106,893	101,134	6%
Borrowings	29,940	17,857	68%
Payables	12,700	9,916	28%
Others	15,998	15,599	3%
Total Liabilities	58,638	43,372	35%
Net Assets	48,255	57,763	-16%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (N'mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	81,358	101,377	118,093	134,298	146,895	158,160	169,218
EBITDA	4,564	5,001	6,842	7,489	8,394	9,685	10,612
EBIT	2,543	2,862	4,120	4,400	5,107	6,078	6,767
Profit before taxation (PBT)	5,085	4,108	3,175	2,640	3,627	3,996	4,712
Net profit (PAT)	2,592	1,807	1,490	1,239	1,702	1,875	2,211
EPS (₹)	0.90	0.63	0.52	0.43	0.59	0.65	0.77
DPS (₹)	1.20	0.65	0.65	0.65	0.41	0.46	0.54
Balance sheet (N'mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	50,427	55,885	78,907	84,655	88,686	94,065	100,367
Non-current assets	41,002	42,029	41,568	42,169	42,873	43,454	43,808
Total assets	91,698	98,463	121,025	127,374	132,109	138,069	144,725
Current liabilities	24,206	42,234	61,824	68,916	74,219	78,944	83,630
Non-current liabilities	6,775	5,349	8,035	7,369	6,208	5,916	5,995
Long-term debt	1,735	340	3,023	2,296	1,116	791	846
Shareholders' equity	60,676	50,838	51,125	51,047	51,640	53,166	55,058
Book value per share (₹)	18.05	15.96	15.09	15.01	15.22	15.65	16.21
Cash flow statement (N'mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	1,342	(15,525)	(1,290)	9,761	4,857	6,391	7,195
Cash from investing activities	1,206	(2,144)	(2,561)	(2,295)	(1,858)	(2,166)	(1,964)
Cash from financing activities	(2,184)	4,777	13,240	(2,248)	(4,321)	(3,445)	(3,659)
Net increase/ (decrease) in cash	364	(12,892)	9,389	5,219	(1,322)	780	1,573
Ratio analysis (%)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	6%	5%	6%	6%	6%	6%	6%
Operating margin	3%	3%	3%	3%	3%	4%	4%
ROE	5%	4%	3%	3%	4%	4%	5%
ROA	3%	2%	1%	1%	1%	1%	2%
Dividend payout ratio	133%	104%	126%	70%	70%	70%	70%

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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