



Geregu Power Plc

Equity Research Report
Initiation of Coverage

GEREGU POWER PLC

... Positioning for Future Growth



October 17, 2022



Earnings Note

Geregu: We are covering Geregu Power Plc (NGX: [GEREGU](#)), a company engaged in the generation and supply of electric power. Geregu Power Plant was constructed by the Federal Government of Nigeria and was then operated by the Power Holding Company of Nigeria (PHCN). The plant was established to generate and supply electric power to the national grid. On an average, Geregu contributes 6% to the national grid.

Huge Market Potential: Based on the market opportunities, we see a lot of potentials for Geregu in the medium to long term. Relative to peers, Nigeria's electricity consumption is the lowest despite her abundant gas and other energy resources. In bridging the consumption gap, significant investments are required. Nigeria needs an estimated \$400bn to fix the economy's energy deficits. Therefore, we expect to see increased scale of activities in the Nigerian power sector.

Established Industry Position: At 6%, Geregu ranks 9th among the 29 power generating companies in Nigeria. With a planned acquisition of additional power assets, the Company is on course to be among the top 3 power generating companies (with a projected 20% market share). The market share expansion is expected to translate into significant value in the medium to long term.

Solid Financial Profile: Geregu grew by a 34% CAGR over the last five (5) years. EBITDA and net margins grew steadily over the period and the 5-year average ROE and ROA are 21% and 14% respectively.

Value Drivers:

We expect the Company's future growth to be driven by the following:

1. **Capacity Expansion:** the company recently secured a significant debt funding to acquire power assets. Upon successful completion of the acquisition, its market share could grow to as high as 20% from its current 6%.

2. **Favourable Regulatory Policies:** Although the industry is generally characterised by liquidity constraints, the payments of GenCos services are backed by the NBET, Also, the national authorities have demonstrated the willingness to bridge the wide electricity supply gap in the country.

Valuation

Our estimated the fair value for Geregu, using a blend of Discounted Cash Flow, Discounted Dividend, Enterprise Value, and Residual Income valuation methodologies, is N77.99, offering a -29% total return (price appreciation + dividend yield). Although we are positive about the growth prospects of the company, we yet believe that the price-to-earnings (P/E) ratio of the stock is higher than its justified P/E. We expect to see a price correction over time. Therefore, we initiate our coverage of Geregu with a **SELL** recommendation.

SELL

Fair Value Estimate: N77.99
Total Return: -29%

Stock Data

Current price (N)	110.00
Shares Outstanding (mn)	2,500
Market Cap (N'mn)	275,000
52-week high (N)	120.90
52-week low (N)	110.00
Trailing EPS (N)	8.22
Forward EPS (N)	5.09
Forward PE (X)	21.61
Justified PE Multiple (X)	15.32

Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	19.47x	13.38x	21.61x
P/BV	3.57x	4.59x	4.27x
PBT Margin	38%	42%	34%
PAT Margin	26%	29%	23%
RoE	20%	30%	20%
Dividend Yield	15%	3%	2%

Key Forecasts

	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue (N'mn)	53,677	70,957	54,296	117,158	130,231	142,423	159,198
EBITDA (N'mn)	23,385	34,141	26,041	58,029	64,622	70,635	79,166
Net Profit (N'mn)	14,125	20,550	12,725	29,723	34,751	39,689	45,981
EPS (N)	5.65	8.22	5.09	11.89	13.90	15.88	18.39
DPS (N)	16.95	3.29	2.04	4.76	9.73	11.11	12.87
ROE (%)	20%	30%	20%	39%	35%	33%	34%
EBITDA Margin (%)	44%	48%	48%	50%	50%	50%	50%

**Table of Contents**

1.0 Macroeconomic Overview	4
2.0 The Nigerian Power Sector	5
3.0 Geregu Power Plc	10
4.0 Industry Analysis	15
5.0 SWOT Analysis	20
6.0 Financial Performance	21
7.0 Forecast Assumptions	22
8.0 Valuation	22

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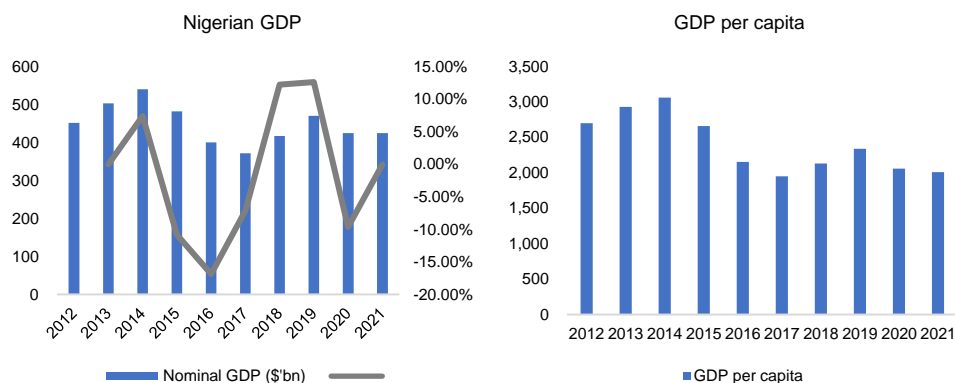
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1.0 MACROECONOMIC OVERVIEW

The Nigerian economy is one of the few economies in the world that boasts of abundant economic and demographic resources. The economy is blessed with numerous natural resources, including Crude Oil (the economy's major exports). The economy's demography is favourable. The World Bank puts the Nigerian population at 202mn, representing the most populous country in Africa. Nigeria is also the most populous black country and ranks among the top ten most populated countries in the world. Even more impressive, the median age of the Nigerian population is 18 years. Providing solutions to the basic needs of the huge population create a market opportunity for many entrepreneurs. Demographic projections estimate that the Nigerian population will rise to 400mn by 2050.

In terms of GDP size, the Nigerian economy is the biggest in Africa. With a GDP size of \$424bn (N173.53trn), Nigeria ranks above South Africa (\$418bn), Egypt (\$402.84bn), Algeria (\$164.56bn), Morocco (\$131.47bn), and Kenya (\$109.80bn). However, Nigeria pales behind these countries in terms of per capita income. Nigeria's per capita income of c.\$2k ranks lower than South Africa's (\$5.44k), Egypt's (\$3.83k), Algeria's (\$3.36k), Morocco's (\$3.41k). An even more unimpressive situation is the declining trend of Nigeria's per capita income due to weak economic growth over the past eight years.



Source: NBS, World Bank, WSTC Research

Low crude oil prices, poor infrastructure, weak investments due to poor macroeconomic policies, significant fiscal and external accounts slippages, and heightened inflationary pressures are some of the reasons behind Nigeria's anemic economic growth. Between 2010 – 2015, the economy recorded a 6% average GDP growth. However, over the next 5-year period (i.e., between 2016 – 2021), the economy achieved only a 1% average growth – with two economic recessions within the period.

These underlying issues have made it difficult for Nigeria to attract the required capital to fund local investments with job-creating capacity. As a result, foreign direct investments have been weak. The implications of that are low job creation, low household income, and low household consumption. The combined impact of low household income and erosion of purchasing power is a double whammy for the Nigerian household.

To address the weak economic growth, the combined efforts of fiscal and monetary policies were aimed at stimulating economic growth. On the fiscal side, investments in public infrastructure including roads, power projects, and rail were intensified. On the other hand, the monetary policy authorities increased their development financing efforts in key real sectors of the economy. Despite these efforts, not so much have been achieved in terms of actual results. Some persistent issues remain including multiple FX windows, wide infrastructural deficit, difficult business environment, and regulatory crackdowns.

Nigeria's Capital Importation Data

Investments	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
\$'mn	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Foreign Direct Investment - Equity	1,979	1,646	2,292	1,469	1,060	1,039	1,288	912	1,025	693
Foreign Direct Investment - Other capital	68	30	13	4	3	2	6	12	3	6
Portfolio Investment - Equity	11,656	16,866	11,448	4,692	859	3,594	2,456	1,866	755	207
Portfolio Investment - Bonds	585	1,209	2,452	827	396	527	980	1,021	231	564
Portfolio Investment - Money market instruments	1,173	1,065	1,025	572	578	3,310	8,732	13,491	4,151	2,615
Other Investments - Trade credits	45	0	22	0	0	296	7	0	0	2
Other Investments - Loans	1,134	2,237	1,429	1,686	2,425	2,894	3,685	5,075	2,556	2,379
Other Investments - Currency deposits	30	4	0	8	0	4	1	3	1	7
Other Investments - Other claims	21	531	2,120	528	27	740	285	1,328	935	229
Total	16,691	23,589	20,801	9,786	5,347	12,404	17,440	23,708	9,656	6,701
YoY Change	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
\$'mn	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Foreign Direct Investment - Equity	N/A	(333)	646	(823)	(410)	(21)	250	(377)	113	(332)
Foreign Direct Investment - Other capital	N/A	(38)	(17)	(9)	(1)	(1)	3	6	(9)	3
Portfolio Investment - Equity	N/A	5,210	(5,418)	(6,757)	(3,832)	2,735	(1,138)	(591)	(1,111)	(549)
Portfolio Investment - Bonds	N/A	624	1,242	(1,624)	(431)	131	453	41	(790)	333
Portfolio Investment - Money market instruments	N/A	(108)	(40)	(453)	6	2,732	5,422	4,759	(9,340)	(1,536)
Other Investments - Trade credits	N/A	(45)	22	(22)	0	295	(289)	(7)	(0)	2
Other Investments - Loans	N/A	1,103	(809)	257	739	470	790	1,390	(2,519)	(177)
Other Investments - Currency deposits	N/A	(26)	(4)	8	(8)	3	(2)	2	(2)	6
Other Investments - Other claims	N/A	510	1,589	(1,592)	(501)	713	(455)	1,043	(393)	(706)
Total	0	6,898	(2,788)	(11,015)	(4,439)	7,057	5,035	6,268	(14,052)	(2,956)

Source: NBS, WSTC Research

In solving these economic issues to unlock the Nigerian economy potentials, it is established that there is the need for significant investments in infrastructure – and this is best executed through private sector financing. Other solutions include consistent policies and political will to execute.

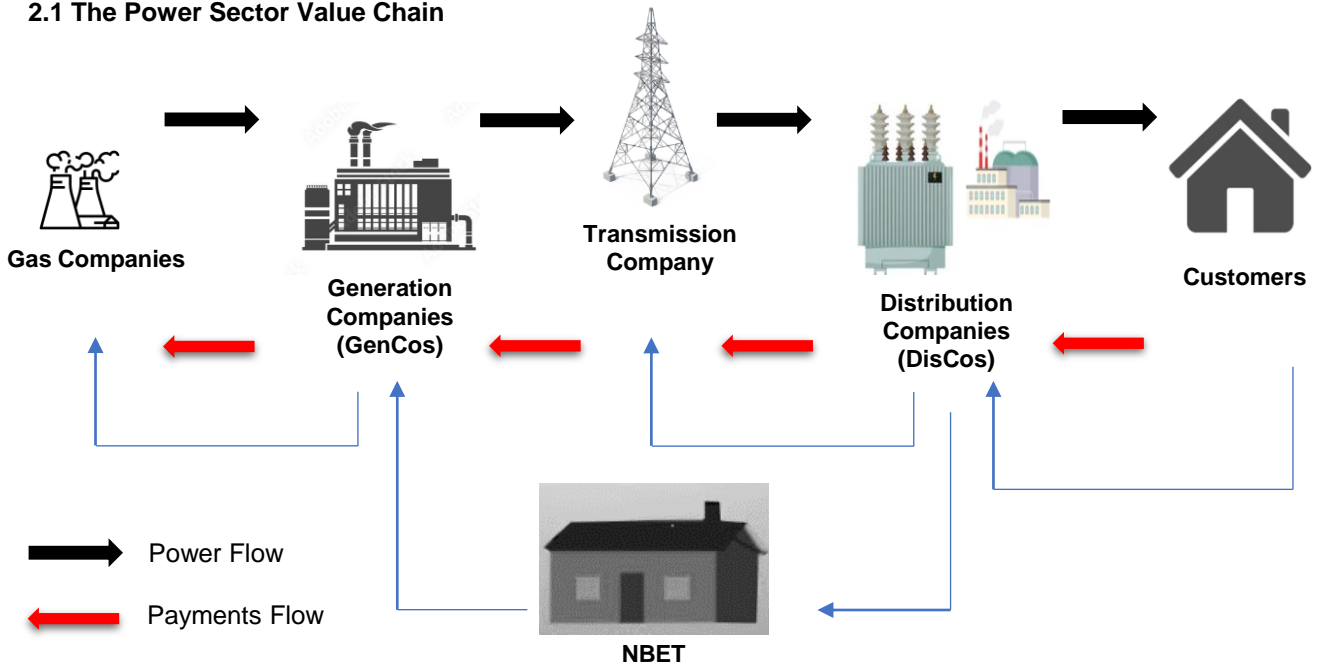
2.0 THE NIGERIAN POWER SECTOR

The abundant natural resources of the Nigerian economy are also evident with the amount of available gas, oil, and hydro resources. Across the existing power plants in Nigeria, the total installed capacity is c.12,500 megawatts (MW). However, only c.4,000 – 5,000 MW are generated due to underlying bottlenecks including inefficiency, weak infrastructure, and transmission problems. The Federal Government sought to improve power and thus implemented reforms aimed at boosting the efficiency of the power sector. A notable reform was the Electricity Power Sector (EPSR) Act in 2005. Based on this Act, private companies were allowed to generate, transmit, and distribute electricity. By implication, the defunct National Electric Power Authority (NEPA) was dissolved, and the Power Holding Company of Nigeria (PHCN) was created. Subsequently, the PHCN was unbundled into a series of 18 successor companies:

- 6 generation companies (GenCos)
- 11 distribution companies (DisCos)
- 1 power transmission company



2.1 The Power Sector Value Chain



The National Bulk Electricity Trading Company (NBET) purchases electrical power from the GenCos and then sells it to distribution companies (DisCos), who deliver power to the end users. The GenCos' direct supply to the DisCos is done based on approved tariffs by NERC.

Based on the Purchasing Power Agreement with the GenCos, the NBET guarantees 100% energy payment by managing collections from the DisCos. In the event of shortfalls, the NBET collaborates with the Central Bank of Nigeria and intervenes to fill the shortfall.

2.2 Key Players of the Nigerian Power Sector



The National Electricity Regulatory Commission (NERC) is the apex regulator in charge of technical and economic regulation of the Nigerian Power Sector.



The Nigerian Electricity Management Services Agency (NEMSA) carries out the enforcement of technical standards to ensure the efficient production and delivery of safe, reliable, and sustainable electricity supply and guarantee safety of lives and property.



The Nigerian Bulk Electricity Trading Company (NBET) purchases electricity from GenCos through Power Purchasing Agreements (PPAs) and sells to DisCos and other larger general service customers who take electricity from the transmission system.



The 11 Distribution Companies (DisCos) in Nigeria serve as the connection between electricity consumers and the electricity grid.



The Transmission Company of Nigeria (TCN) manages electrical transmission network in Nigeria.



The Gas Aggregation Company Nigeria Limited is responsible for stimulating growth of natural gas utilisation in the Nigerian domestic market and is the vehicle for the implementation of the Nigerian Gas Master Plan (NGMP) commercial framework.



2.3 Challenges in the Nigerian Power Sector

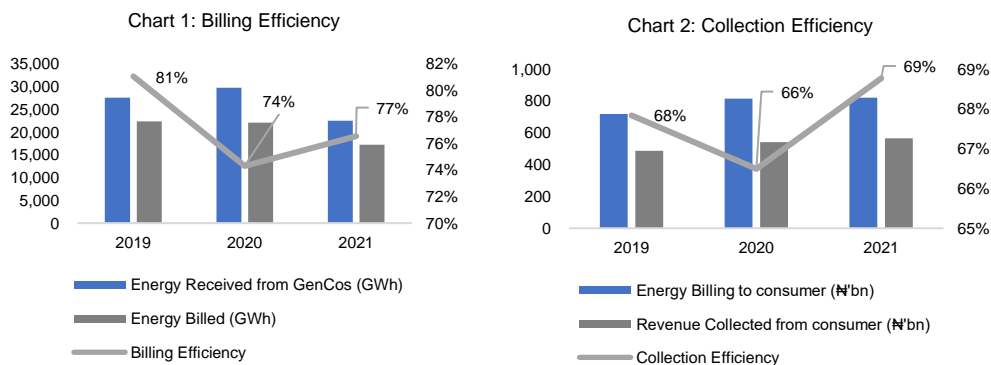
In spite of the power sector restructuring into various successor companies, the sector is still struggling but it has been improving lately. The major bottleneck of the power sector is the liquidity crunch due to weak collections by the DisCos. The collection efficiency of the electricity distribution companies has remained consistently poor, therefore, creating a liquidity challenge in the power sector. Poor infrastructure at the distribution and transmission segments of the value chain has consistently constrained the optimal deployment of available generation capacity to the national grid.

Some of the reasons for these problems are (i) **customers' unwillingness to pay due to displeasure with estimated billing, thereby leading to unpaid bills** (ii) **inability to fully identify consumers** (iii) **low metering** (iv) **energy theft**.

To address these problems, the National Electricity Regulatory Commission (NERC) reviewed the end-user tariffs based on the Multi-Year Tariff Order (MYTO) methodology. Since launch, the MYTO methodology improved collection. The tariff order also provided an opportunity for segmented investments in load clusters with a view to migrating customers to higher quality of services. Other efforts include proposed investments targeted toward critical infrastructure to free up stranded capacity and improve service delivery, improved meter rollout (via the National Mass Metering Programme (NNMP)).

Thus far, these efforts have yielded an improvement in efficiency and liquidity. However, the output levels are still below par. The NERC and national authorities are, however, showing commitments to improving the efficiency of the power sector. A notable example is the Federal Government's arrangement with Siemens AG in 2020, to revamp Nigeria's power sector (The Presidential Power Initiative (PPI)). The deal aims to increase Nigeria's electricity generation to 25,000 MW in six years. The deal runs in three phases: (i) to increase operational capacity to 7,000 MW; (ii) distribute generation and distribution capacities to bring the system's operational capacity to 11,000 MW; (iii) focus on achieving total operational grid capacity of 25,000 MW in the long term, with commensurate upgrades and expansion of the national generation, transmission, and distribution systems. Thus far, ongoing works are in place including equipment delivery and set up.

The National Mass Metering Programme (NNMP) initiative of the FG with intervention from the Central Bank of Nigeria (CBN) aims to provide long-term single digit interest loans to DisCos strictly for the provision of meters to customers. Based on the initiative, meter deployment has increased. An adequate metering system helps to build consumer confidence such that most of them are willing to pay for accurately measured electricity consumption. This will also significantly improve collection and technical losses in the power sector.



Source: NERC, WSTC Research

Chart 3: Remittance Performance

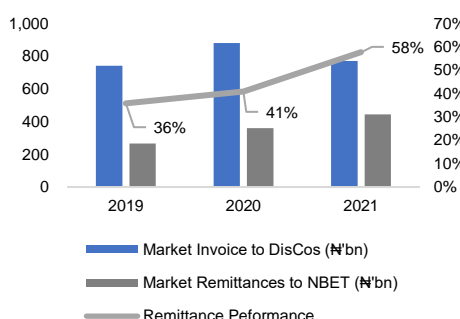
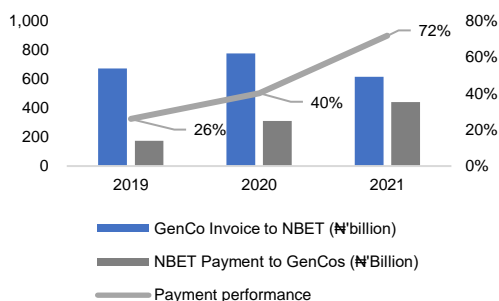


Chart 4: Payment Performance



Source: NERC, WSTC Research

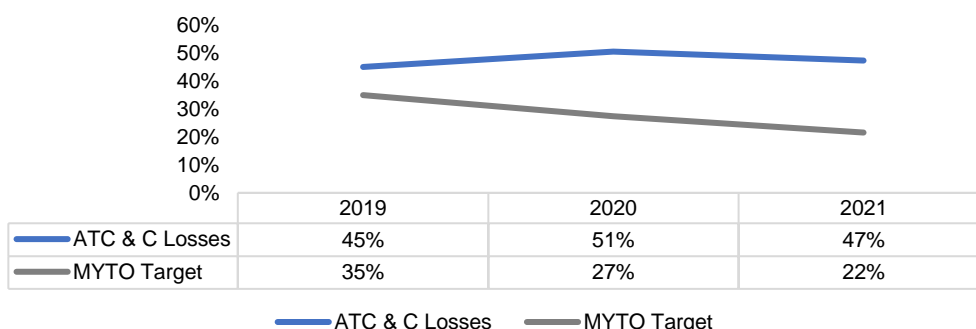
Billing Efficiency (Chart 1): represents the proportion of energy that has been billed (metered and unmetered sales to customers) relative to the total energy sent out to an area with a given period. As shown in chart 1, billing efficiency improved to 77% in 2021, after an initial decline to 75% in 2020 (from 81% in 2019). The factors responsible for DisCos inability to achieve a 100% billing include low metering, inaccurate meters, energy theft, and energy loss to wires and transformers.

Collection Efficiency (Chart 2): indicates the proportion of amount collected from customers relative to the amount billed to them by the DisCos. Collection efficiency improved to 69% in 2021. The improvement in collection could be attributed to the NERC’s Service Based Tariffs (SBT), which aims to align the quality of services with end-user tariffs. In addition, improved rollouts of meters also factored in the improvement recorded in collection efficiency. A major factor contributing to low collection efficiency is customers’ displeasure with estimated billing, thereby causing their unwillingness to pay.

Remittance Performance (Chart 3): In 2021, a total of N772bn combined invoices were issued by NBET to the DisCos. However, only N446bn of the amount was settled as and when due, therefore creating a N326bn deficit. This implies a 58% remittance performance – a significant improvement from 41% performance in 2021. The improvement in remittance performance is attributed to CBN’s intervention. In the absence of cost-reflective tariffs, the Federal Government subsidises power consumption (i.e., the differential between cost-reflective and allowed tariff).

Payment Performance (Chart 4): payments to GenCos for services rendered improved markedly in 2021 to 72%, on the back of improved remittances by the Discos and CBN interventions.

Chart 5: Aggregate Technical, Commercial and Collection (ATC & C) Losses



Source: NERC, WSTC Research



Despite the improvements recorded across industry metrics, ATC & C losses remains high and significantly above targets (even though ATC & C losses improved in 2021). The ATC & C losses are the difference between the **amount of electricity received** by a DisCo from TCN and the **amount of electricity for which it invoices** its customers plus collection loss. ATC & C losses are broken into three components which are:

- i. **Technical loss:** losses due to load flow in electrical lines and transformation loss in transformers
- ii. **Commercial loss:** losses due to discrepancy in meter reading, erroneous billing, unmetered consumption, or energy theft.
- iii. **Collection losses:** unpaid bills.

According to data by the NERC, collection losses (i.e., unpaid bills from customers, disputed bills etc.) contribute the highest to ATC & C losses. The overall ATC & C losses of 47% in 2021 implies that, on the average, as much as N4.74 in every N10 worth of energy delivered to the DisCos was unrecovered due to a combination of inefficient distribution networks, energy theft, low revenue collection induced by low metering level of the end-use customer and customers unwillingness to pay.

2.4 The Porter's Five Forces

Buyer Power: we consider buyer's power to be low because of high switching costs and high product dispensability. The tendency for consumers to switch to another player who is efficient and cost-effective is low. Also, the structure of the upstream power industry is oligopolistic in nature where sellers are few. **Verdict: Low**

Seller Power: the major input to electricity generation is 'gas'. The number of gas suppliers is limited and switching cost is moderately high. However, there are also regulatory influences in terms of gas pricing and other factors. Overall, we think that seller power is moderate. **Verdict: Moderate**

Threat of New Entrants: the regulatory constraints and capital requirement associated with the upstream power sector are significant. High fixed costs, licence acquisition, and limited market growth are some of the barriers to entry. Therefore, these requirements make it relatively difficult for new entrants to come into the industry. **Verdict: Low**

Threat of Substitutes: we consider the threat of substitutes as weak. Acquiring alternate source of power such as solar, gas etc. are costly for the average Nigerian. Also, the environmental implications, as well as cost-to-output implications of fossil fuel-powered machines (e.g., generators). **Verdict: Low**

Rivalry among Existing Firms: we think that rivalry among players in the power sector is low because of the oligopolistic structure of the industry. Even after privatisation, consumers can not choose who generates and supplies their electricity. **Verdict: Low**

We add one more major factor termed: 'Regulatory Influence'.

Regulatory Influence: The power sector is highly regulated and significantly controlled by the regulators. The NERC controls many things in the power sector including pricing. This force, we believe, eclipses the entire Porter's Five Forces. **Verdict: Very High**

3.0 COMPANY ANALYSIS

3.1 Company Background

Geregu Power Plc ("Geregu" or "the Company") was incorporated on November 10, 2006, but commercial operations commenced a year later. The Company is principally engaged in the generation and supply of electric power. Geregu Power Plant was constructed by the Federal Government of Nigeria and was then operated by the Power Holding Company of Nigeria (PHCN). The plant was established to generate and supply electric power to the national grid.

Under a privatisation scheme in 2013, Amperion Power Distribution Company Limited ('Amperion') acquired 51% ownership of the Geregu Power Plant from the Federal Government. Six years later, Amperion acquired an additional 29% stake in Geregu to take its ownership to 80% in 2019. The remaining 20% equity stake was jointly held by the Bureau of Public Enterprises and the Federal Ministry of Finance on behalf of the Federal Government. In 2021, Amperion acquired Federal Government's ownership in Geregu, thus making it the sole owner. As of November 2021, Amperion owned the entire 100% shareholdings of Geregu.

Geregu is one of the six privatised power-generating companies (GenCos) in Nigeria. The power plant consists of three natural gas-fired turbines with 435 megawatts (MW) installed capacity. The installed capacity of the three turbines was 414 MW at inception but Amperion, in partnership with Siemens, upgraded the turbine capacity to 435 MW. On average, Geregu capacity utilisation stands at 70% due to weak power infrastructure and general inefficiency in the Nigerian power value chain. At 435 MW, Geregu's total installed capacity accounts for an average of 6% of the total national grid.

3.2 Ownership Structure

Geregu is ultimately owned by Mr. Femi Otedola, CON through Amperion Power Distribution Company Limited. Amperion is a special purpose vehicle created as a subsidiary of Calvados Global Services. Amperion holds a near 100% equity stake in Geregu.

Shareholding Structure as of May 27, 2022		
Shareholders	Number of Shares Held	Shareholding
<i>Amperion Power Distribution Company Limited</i>	2,489,995,020	99.9998%
<i>Mr. Femi Otedola</i>	1,245	0.0001%
<i>Ms. Olawunmi Christine Otedola</i>	1,245	0.0001%
<i>Mr. Akin Akinfemiwa</i>	1,245	0.0001%
<i>Calvados Global Services Limited</i>	1,245	0.0001%
Total	2,490,000,000	100.0000%

Source: Company Financial Information, WSTC Research

3.3 Board of Directors

The Company operates a 9-man board, consisting of two executive directors, six non-executive directors (including three independent directors), and a Company Secretary. The ultimate shareholder leads the board as the Chairman. The board's experience cuts across petroleum, finance & treasury, risk management, corporate finance, law, and banking.



Femi Otedola – Chairman

- Previously a Chairman of Forte Oil Plc (now Ardova Oil Plc).
- Previously a Chairman of Transcorp Hilton Hotel.
- Former member of the Governing Council of the Nigerian Investment Promotion Council.
- Former member of the National Economic Management Team.



Mr. Akin Akinfemiwa – Chief Executive Officer (CEO)

- B.Sc (Mechanical Engineering), University of Ibadan.
- MBA (Information Technology), University of Lincolnshire and Humberside.
- Alumnus of Said Business School, University of Oxford.
- Seasoned professional in the Oil & Gas industry with 22 years of experience.
- Previously a Chairman of the Major Oil Marketers Association of Nigeria (MOMAN).



Julius Omodayo-Owotuga FCA, CFA – Deputy Chief Executive Officer (Deputy CEO)

- B.Sc in Accounting, University of Lagos.
- Fellow of the Institute of Chartered Accountants of Nigeria.
- Chartered Management Accountant.
- Chartered Financial Analyst.
- Fellow of the Institute of Credit Administration.
- Certified Treasury and Financial Manager
- Ex-KPMG Nigeria.
- Ex-Standard Chartered Bank of Nigeria.
- Ex-AFC.



Christopher Adeyemi – Non-Executive Director

- LL.B (Hons), Obafemi Awolowo University.
- Member of the Nigerian Bar Association
- Member of the Black Solicitors Network (UK)
- Member of Immigration Law Practitioners Association (UK)
- Current Head of Corporate and Media Law Department of the International Law and Management Firm.



Anil Dua – Non-Executive Director

- Co-founder and Partner of Gateway Partners.
- Former CEO of Standard Chartered Bank (West Africa).
- Previous and current board memberships across companies including Standard Chartered Bank (Ghana, Nigeria, and Cote D'Ivoire), Forte Oil, Matador Investment Management, Dangote GSP Offshore FZE, Seychelles Mercantile Banking Group, African Export-Import Bank, Network International Plc, and Heirs Holdings Oil & Gas Limited.



John Robert Lee – Non-Executive Director

- C.40 years of experience in the financial services industry.
- Ex-HSBC
- Ex-Standard Chartered, London.
- Experience cut across Corporate Finance, Treasury, Corporate Banking and Private Banking.
- Associate of the London Institute Banking & Finance.
- Chartered Fellow of the Institute for Securities & Investment London.



Doron Grupper – Non-Executive Director

- A seasoned professional with experience across engineering and management.
- B.Sc and MSc in Economics and Administration, Hebrew University, Jerusalem.
- Former board memberships at VID Desalination Company Limited, Mekorot Water Company Limited, Ellern Energy Infrastructures Limited, Ellern Gmul Power Stations Limited, ETG-Water Infrastructures and Management Limited, and Williger Limited.



Olawunmi Christine Otedola – Non-Executive Director

- M.A in Psychology, University of St. Andrews.
- Founder Utopia Group (an NGO).
- Ex-Zenon Petroleum and Gas Limited.

**Board Committees**

The Company operates three board committees namely Statutory Audit, Governance & Remuneration, and Risk.

Statutory Audit Committee*Members*

- Mr. Taj Giwa Osagie – Chairman
- Mr. Christopher Adeyemi
- Mr. Anil Dua
- Mr. John Robert Lee

Governance and Remuneration Committee*Members*

- Mr. Christopher Adeyemi
- Mr. Doron Grupper
- Mr. John Robert Lee
- Ms. Olawunmi Otedola

Risk Committee*Members*

- Mr. Doron Grupper
- Mr. Julous Owotuga
- Mr. Akin Akinfemiwa

3.4 Management Team

Mr. Akin Akinfemiwa (profile above) leads the management team as the CEO. He is deputised by Mr. Julius Omodayo-Owotuga (profile above). Alongside them, the other members of the management team are listed below:

Ganiyu Adisa Lamidi, FCA – Chief Financial Officer (CFO)

- B.Sc in Accounting, University of Lagos
- M.Sc in Accounting and Finance, University of Salford, Manchester
- HND IN Accounting and Finance, Yaba College of Technology
- Associate Member of the Chartered Institute of Taxation of Nigeria (CITN).
- Fellow of the Institute of Chartered Accountants of Nigeria (ICAN).
- Former Financial Controller at African Petroleum Oilfields Services (now Forte Upstream services, a subsidiary of Forte Oil Plc).
- 15 years of experience across firms including Resort International Limited, Stabilini Visinoni Limited, and Wetland Construction Limited.

Ezeh Ferdinand Emeka – Chief Operating Officer/Technical Officer

- B.Sc. in Electrical/Electronic Engineering.
- MBA in Human Resources Management.
- Member, Nigerian Society of Engineers.
- Member, Council for the Regulation of Engineering Practice in Nigeria.
- Member, Institute of Electrical Electronics Engineer (USA).
- Former Project Manager of many power plants in the country including Sapele Power Station (450 MW), Olorunsogo Power Station (670 MW), Omotosho Power Station (451 MW).
- Ex-NEPA/PHCN.



Mr. Iyimola Akinbola – Head, Business Assurance and Compliance

- HND in Accounting, Ogun State Polytechnic
- Fellow of the Institute of Chartered Accountant of Nigeria (ICAN)
- Ex-Virgin Nigeria
- Member of the Chartered Institute of Taxation (CITN).

Mr. Adams Rasheed – Head of Information Technology

- B.Sc in Information Technology, University of Ibadan.
- Ex-Forte Oil.

Mr. Akinlade Joseph Olukayode – Human Capital/Corporate Services Manager

- B.Sc in History, Olabisi Onabanjo University.
- Member of the Nigerian Institute of Personnel Management (NIPM).
- A staff since 1985.

3.5 Overview of Company Assets

The Company operates a power plant at Itobe, Ajaokuta, Kogi State, Nigeria. The current total installed capacity of the plant is 435 MW. In FY 2021, the annual energy production was 2.43mn MW per hour. Between FY 2017 and FY 2021, Geregu generated an average of 1.93mn MW per hour.

In the medium to long term, the Company plans to add another power plant to increase total capacity to 735 MW. A recent debt capital of N40bn was raised to fund the proposed capacity expansion.



GT Overview with Filter Houses



GT Exhaust Stacks Overview



2 No. Emergency/ Black Start Diesel Generators 2.5Mva Each



Bearing Oil Cooling Fans



Raw Water Storage Tank for fire fighting and Demin Water Production



De- Bladed Turbine Rotor Disc



Water Cooled Generator TLR



Control and Main stop valves Gas Skid



Inner Casing with Turbine Rotor and Inlet Guide Vane(IGV)



Lube Oil Skid with De humidifier Filter Housing

Source: Company Financial Information

3.6 SWOT Analysis

Strengths

1. Major contributor to the national grid
2. Relatively strong profit margins
3. Low financial leverage
4. Experienced management

Weaknesses

1. High receivables/working capital vulnerabilities

Opportunities

1. Large population with wide electricity supply deficit
2. Increased global interest in climate change
3. Potential diversification into other markets

Threats

1. Inconsistent policies
2. Frequent national grid collapse
3. Weak infrastructure
4. Gas supply instability
5. Political risks

Source: WSTC Research

4.0 FINANCIAL PERFORMANCE

4.1 Financial Highlights

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue (N'mn)	12,944	36,614	35,006	42,164	53,677	70,957
EBITDA (N'mn)	15,154	11,668	19,324	23,385	34,141	32,275
Profit before Tax (N'mn)	2,331	11,029	9,411	15,554	20,649	29,512
Profit after Tax (N'mn)	2,301	13,459	11,034	10,393	14,125	20,550
EPS (Basic) (N)	0.92	5.38	4.41	4.16	5.65	8.22
Total Assets (N'mn)	76,179	95,510	99,072	97,419	123,067	114,821
Shareholders' Equity (N'mn)	52,466	65,425	76,459	62,852	76,973	59,939
Revenue Growth (%)	N/A	182.86%	-4.39%	20.45%	27.30%	32.19%
EBITDA Growth (%)	N/A	223.16%	-23.00%	65.61%	21.01%	46.00%
Net Profit Growth (%)	N/A	484.83%	-18.02%	-5.81%	35.91%	45.49%
Shareholder Equity Growth (%)	N/A	24.70%	16.86%	-17.80%	22.47%	-22.13%
Interest Coverage	2.39x	11.21x	11.96x	45.34x	708.99x	30.78x
Net Debt/Equity	0.12x	0.07x	0.03x	0.00x	0.00x	0.09x
Inventory Days	27days	10days	12days	11days	9days	6days
Receivable Days	413days	235days	337days	346days	349days	255days
Length of Operating Cycle	439days	246days	349days	357days	358days	261days
Payable Days	641days	301days	359days	367days	430days	339days
Length of Cash Cycle	-201days	-55days	-10days	-10days	-72days	-78days
Current Ratio	0.90x	1.37x	1.91x	1.43x	1.98x	1.93x
Inventory Turnover Ratio	13.70x	36.13x	31.17x	33.22x	39.21x	64.48x
Receivables Turnover Ratio	0.88x	1.55x	1.08x	1.06x	1.05x	1.43x
Payable Turnover Ratio	0.57x	1.21x	1.02x	0.99x	0.85x	1.08x
Fixed Asset Turnover Ratio	0.22x	0.64x	0.65x	0.84x	1.17x	1.69x
Total Asset Turnover Ratio	0.17x	0.43x	0.36x	0.43x	0.49x	0.60x
Gross Profit Margin	33.07%	35.41%	38.28%	38.68%	42.55%	46.99%
EBITDA Margin	36.23%	41.39%	33.33%	45.83%	43.57%	48.12%
Net Profit Margin	17.78%	36.76%	31.52%	24.65%	26.32%	28.96%
RoA	3.02%	15.68%	11.34%	10.58%	12.81%	17.28%
RoE	4.39%	22.83%	15.55%	14.92%	20.20%	30.02%
ROIC	5.55%	16.75%	11.51%	19.42%	21.75%	29.18%

4.2 Income Statement

4.2.1 Revenues and Gross Margin

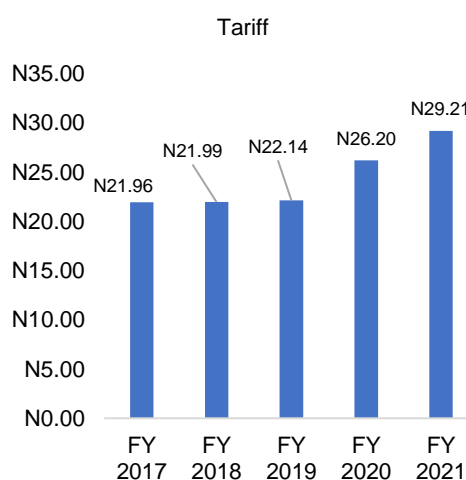
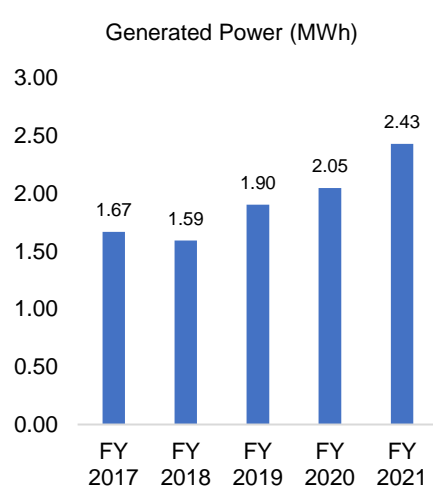
Between FY 2016 and FY 2021, Geregu grew by a 41% compound annual growth rate (CAGR). In the last three most recent financial years, the Company registered three consecutive double-digit annual growth, attributed to combined impact of output and tariff increases.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue (N'mn)	12,944	36,614	35,006	42,164	53,677	70,957
Growth (%)	N/A	183%	-4%	20%	27%	32%

Geregu's cost of sales increased by 34% CAGR between FY 2016 and FY 2021. As a result, gross margin expanded from 33% in FY 2016 to 47% in FY 2021. The significant improvement in gross margins is attributed to increased regulatory support over the period, particularly on the gradual increase in tariffs rates. Although, the pricing of product is still not cost-reflective, the gradual rise in tariffs approved by the NERC supported Geregu's topline growth. In addition, improved efficiency resulted in increased load factor. Consequently, production grew from 1.66mn MWH in FY 2017 to 2.42mn MWH in FY 2021.

We expect to see the sustained revenue growth in the near to medium term, on account of higher tariffs and output. On tariffs, we expect to see a gradual increase in the approved rates by the NERC while we expect capacity expansion to drive volume of power generated.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue (N'mn)	12,944	36,614	35,006	42,164	53,677	70,957
Gross profit (N'mn)	4,281	12,965	13,402	16,308	22,841	33,343
Gross margin	33%	35%	38%	39%	43%	47%



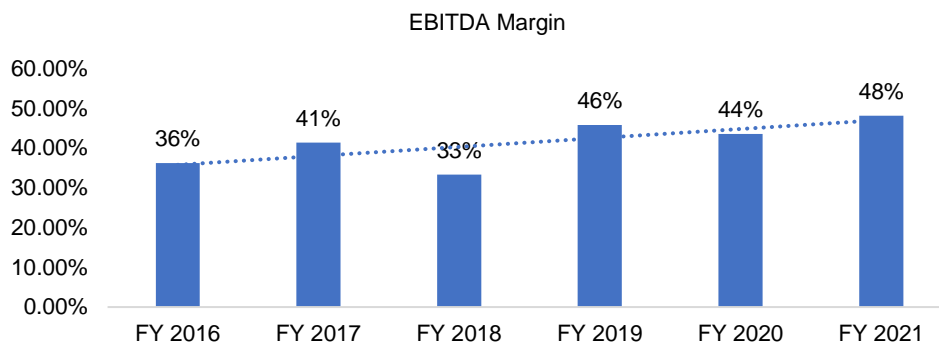
4.2.2 Operating Expenses

Operating expense rose by 24% year-on-year in FY 2021, driven by higher personnel costs, director fees and allowances, and impairment losses. The three lines accounted for 79% of the total operating expense growth in FY 2021. We attribute the increases to inflationary pressure and higher staff count. The Company recruited more persons in senior management roles.

Administrative expense (N'mn)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personnel costs	302	407	476	567	1,244	1,328
Directors' fees and allowances	154	358	409	503	742	1,088
Impairments	0	0	0	0	701	1,065
Repair and maintenance of machinery	294	260	341	232	512	218
Transport, travel, and entertainment	49	101	118	173	216	281
Professional and consultancy fees	106	95	90	212	279	307
Discounted trade receivables expense	0	0	3,168	0	0	0
Others	289	609	667	596	730	1,184
Total administrative expense	1,194	1,831	5,268	2,284	4,424	5,470

Overall, total operating expense grew by 36% compound annual growth rate since FY 2016. Higher personnel costs and impairment losses were the two major drivers of the increase. Nonetheless, OpEx margin declined by 100 basis points to 8% in FY 2021 from 9% in FY 2016. The decline in OpEx margin was due to revenue growth outpacing operating expense growth.

4.2.3 Earnings Before Interest, Depreciation and Amortisation (EBITDA)

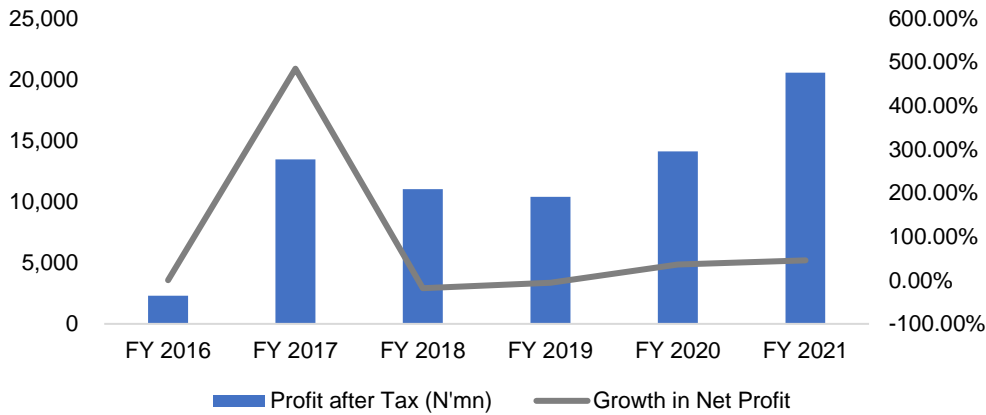


EBITDA stood at N34.14bn in FY 2021, up from N23.39bn in FY 2020, due to the growth in gross profit surpassing operating expense growth. In line with revenue growth, higher tariffs and volume growth resulted in the EBITDA growth. By extension, EBITDA margin rose by 400 basis points to 48% in FY 2021.

Over a 5-year horizon starting from FY 2016, Geregus's EBITDA margin grew markedly, on the back of effective pricing and positive impact of operating leverage. We expect EBITDA margin to remain stable over the near term despite inflationary pressures.

4.2.4 Net Profit

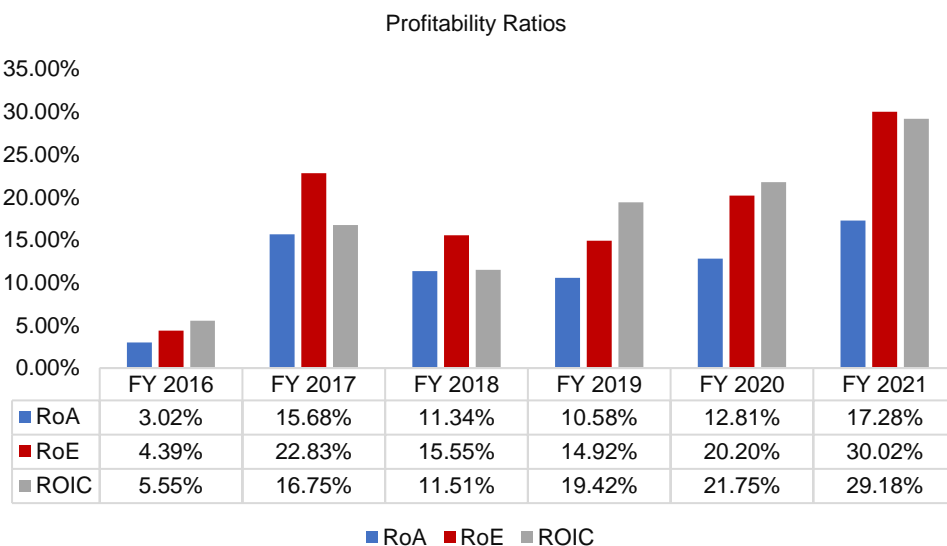
Geregus's bottomline has seen sustained growth during the period FY 2016 through FY 2021. Net profit stood at N20.55bn in FY 2021, representing a 45% growth. The growth was driven by the trickle-down effect of higher revenues relative to operating costs. Meanwhile, net profit rose by 55% compound annual growth rate between FY 2016 to FY 2021, on the back of lower finance costs and sustained low debt levels over the period.



We expect net profit to decline by 13% to N17.81bn in FY 2022, due to a combined impact lower production levels (due to energy disruptions), higher operating costs (due to inflationary pressures), and higher finance costs.

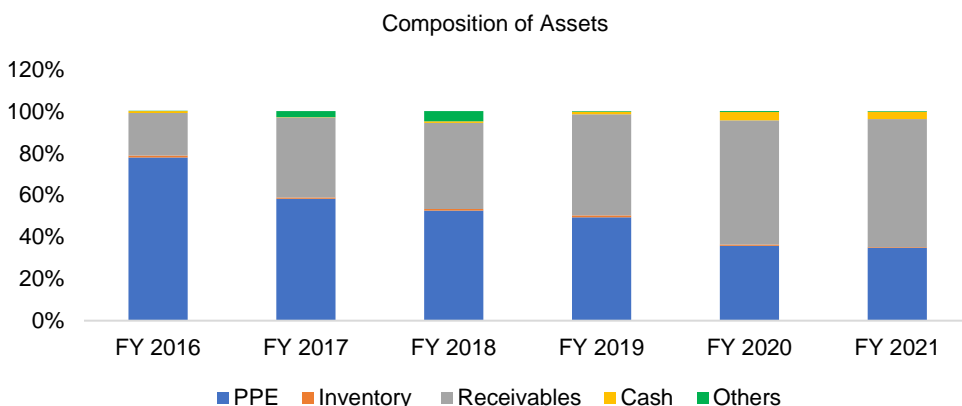
4.2.5 Profitability Ratios

Geregu's profitability improved steadily between FY 2016 to FY 2021, on the back of higher asset turnover (improved revenue generation) and improved net margins (operating efficiency and higher effective pricing).



4.3 Balance Sheet

4.3.1 Assets



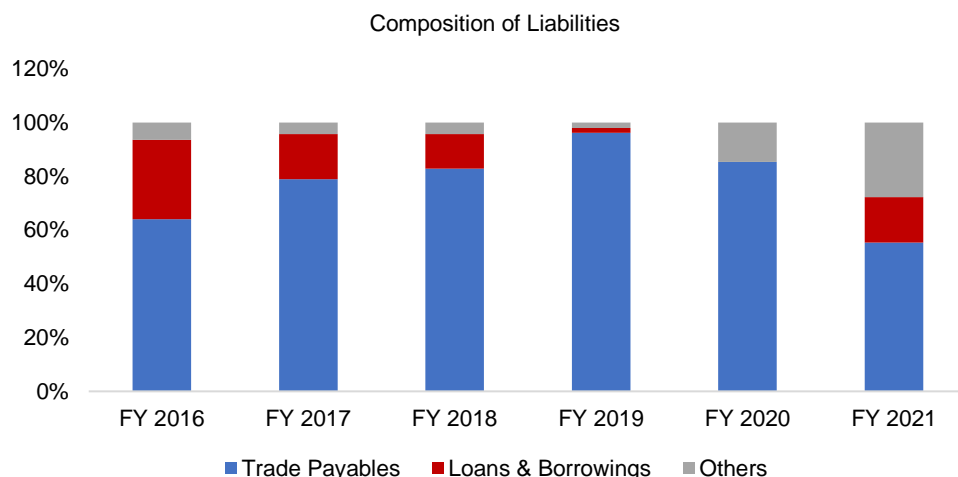
Geregu's total assets grew by 9% compound annual growth rate, majorly driven by rising receivables. As of FY 2021, the Company's receivables stood at N70.15bn from N15.46bn in FY 2016. Sixty-three percent (63%) of total receivables represent the core receivables from underlying operations (related to NBET receivables for services), while forty-two percent (42%) of total receivables represent dues from related parties (i.e., loans to Amperion). We highlight that the Company's receivables are significant due to the liquidity constraint associated with the Nigerian power sector. However, those receivables are guaranteed payments by NBET via the Central Bank of Nigeria.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Underlying Trade Receivables	14,637	32,595	32,045	47,842	54,716	44,418
Due from Related Parties	500	3,531	8,597	1,851	21,080	29,326
Impairment & others	322	298	273	(2,608)	(2,750)	(3,597)
Total Receivables	15,459	36,424	40,915	47,086	73,045	70,147
Underlying Trade Receivable Turnover	0.88x	1.55x	1.08x	1.06x	1.05x	1.43x
Days Receivable	413days	235days	337days	346days	349days	255days

Also, while noting that the ratio of underlying trade receivables to revenue remain high at 70% as of FY 2021, the figure was at an improved level relative to 113% in FY 2016. This means that collections have improved markedly over time. Based on ongoing efforts to boost remittances from DisCos, we expect trade receivables to further decline over time.

PP & E had declined consistently over the last five years, due to depreciation of assets. To remain competitive and ensure smooth operations, the Company recently raised debt capital to acquire new power assets. Therefor, we expect PP & E to increase over time.

4.3.2 Liabilities



The composition of Geregu's liabilities reveals that the loans and borrowings constitute a small portion of total assets. The Company initially had zero debts on its books until FY 2021 when it raised N9.29bn from First Bank of Nigeria to support working capital.

On the other hand, trade payables majorly constitutes delayed payments to gas suppliers. According to the Company, its major gas suppliers are Seplat, Chevron, and Pan-Ocean. The Company's average payable days is 365 days, which is 60 days more to receivable days. In our view, this trend positively supports Geregu's working capital. We believe that a positive regulatory influence on the industry cash flows gave rise to this trend.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Trade Payables	15,206	23,770	18,740	33,276	39,360	30,417
Payable Turnover	0.57x	1.21x	1.02x	0.99x	0.85x	1.08x
Days Payable	641days	301days	359days	367days	430days	339days

5.0 FORECAST ASSUMPTIONS

5.1 Revenue Assumptions

We projected Geregú's revenue over the next seven years based on historical performance and considering existing and expected future market conditions relating to industry growth, pricing, and regulation.

We expect revenue to decline by 23% in FY 2022 based on the already released 9M 2022 performance. Our expectation of a revenue decline is premised on low capacity utilisation due to energy disruptions and weak gas supply. According to management, a nationwide force majeure declared by Shell Petroleum Development Company Limited (SPDC) on an oil terminal pipeline resulted in cessation of gas supplies to the plant.

In the near term, we expect revenue to grow significantly in the near term, expected to be driven by capacity expansion. In FY 2023, we modelled a near doubling of capacity to 735 MW. The Company already secured the funding to acquire new plant assets. We also expect to see a steady increase in approved tariffs by NERC. Higher tariffs and sustained efficiency in operations are expected to translate into gross margin improvement across our forecast years.

Operational Metrics	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Generated power (MWh)	1.69mn	3.47mn	3.86mn	4.02mn	4.25mn	4.37mn	4.51mn
Output Growth (%)	-30.44%	105.50%	11.16%	4.15%	8.52%	0.24%	3.20%
Tariffs	32.13	33.73	33.73	35.42	36.48	37.21	37.96
Tariff Increase (%)	10.00%	5.00%	0.00%	5.00%	3.00%	2.00%	2.00%

N'mn	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F
Revenue	54,296	117,158	130,231	142,423	159,198	162,767	171,333
Revenue Growth (%)	-23.48	115.78%	11.16%	9.36%	11.78%	2.24%	5.26%
Cost of Sales	(28,836)	(59,797)	(66,418)	(72,636)	(81,000)	(82,832)	(87,123)
Gross Profit	25,459	57,361	63,813	69,787	78,198	79,935	84,210
Gross Margin	46.89%	48.96%	49.00%	49.00%	49.12%	49.11%	49.15%

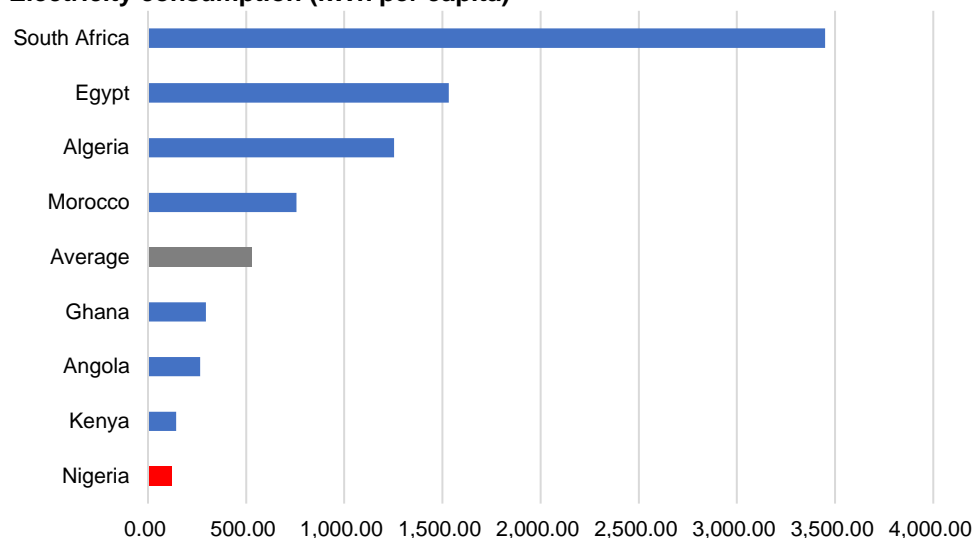
5.2 Balance Sheet Assumptions

We have assumed that all future growth in the Company will be financed from operations, although we factored the recent N40bn capital raise in our model. Over time, we see debt levels decline as the Company repays from cash generated from operations.

6.0 INVESTMENT THESIS

Based on the market opportunities, we see a lot of potentials for Geregú in the medium to long term. Relative to peers, Nigeria’s electricity consumption is the lowest despite her abundant gas and other energy resources. In bridging the consumption gap, significant investments are required. Nigeria needs an estimated \$400bn to fix the economy’s energy deficits. Therefore, we expect to see increased scale of activities in the Nigerian power sector.

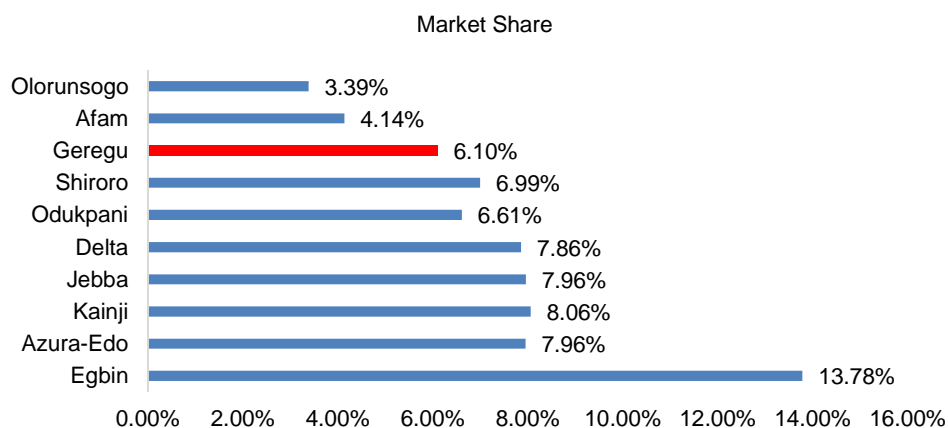
Electricity consumption (kWh per capita)



Source: World Data Info, WSTC Research

At 6%, Geregú ranks 9th among the 29 power generating companies in Nigeria. With a planned acquisition of additional power assets, the Company is on course to be among the top three (3) power generating companies (20% market share). The market share expansion is expected to translate to significant value in the medium to long term. Geregú is one of the most profitable companies in the power generation industry, in terms of ROE.

Although we note the existing challenges in the power sector, particularly relating to liquidity and efficiency, in recent years, the national government has demonstrated increased interest in the power sector. Notably, the Presidential Power Initiative (PPI) birthed in 2020 is expected to deliver value in the medium term.



Source: NERC, WSTC Research

7.0 RISKS

The major risk we see to the prospects of Geregu is 'political risks'. That is, the possibility that the ongoing progress in the Nigerian power sector could be discontinued. Specifically, we note that the current structure of NBET guaranteeing GenCos payments might not be sustained by future administrations.

Other risk factors include macroeconomic vulnerabilities, relating to inconsistent foreign exchange policies, high inflation, and high interest rates. Also, the issue of gas disruptions and pipeline vandalism is a major risk to the operational capacity of the power sector.

8.0 VALUATION

Using four types of valuation method, we arrive at a weighted average fair value for Geregu's stock of N75.47, printing 31% lower than the stock's current price, leading us to recommend a SELL. Based on our estimated fair value, the stock's justified price-to-earnings ratio (P/E) is 13.47x. From a fundamental standpoint, we believe that the estimated justified P/E fairly captures the industry growth prospects and risks.

Valuation Method	Target Value	Weighting	Value
Discounted Cash Flow Model	232,568	25%	58,142
Discounted Dividend Model	151,336	25%	37,834
Enterprise Value Model	266,128	25%	66,532
Residual Income Model	129,843	25%	32,461
Weighted Average Fair Value			194,969
Shares Outstanding			2,500
Fair value per share			77.99
Current price			110.00
Upside/(Downside)			-29%

8.1 Valuation Assumptions

We discounted our projected free cash flow to equity, dividends, and residual income by an estimated 23% cost of equity. We arrived at our cost of equity by adopting the capital asset pricing model (CAPM). The formula for CAPM is shown below:

$$Re = Rf + \beta (Rm)$$

Where Re is cost of equity, Rf is risk-free rate, β is beta, and Rm is market risk premium.

Cost of equity	Parameter	Basis	Source
Risk-free	12%	Long-term average of FGN 10-year bond	FMDQ, WSTC Research
Beta	1.00x	Subjective assumption	WSTC Research
ERP	11%	Country Risk Premium Approach	CNBC, FMDQ, Yahoo Finance, WSTC Research,
Re	23%		

8.2 Discounted Cash Flow Model

Discounted Cash Flow							
Period	1	2	3	4	5	6	7
Discount factor	0.81	0.66	0.54	0.44	0.36	0.29	0.23
FCFE	77,504	(18,572)	22,336	40,547	38,737	45,651	48,467
Terminal value							484,674
Total FCFE	77,504	(18,572)	22,336	40,547	38,737	45,651	533,141
Discounted FCFE	63,012	(12,276)	12,003	17,715	13,759	13,183	125,172
Equity value	232,568						

8.3 Discounted Dividend Model

Discounted Dividend							
Period	1	2	3	4	5	6	7
Discount factor	0.81	0.66	0.54	0.44	0.36	0.29	0.23
Dividend	5,090	11,889	24,325	27,782	32,187	33,597	36,008
Terminal value							360,081
Total dividend	5,090	11,889	24,325	27,782	32,187	33,597	396,089
Discounted FCFE	4,138	7,859	13,072	12,138	11,433	9,702	92,994
Equity value	151,336						

8.4 Enterprise Value Model

Enterprise valuation	
EBITDA	26,041
EV/EBITDA Multiple	10.00x
Enterprise value	260,408
Add: Cash	74,770
Less: Debt	(69,050)
Equity value	266,128

8.5 Residual Income Model

Residual Income							
Period	1	2	3	4	5	6	7
Discount factor	0.81	0.66	0.54	0.44	0.36	0.29	0.23
Net income	12,725	29,723	34,751	39,689	45,981	47,995	51,440
Equity charge	(13,786)	(14,822)	(20,488)	(25,746)	(29,279)	(33,465)	(37,101)
Residual income	(1,061)	14,901	14,263	13,943	16,702	14,530	14,339
Terminal value							143,391
Total residual income	(1,061)	14,901	14,263	13,943	16,702	14,530	157,730
Discounted residual income	(862)	9,849	7,665	6,092	5,933	4,196	37,032
Equity value	129,843						

Income Statement

	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY
Income Statement (N'mn)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Revenue	12,944	36,614	35,006	42,164	53,677	70,957	54,296	117,158	130,231	142,423	159,198	162,767	171,333
Cost of sales	(8,663)	(23,648)	(21,604)	(25,856)	(30,835)	(37,614)	(28,836)	(59,797)	(66,418)	(72,636)	(81,000)	(82,832)	(87,123)
Gross profit	4,281	12,965	13,402	16,308	22,841	33,343	25,459	57,361	63,813	69,787	78,198	79,935	84,210
Other income	6	184	50	1,115	687	1,651	483	1,043	1,160	1,268	1,418	1,449	1,526
Total operating income	4,287	13,149	13,451	17,423	23,528	34,994	25,943	58,404	64,973	71,055	79,616	81,384	85,736
Admin expenses	(1,194)	(1,831)	(5,268)	(2,284)	(4,424)	(5,470)	(2,840)	(6,245)	(6,876)	(7,556)	(8,426)	(8,625)	(9,073)
Total operating expense	(1,194)	(1,831)	(5,268)	(2,284)	(4,424)	(5,470)	(2,840)	(6,245)	(6,876)	(7,556)	(8,426)	(8,625)	(9,073)
Operating profit	3,093	11,318	8,183	15,139	19,104	29,523	23,103	52,159	58,097	63,500	71,190	72,760	76,663
Non-operating profit	(762)	(289)	1,228	414	1,545	(11)	(4,389)	(8,449)	(6,993)	(5,134)	(3,570)	(2,178)	(1,015)
Finance income	531	720	1,912	748	1,572	948	1,564	1,486	1,444	1,609	1,591	1,602	1,642
Finance cost	(1,293)	(1,009)	(684)	(334)	(27)	(959)	(5,953)	(9,935)	(8,437)	(6,743)	(5,162)	(3,781)	(2,657)
Profit before tax	2,331	11,029	9,411	15,554	20,649	29,512	18,714	43,711	51,104	58,366	67,620	70,581	75,647
Income tax	(30)	2,430	1,623	(5,161)	(6,523)	(8,962)	(5,988)	(13,987)	(16,353)	(18,677)	(21,638)	(22,586)	(24,207)
Profit after tax	2,301	13,459	11,034	10,393	14,125	20,550	12,725	29,723	34,751	39,689	45,981	47,995	51,440

Balance Sheet

	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY	Dec FY
Balance Sheet (N'mn)	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Assets													
Non-current assets													
Property, plant and equipment	59,388	55,552	52,127	48,101	44,000	39,975	37,360	64,307	61,963	55,859	49,036	42,061	34,718
Intangible assets	3	2	1	24	18	11	38	108	95	81	64	48	30
Long-term employee benefits	1	2	1	14	5	2	2	2	2	2	2	2	2
Deferred tax assets	0	2,692	4,535	0	0	0	0	0	0	0	0	0	0
Total non-current assets	59,391	58,247	56,665	48,139	44,023	39,988	37,400	64,417	62,059	55,941	49,102	42,110	34,750
Current assets													
Inventories	632	677	710	847	726	441	684	1,290	1,346	1,587	1,719	1,749	1,864
Trade and other receivables	15,459	36,424	40,740	47,086	73,045	70,147	63,128	104,986	112,541	111,496	121,248	123,389	128,529
Other current assets	0	0	175	160	491	291	281	654	706	768	870	884	930
Cash and cash equivalent	696	162	783	1,187	4,783	3,955	74,770	52,512	64,402	82,233	94,779	109,845	126,357
Total current assets	16,787	37,262	42,407	49,280	79,044	74,833	138,863	159,442	178,995	196,084	218,616	235,866	257,680
Total assets	76,179	95,510	99,072	97,419	123,067	114,821	176,263	223,859	241,054	252,025	267,718	277,977	292,430
Equity													
Share capital	5	5	5	5	5	5	5	5	5	5	5	5	5
Retained earnings	52,461	65,420	76,454	62,846	76,972	59,940	64,445	89,078	111,940	127,303	145,502	161,311	179,154
Other reserves	0	0	0	1	(4)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Total equity	52,466	65,425	76,459	62,852	76,973	59,939	64,444	89,077	111,938	127,302	145,501	161,309	179,153
Liabilities													
Non-current liabilities													
Deferred tax liabilities	0	0	0	209	6,221	10,347	10,347	10,347	10,347	10,347	10,347	10,347	10,347
Loans and borrowings	4,021	2,224	275	0	0	5,667	67,679	58,708	46,050	35,777	24,516	17,091	9,423
Others	1,022	568	114	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	5,043	2,792	389	209	6,221	16,014	78,027	69,055	56,397	46,124	34,864	27,438	19,771
Current liabilities													
Trade and other payables	15,206	23,770	18,740	33,276	39,360	30,417	27,585	57,926	64,591	70,161	78,493	80,277	84,339
Current income tax liabilities	30	262	398	361	513	4,837	4,837	4,837	4,837	4,837	4,837	4,837	4,837
Loans and borrowings	2,980	2,807	2,633	607	0	3,614	1,370	2,964	3,291	3,601	4,024	4,115	4,331
Others	454	454	454	114	0	0	0	0	0	0	0	0	0
Total current liabilities	18,670	27,293	22,225	34,358	39,873	38,869	33,792	65,727	72,719	78,600	87,354	89,230	93,507
Total liabilities	23,713	30,085	22,614	34,567	46,094	54,883	111,819	134,782	129,116	124,723	122,218	116,667	113,278
Total equity and liabilities	76,179	95,510	99,072	97,419	123,067	114,821	176,263	223,859	241,054	252,025	267,718	277,977	292,430

Cash Flow Statement

	Dec FY 2016	Dec FY 2017	Dec FY 2018	Dec FY 2019	Dec FY 2020	Dec FY 2021	Dec FY 2022F	Dec FY 2023F	Dec FY 2024F	Dec FY 2025F	Dec FY 2026F	Dec FY 2027F	Dec FY 2028F
Cash Flow Statement (N'mn)													
Cash flows from operating activities													
Profit for the year	2,301	13,459	11,034	10,393	14,125	20,550	12,725	29,723	34,751	39,689	45,981	47,995	51,440
Adjustments:													
Depreciation of PPE	1,593	3,835	3,484	4,182	4,275	4,611	2,932	5,858	6,512	7,121	7,960	8,138	8,567
Amortisation of intangible assets	4	1	1	3	7	7	6	12	13	14	16	17	17
Loss on disposal of PPE	3	0	0	0	0	1	0	0	0	0	0	0	0
Net finance costs	762	289	(1,228)	(414)	(1,545)	11	4,389	8,449	6,993	5,134	3,570	2,178	1,015
Others	(365)	(2,882)	1,094	4,200	7,137	10,064	0	0	0	0	0	0	0
Cash flow from operations	4,298	14,702	14,385	18,363	23,999	35,244	20,052	44,041	48,268	51,958	57,528	58,329	61,040
Working capital changes:													
Inventories	(157)	(44)	(33)	(137)	94	(37)	(243)	(606)	(56)	(241)	(133)	(29)	(115)
Trade and other receivables	(5,085)	(20,965)	(7,781)	(5,838)	(26,515)	2,181	7,019	(41,859)	(7,555)	1,045	(9,752)	(2,141)	(5,140)
Other current assets	0	0	122	14	(448)	174	10	(373)	(52)	(62)	(102)	(13)	(47)
Trade and other payables	8,743	8,564	(3,805)	10,149	5,935	(4,235)	(2,833)	30,341	6,666	5,570	8,331	1,785	4,061
Non-trade payable	0	0	0	0	226	92	0	0	0	0	0	0	0
Total WC changes	3,501	(12,445)	(11,497)	4,188	(20,709)	(1,825)	3,953	(12,497)	(997)	6,312	(1,655)	(399)	(1,240)
Others	0	0	0	(11)	0	0	0	0	0	0	0	0	0
Income taxes paid	0	(30)	(85)	(452)	(361)	(511)	0	0	0	0	0	0	0
Net cash flow from operations	7,799	2,227	2,803	22,088	2,929	32,908	24,006	31,544	47,271	58,270	55,873	57,930	59,799
Cash flows from investing activities													
Proceeds from sale of PPE	0	0	3	1	0	12	0	0	0	0	0	0	0
Purchase of PPE	(8,671)	0	(63)	(156)	(174)	(599)	(317)	(32,804)	(4,167)	(1,017)	(1,137)	(1,163)	(1,224)
Purchase of intangible assets	(4)	0	0	(26)	0	0	(33)	(82)	0	0	0	0	0
Return on employee benefits planned assets re-invested	0	0	0	0	(1)	(4)	0	0	0	0	0	0	0
Funding of long-term employee benefits	(4)	(2)	(2)	(2)	(20)	(32)	0	0	0	0	0	0	0
Interest received	531	720	1,912	748	1,572	948	1,564	1,486	1,444	1,609	1,591	1,602	1,642
Net cash from investing activities	(8,148)	718	1,851	565	1,377	324	1,214	(31,400)	(2,723)	592	454	440	418
Cash flows from financing activities													
Net borrowings	2,441	(1,970)	(2,123)	(2,302)	(607)	9,281	59,769	(7,378)	(12,331)	(9,963)	(10,837)	(7,335)	(7,451)
Interest paid	(1,293)	(1,009)	(684)	(334)	(27)	(959)	(5,953)	(9,935)	(8,437)	(6,743)	(5,162)	(3,781)	(2,657)
Dividend paid	(1,275)	(500)	(1,225)	(19,613)	(77)	(42,382)	(8,220)	(5,090)	(11,889)	(24,325)	(27,782)	(32,187)	(33,597)
Net cash from financing activities	(127)	(3,480)	(4,032)	(22,249)	(711)	(34,060)	45,596	(22,403)	(32,658)	(41,031)	(43,781)	(43,303)	(43,705)
Net change in cash	(476)	(534)	622	404	3,596	(828)	70,815	(22,258)	11,890	17,831	12,546	15,066	16,512
Opening cash balance	1,171	696	162	783	1,187	4,783	3,955	74,770	52,512	64,402	82,233	94,779	109,845
Closing cash balance	696	162	783	1,187	4,782	3,955	74,770	52,512	64,402	82,233	94,779	109,845	126,357
Operating cash flow	7,799	2,227	2,803	22,088	2,929	32,908	24,006	31,544	47,271	58,270	55,873	57,930	59,799
Capex	(8,671)	0	(63)	(156)	(174)	(599)	(317)	(32,804)	(4,167)	(1,017)	(1,137)	(1,163)	(1,224)
FCF	(872)	2,227	2,740	21,931	2,756	32,309	23,688	(1,260)	43,104	57,252	54,736	56,767	58,575
Net debt	1,148	(2,980)	(2,807)	(2,636)	(634)	8,322	53,816	(17,313)	(20,768)	(16,705)	(15,999)	(11,116)	(10,108)
FCFE	276	(752)	(66)	19,296	2,122	40,630	77,504	(18,572)	22,336	40,547	38,737	45,651	48,467

Shareholder Funds

	Dec FY 2016	Dec FY 2017	Dec FY 2018	Dec FY 2019	Dec FY 2020	Dec FY 2021	Dec FY 2022F	Dec FY 2023F	Dec FY 2024F	Dec FY 2025F	Dec FY 2026F	Dec FY 2027F	Dec FY 2028F
Shareholder Funds (N'mn)													
Opening balance	53,164	52,466	65,425	76,459	62,852	76,973	59,939	64,444	89,077	111,938	127,302	145,501	161,309
Profit for the year	2,301	13,459	11,034	10,393	14,125	20,550	12,725	29,723	34,751	39,689	45,981	47,995	51,440
Actuarial variables	0	0	0	1	(4)	(3)	0	0	0	0	0	0	0
Dividend	(3,000)	(500)	0	(24,000)	0	(37,582)	(8,220)	(5,090)	(11,889)	(24,325)	(27,782)	(32,187)	(33,597)
Others	0	0	0	0	0	0	0	0	0	0	0	0	0
Closing balance	52,466	65,425	76,459	62,852	76,973	59,939	64,444	89,077	111,938	127,302	145,501	161,309	179,153
Shares outstanding	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
EPS	0.92	5.38	4.41	4.16	5.65	8.22	5.09	11.89	13.90	15.88	18.39	19.20	20.58
DPS	0.20	0.49	7.85	0.03	16.95	3.29	2.04	4.76	9.73	11.11	12.87	13.44	14.40
Dividend payout	22%	9%	178%	1%	300%	40%	40%	40%	70%	70%	70%	70%	70%
Retention rate	78%	91%	-78%	99%	-200%	60%	60%	60%	30%	30%	30%	30%	30%



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