

November 30, 2022

Earnings Note

Event

UACN Plc ('UACN' or 'the Group'), in its recently released Q3 2022 earnings results, reported a 4% year-on-year (YoY) revenue growth, from N24.87bn in Q3 2021 to N25.76bn in Q3 2022. The weak revenue growth despite price increases across products suggests pressures on volume during the period. We believe that consumer demand declined in Q3 2022, on the back of weak purchasing power due to heightened inflationary pressures.

Driven by rising raw material costs, slow revenue growth, and higher operating expenses, the Group incurred an operating loss of N1.34bn in Q3 2022. In the same vein, loss after tax worsened to N1.31bn in Q3 2022 from a loss of N199mn in Q3 2021.

Segmental Performance

Animal Feed and Other Edibles

Revenue grew marginally by 1% to N15.03bn in Q3 2022 from N14.90bn in Q3 2021. The lean revenue growth was on the back of lower volume sales amid price increases to offset rising cost and competitive pressures. Lower volume sales were recorded in poultry feed, fish feed, and oil products categories. The segment recorded a N1.90bn loss before tax (Q3 2021: profit before tax of N210mn). The loss was driven by higher operating expense and higher finance cost.

Paints

Riding on her market leadership status with the ability to transfer cost burden to consumers, the paint segment revenue grew by 24% YoY to N4.32bn from N3.47bn in Q3 2021.

Operating profit grew 8x to N560mn from N59mn in Q3 2021. The performance was the effect of higher pricing and improved volume sales which partially offset raw material cost and operating expenses. Furthermore, profit before tax grew by 1% to N623mn from N90mn recorded in Q3 2021.

Packages Food and Beverages

Revenue declined by 6% to N5.51bn in Q3 2021 from N5.85bn in Q3 2021. Lower volume sales in snacks, diaries and water categories accounted for the decline. Buoyed by higher input cost and increased expenses, the segment recorded an operating loss of N98.00mn. Also, loss before tax was N57.00mn from a profit before tax position of N226mn recorded in Q3 2021.

QSR

In the QSR segment, revenue increased by 43% YoY to N845mn in Q3 2022 (Q3 2021: N590mn). The growth was majorly driven by increased capacity, as the Group launched additional company-owned stores during the period.

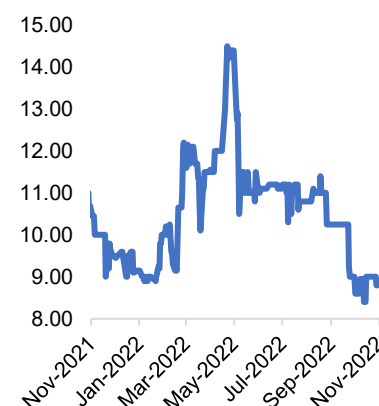
SELL

Fair Value Estimate:
N5.78

Total return: **-32%**

Stock Data

Current price (N)	9.50
Shares Outstanding (mn)	2,881
Market Cap (N'mn)	27,372
52-week high (N)	15.00
52-week low (N)	8.10
Trailing EPS (N)	0.63
Forward EPS (N)	(0.16)
Forward PE (X)	N/A
Justified PE Multiple (X)	N/A



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	10.56x	15.15x	N/A
P/BV	0.45x	0.53x	0.57x
PBT Margin	6%	4%	-1%
PAT Margin	4%	3%	-1%
RoE	6%	5%	-1%
Dividend Yield	13%	7%	7%

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The segment recorded a N163mn operating loss in Q3 2022 (Q3 2021: N104mn loss), as a result of higher cost of sales which driven by higher raw material costs, distribution expenses, and store pre-opening investments (i.e., rent, training). The QSR segment recorded a N213mn loss before tax in Q3 2022, compared to a N127mn loss before tax in Q3 2021.

Quarterly Financial performance

Income Statement (N'mn)	Q3 2022	Q3 2021	Q2 2022	Q2 2021	Q1 2022	Q1 2021
Revenue	25,763	24,868	24,376	24,478	27,666	22,022
Revenue growth	4%		0%		26%	
Gross profit	3,382	4,033	3,862	4,313	5,075	4,012
Gross margin	13%	16%	16%	18%	18%	18%
Operating profit	(1,337)	320	(462)	342	1,408	1,069
Operating margin	-5%	1%	-2%	1%	5%	5%
Net profit	(1,305)	(199)	(1,320)	96	642	669
Net margin	-5%	-1%	-5%	0%	2%	3%
Net profit to parent	(901)	(138)	(987)	(180)	460	336
Earnings per share	-N0.31	-N0.05	-N0.34	-N0.06	N0.16	N0.12

Source: Company Accounts, WSTC Research

Outlook

Due to the competitive nature of their industry amid rising input costs pressures, we expect weak revenue growth in the Animal Feeds segment

We expect weak household purchasing power, owing to heightened inflationary pressures to negatively impact topline growth in the Food and Beverages segment. Hence, we also expect to see weak revenue growth in this segment.

We believe that the Paint and QSR segments will maintain their revenue growth momentum into Q4 2022, but the impact of slower growth in the Animal Feeds and Food and Beverages segments will dampen the Group's overall topline performance. For context, Animal Feeds and Food and Beverages segment account for an average of 74% of the Group's total revenue.

Overall, we expect the Company incur a net loss in FY 2022 following their weak quarterly financial performance and weak growth expectations in the near term. However, we maintain a dividend estimate of 65 kobo. We posit that the Group's cash levels are sufficient to pay dividends.

Our fair value estimate for the stock is N5.78. At the current market price, the stock trades at a premium of 39% and offers a dividend yield of 7%. This sums up to a total negative return of 32%, hence we recommend a **SELL**.

9M 2022 Financial Performance Summary

Income Statement (N'mn)	9M 2022	9M 2021	Growth (%)
Revenue	77,805	71,368	9%
Cost of sales	(65,486)	(59,010)	11%
Gross profit	12,319	12,358	0%
Selling expense	(6,196)	(4,543)	36%
Admin expense	(6,482)	(5,957)	9%
Operating expense	(12,679)	(10,501)	21%
Operating profit	(360)	1,857	-119%
Non-operating profit/(loss)	(735)	(479)	53%
Impairment losses on financial assets	(58)	(39)	50%
Finance income	731	921	-21%
Finance expense	(2,546)	(1,158)	120%
Other income	1,176	409	188%
Share of profit	(38)	(612)	-94%
Profit before tax	(1,095)	1,378	-179%
Income tax	(888)	(813)	9%
Profit after tax	(1,983)	565	-451%
NCI	652	(653)	-200%
Profit to parent	(1,331)	(88)	1420%
Balance Sheet (N'mn)	9M 2022	9M 2021	Growth (%)
Assets			
PP & E	25,129	21,249	18%
Investment property	3,397	2,635	29%
Investment in associate	8,376	8,840	-5%
Inventory	37,157	25,433	46%
Receivables	6,698	8,310	-19%
Others	20,064	20,727	-3%
Total Assets	100,822	87,194	16%
Liabilities			
Loans & borrowings	26,036	10,475	149%
Payables	11,769	7,337	60%
Others	16,039	19,663	-18%
Total Liabilities	53,844	37,474	44%
Net Assets	46,978	49,720	-6%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	101,377	109,734	135,504	150,685	165,678	179,583
EBITDA	5,001	1,817	8,166	10,118	12,697	13,717
EBIT	2,862	(711)	5,050	6,745	8,919	9,635
Profit before taxation (PBT)	4,108	(1,013)	4,563	6,973	8,502	9,391
Net profit (PAT)	1,807	(475)	2,141	3,272	3,989	4,406
EPS (₦)	0.63	(0.16)	0.74	1.14	1.38	1.53
DPS (₦)	0.65	0.65	0.65	0.79	0.97	1.07
Balance sheet (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	55,885	59,488	67,122	72,999	80,323	88,011
Non-current assets	42,029	43,238	44,381	45,187	45,916	46,373
Total assets	98,463	103,276	112,053	118,735	126,789	134,934
Current liabilities	42,234	47,498	55,498	60,221	64,895	69,352
Non-current liabilities	5,349	7,459	7,006	6,097	5,985	6,080
Long-term debt	340	2,524	1,965	1,055	895	970
Shareholders' equity	50,838	48,277	49,507	52,375	55,867	59,460
Book value per share (₦)	15.96	14.25	14.56	15.43	16.44	17.51
Cash flow statement (N'mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	(15,525)	4,233	1,317	5,423	7,687	8,604
Cash from investing activities	(2,144)	(4,558)	(3,308)	(2,352)	(2,875)	(2,674)
Cash from financing activities	4,777	293	(6)	(3,317)	(3,133)	(4,075)
Net increase/ (decrease) in cash	(12,892)	(32)	(1,996)	(247)	1,679	1,855
Ratio analysis (%)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	5%	2%	6%	7%	8%	8%
Operating margin	3%	-1%	4%	4%	5%	5%
ROE	4%	-1%	5%	8%	9%	9%
ROA	2%	0%	2%	3%	3%	3%
Dividend payout ratio	104%	-394%	70%	70%	70%	70%

Source: Company Accounts, WSTC Research



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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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