

NASCON ALLIED INDUSTRIES PLC



... Sturdy Margins Despite Macroeconomic Challenges

November 16, 2022

Earnings Note

Event

Nascon Allied Industries Plc delivered strong topline growth in Q3 2022, as revenue increased by 110% year-on-year to N15.48bn. A combination of higher product prices and a low base in Q3 2021 spurred revenue growth.

Due to the benefits of effective price realisation, gross margin expanded by 400 basis points to 46% in Q3 2022 from 42% in Q3 2021. That translated to a 132% year-on-year growth in gross profit to N7.09bn.

Higher energy costs induced a 121% increase in selling and distribution expenses. The notable driver here was higher diesel prices used for delivery trucks. Total operating expenses (opex) increased by 77% year-on-year to N4.13bn. However, opex margin declined by 500 basis points to 27% (Q3 2021: 32%) due to the significantly higher revenue generated during the period.

Operating profit grew by 289% year-on-year to N2.98bn, but the growth in profit before tax stood at 41%. This was majorly due to an N856mn FX loss incurred in Q3 2022, relative to N714mn FX gain in Q3 2021. Profit after tax grew by 40% year-on-year to N1.35bn - the highest quarterly profit recorded since Q3 2018. Meanwhile, net margin shrank by 400 basis points to 9% (Q3 2021: 13%).

Quarterly Trend

Nascon (N'mn)	Q3 2022	Q3 2021	Q2 2022	Q2 2021	Q1 2022	Q1 2021
Revenue	15,478	7,378	14,367	9,233	10,760	8,337
Revenue growth	110%		56%		29%	
Gross profit	7,093	3,063	5,563	3,525	2,765	3,413
Gross margin	46%	42%	39%	38%	26%	41%
Operating profit	2,982	767	1,774	1,233	587	1,063
Operating margin	19%	10%	12%	13%	6%	13%
Net profit	1,347	965	1,149	727	386	723
Net margin	9%	13%	8%	8%	4%	9%
Earnings per share	N0.51	N0.36	N0.43	N0.27	N0.15	N0.27

Source: Company Accounts, WSTC Research

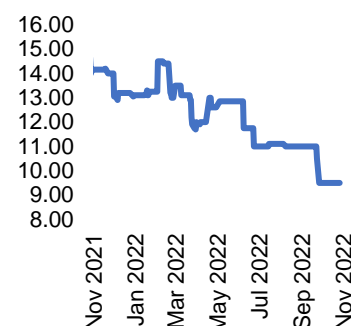
BUY

Fair Value Estimate:
N12.85

Total Return: +39%

Stock Data

Current price (N)	9.50
Shares Outstanding (mn)	2,649
Market Cap (N'mn)	25,170
52-week high (N)	14.50
52-week low (N)	9.50
Trailing EPS (N)	1.12
Forward EPS (N)	2.03
Forward PE (X)	4.67
Justified PE Multiple (X)	6.32



Stock Data

Stock Data	FY 2020	FY 2021	FY 2022F
P/E	9.36x	8.47x	4.67x
P/BV	1.98x	1.72x	1.33x
PBT Margin	14%	13%	14%
PAT Margin	10%	9%	9%
RoE	23%	22%	32%
Dividend Yield	4%	4%	4%

Analysts

Abdulrauf Bello
a.bello@wstc.com.ng

Isaac Osaro
i.osaro@wstc.com.ng

Oluwadamilola Pase
o.pase@wstc.com.ng

9M 2022 Financial Performance

Income Statement (N'mn)	9M 2022	9M 2021	Growth (%)
Revenue	40,606	24,948	63%
Cost of sales	(25,142)	(14,947)	68%
Gross profit	15,463	10,001	55%
Other income	47	43	9%
Operating income	15,510	10,044	54%
Selling and distribution expense	(8,420)	(4,837)	74%
Admin expense	(2,158)	(2,144)	1%
Operating expense	(10,578)	(6,981)	52%
Operating profit	4,932	3,063	61%
Interest income	254	37	594%
Interest expense	(471)	(97)	386%
Gains or losses	(445)	550	-181%
Profit before tax	4,270	3,552	20%
Income tax	(1,388)	(1,137)	22%
Profit after tax	2,882	2,416	19%
Balance Sheet (N'mn)	9M 2022	9M 2021	Growth (%)
Assets			
PP & E	13,410	15,309	-12%
Inventory	7,004	4,023	74%
Receivables	13,973	10,619	32%
Cash	11,436	3	341888%
Others	9,320	7,887	18%
Total Assets	55,144	37,840	46%
Liabilities			
Loans & Borrowings	5,469	4,496	22%
Payables	28,495	14,044	103%
Others	4,725	5,225	-10%
Total Liabilities	38,689	23,765	63%
Net Assets	16,455	14,075	17%

Source: Company Accounts, WSTC Research

Outlook

We expect pricing benefits to support topline and bottomline growth in the near term. Although we expect input cost and inflationary pressures to negatively impact profitability, we believe that price increases on products would offset the increases.

In the medium term, we believe that Nascon's fundamentals are solid, albeit weakening. The Company retains a significant market share in a highly fragmented and competitive industry. Regulatory and policy supports are also positive for the Company. Internally, a relatively strong balance sheet (i.e., adequate liquidity and relatively low debt levels) enables the Company to capture future growth opportunities.

We previously recommended a hold for the stock with an estimated fair value of N11.10. Between our last report and this report, the stock price declined by 14%. Based on our revised estimates and valuation, we believe that the current market price presents an entry opportunity.

After incorporating the Q3 2022 numbers, our revised earnings per share (EPS) for FY 2022 is N2.03 (previous N1.21) and our fair value estimate was revised to N12.85. The stock's forward price-to-earnings multiple of 4.67x is at a 35% discount to our justified price-to-earnings multiple of 6.32x. Hence, we recommend a BUY.

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	33,280	56,736	61,468	66,257	71,421	76,990
EBITDA	5,102	12,109	11,512	10,779	11,004	13,124
EBIT	2,534	8,116	6,382	5,217	5,380	7,032
Profit before taxation (PBT)	4,238	7,918	6,094	4,918	5,163	6,838
Net profit (PAT)	2,971	5,384	4,144	3,344	3,511	4,650
EPS (₹)	1.12	2.03	1.56	1.26	1.33	1.75
DPS (₹)	0.40	0.40	0.78	0.63	0.66	0.88
Balance sheet (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	22,620	44,362	45,850	50,199	53,003	57,335
Non-current assets	17,901	17,915	19,468	19,952	20,847	21,782
Total assets	40,521	62,277	65,318	70,151	73,850	79,117
Current liabilities	20,218	33,685	33,618	37,640	40,134	42,257
Non-current liabilities	5,673	9,638	9,662	9,200	8,565	8,816
Long-term debt	39	2,128	1,936	1,723	1,428	1,540
Shareholders' equity	14,631	18,955	22,039	23,311	25,150	28,044
Book value per share (₹)	5.52	7.15	8.32	8.80	9.49	10.58
Cash flow statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	4,996	6,223	2,860	10,749	8,861	11,666
Cash from investing activities	1,098	(3,652)	(6,449)	(5,716)	(6,200)	(6,667)
Cash from financing activities	(1,676)	2,548	(1,414)	(3,144)	(2,750)	(1,998)
Net increase/ (decrease) in cash	4,418	5,119	(5,004)	1,889	(89)	3,001
Ratio analysis (%)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	15.33	21.34	18.73	16.27	15.41	17.05
Operating margin	7.61	14.30	10.38	7.87	7.53	9.13
ROAE	24.96	39.37	24.68	16.31	15.48	19.19
ROA	7.33	8.65	6.34	4.77	4.75	5.88
Dividend payout ratio	35.67	19.68	50.00	50.00	50.00	50.00

Source: Company Accounts, WSTC Research

Disclaimer & Disclosures

The value of any investment is subject to fluctuations, i.e. may rise and fall. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of an investment to increase or decrease. Hence investors may not get back the full value of their original investment.

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.

This document is not an offer to buy or sell any security. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

This document is based on information WSTC Securities Limited (WSTC Securities) received from publicly available reports and industry sources. WSTC Securities may not have verified all of this information with third parties. Neither WSTC Securities nor its shareholders, directors, employees or advisors can guarantee the accuracy, reasonableness or completeness of the information received from any sources consulted for this publication; and neither WSTC Securities nor its shareholders, directors, employees or advisers accept any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. This document is not to be relied upon and should not be a substitute for the exercise of independent judgment.

This document includes certain statements, estimates and projections concerning the anticipated future performance of securities listed on the Nigerian Exchange and as to the market for these shares. Such statements, estimates and projections are based on information that we consider reliable and may reflect various assumptions made concerning anticipated economic developments, which have not been independently verified and may or may not prove correct. No representation or warranty is made as to the accuracy of such statements, estimates and projections or as to their appropriateness for the purpose intended and it should not be relied upon as such. Opinions expressed are current opinions as of the date appearing on this material only and may change without notice. Other third parties may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

This document is for information purposes only and private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of WSTC Securities.

Additional information on recommended securities/instruments is available on request.

WSTC Securities Limited is a Trading License Holder of the Nigerian Exchange Limited (NGX) and is registered with the Securities & Exchange Commission (SEC) as a Broker/Dealer to conduct Securities Brokerage & Dealing in Nigeria. Therefore, we may deal in any securities listed on the NGX.

WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

© WSTC Securities Limited 2022.