

# NASCON ALLIED INDUSTRIES PLC



... Effective Pricing and Cost Optimisation Delivers Strong Margins

September 05, 2023

Earnings Note

## Event

Nascon Allied Industries Plc ('the Company') reported a revenue growth of 48% year-on-year to N21.26bn in its unaudited Q2 2023 financials. The stellar performance was driven by price increases and higher volumes, particularly in the Northern region. Across its business regions, revenue from the North (72% of revenue) grew by 55% year-on-year. In the same vein, revenue from the West (22% of revenue) and the East (6% of revenue) regions maintained the momentum witnessed in Q1 2023 with revenue growing by 22% and 83% respectively.

Gross margin spiked to 57% in Q2 2023 from 39% in Q2 2022, as the revenue growth for the period outpaced the cost of sales (Q2 2023: N9.26bn; Q2 2022 N8.81bn +5%). Aside from the relatively stable commodity prices, we believe the higher inventory from 2022 limited the need to procure raw materials, thus shielding the company from cost pressures. Consequently, this led to a 116% year-on-year growth in gross profit to N12.01bn. Notably, the gross margin reported is the highest ever recorded by the Group according to our record.

Operating expense (opex) increased significantly in Q2 2023. It grew by 53% year-on-year to N4.78bn, majorly driven by higher distribution-related expenses. We attribute the increases to higher logistics costs due to energy price pressures. In general, rising inflationary pressures resulted in higher operating expenses. Accordingly, operating expense margin expanded by 82 basis points to 27% (Q2 2022: 26%).

Despite the rise in operating expense, effective pricing and cost-effective measures employed drove operating profit by 251% to N6.22bn from N1.78bn in Q2 2022. Consequently, operating profit margin spiked to 29% from 12% in Q2 2022.

A distinguishing feature of Nascon's performance compared to most Fast Consumer Goods Sector (FMCG) companies was its ability to report an insignificant foreign exchange loss of N69,000, unlike most consumer goods sector. This signifies majority of its borrowings were locally funded.

Profit before tax and after tax grew 261% year on year respectively. This marks a very good financial performance in Q2 2023. The profit after tax margin rose to 20% in Q2 2023.

# SELL

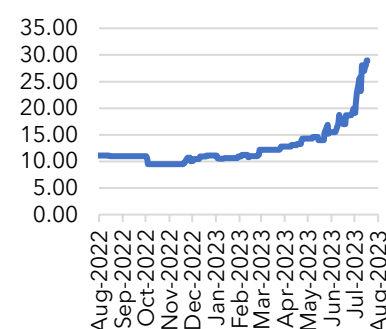
**Fair Value Estimate:**  
**N36.99**

Total Return: **-35%**

## Stock Data

Current price (N)	61.15
Shares Outstanding (mn)	2,649
Market Cap (N'mn)	162,013
52-week high (N)	61.15
52-week low (N)	9.50
Trailing EPS (N)	2.06
Forward EPS (N)	5.58
Forward PE (X)	10.96
Justified PE Multiple (X)	6.63

## Price Movement



## Stock Data

	FY 2021	FY 2022	FY 2023F
P/E	54.53x	29.62x	10.95x
P/BV	11.07x	8.51x	5.20x
PBT Margin	13%	14%	25%
PAT Margin	9%	9%	17%
RoE	22%	32%	59%
Dividend Yield	1%	2%	4%

## Analysts

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**Q2 2023 Financial Performance**

<b>Income Statement (N'mn)</b>	<b>Q2 2023</b>	<b>Q2 2022</b>	<b>Growth (%)</b>
<b>Revenue</b>	<b>21,264</b>	<b>14,367</b>	<b>48%</b>
Cost of sales	(9,255)	(8,805)	5%
<b>Gross profit</b>	<b>12,010</b>	<b>5,563</b>	<b>116%</b>
Other income	20	15	35%
<b>Operating income</b>	<b>12,030</b>	<b>5,578</b>	<b>116%</b>
Selling and distribution expense	(4,778)	(3,068)	56%
Admin expense	(1,028)	(736)	40%
<b>Operating expense</b>	<b>(5,806)</b>	<b>(3,804)</b>	<b>53%</b>
<b>Operating profit</b>	<b>6,224</b>	<b>1,774</b>	<b>251%</b>
<b>Non-operating profit/(loss)</b>	<b>(60)</b>	<b>(68)</b>	<b>-11%</b>
Interest income	168	78	116%
Interest expense	(228)	(146)	56%
Gains or losses	(0)	0	-100%
<b>Profit before tax</b>	<b>6,164</b>	<b>1,706</b>	<b>261%</b>
Income tax	(2,012)	(557)	261%
<b>Profit after tax</b>	<b>4,152</b>	<b>1,149</b>	<b>261%</b>

**Source: Company Accounts, WSTC Research**

**Outlook**

Nascon's Q2 2023 financial performance was significantly above what we expected. Although we expected the Company to increase prices, the magnitude of the actual price increase was higher than our expectations. The material decline in the Company's cost margin evidenced this. As a result, we revised our revenue expectation to N84.99bn (previously: N73.95), also we expect FY 2023 net margin to expand to 17.40% from 9.30% in FY 2022.

On the 31st of July 2023, Dangote Sugar, Nascon and Dangote Rice Limited notified the general public of its proposed mergers to "Dangote Foods Plc" as they believe the action will consolidate and solidify the Group market position and ultimately reposition the Group to harness future opportunities in the Food industry. The merger between its subsidiaries will proceed via a scheme of consideration, eleven (11) ordinary shares in Dangote Sugar will be given for every twelve (12) Nascon shares held.

Following the corporate disclosure, the stock has rallied by 88%. However, at the current price, the stock trades at 10.95x to our revised forward earnings per share of N5.58. Based on a blend of the discounted cash flow (DCF), discounted dividend (DDM), enterprise valuation (EV/EBITDA), and residual income (RIM) methodologies, our estimated justified P/E is 6.63x. This implies a fair value of N36.99.

Hence, we project a 40% potential decline on the stock. In combination with a projected 4% dividend yield, we estimate a total return on the stock is -35%. Hence, we recommend a **SELL**.

## H1 2023 Financial Performance

Income Statement (N'mn)	H1 2023	H1 2022	Growth (%)
<b>Revenue</b>	<b>38,165</b>	<b>25,128</b>	<b>52%</b>
Cost of sales	(19,204)	(16,758)	15%
<b>Gross profit</b>	<b>18,962</b>	<b>8,370</b>	<b>127%</b>
Other income	104	25	317%
<b>Operating income</b>	<b>19,065</b>	<b>8,395</b>	<b>127%</b>
Selling and distribution expense	(8,248)	(4,998)	65%
Admin expense	(2,015)	(1,447)	39%
<b>Operating expense</b>	<b>(10,262)</b>	<b>(6,445)</b>	<b>59%</b>
<b>Operating profit</b>	<b>8,803</b>	<b>1,950</b>	<b>351%</b>
<b>Non-operating profit/(loss)</b>	<b>(177)</b>	<b>325</b>	<b>-155%</b>
Interest income	309	136	128%
Interest expense	(487)	(222)	119%
Gains or losses	(0)	411	-100%
<b>Profit before tax</b>	<b>8,625</b>	<b>2,275</b>	<b>279%</b>
Income tax	(2,803)	(739)	279%
<b>Profit after tax</b>	<b>5,822</b>	<b>1,535</b>	<b>279%</b>
Balance Sheet (N'mn)	H1 2023	H1 2022	Growth (%)
<b>Assets</b>			
PP & E	12,078	13,759	-12%
Inventory	7,649	7,711	-1%
Receivables	25,194	11,213	125%
Cash	16,388	10,292	59%
Others	7,172	6,368	13%
<b>Total Assets</b>	<b>68,482</b>	<b>49,343</b>	<b>39%</b>
<b>Liabilities</b>			
Loans & Borrowings	8,544	5,310	61%
Payables	28,245	23,907	18%
Others	9,477	5,020	89%
<b>Total Liabilities</b>	<b>46,267</b>	<b>34,237</b>	<b>35%</b>
<b>Net Assets</b>	<b>22,215</b>	<b>15,106</b>	<b>47%</b>

Source: Company Accounts, WSTC Research

## Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Revenue	33,280	58,786	84,992	91,646	98,825	106,569	122,124
EBITDA	5,102	11,868	26,801	27,522	28,888	30,917	35,466
EBIT	2,534	9,469	23,826	24,590	25,676	27,720	31,802
Profit before taxation (PBT)	4,238	8,374	21,387	24,117	25,276	27,406	31,494
Net profit (PAT)	2,971	5,469	14,791	15,751	16,508	17,899	20,569
EPS (₦)	1.12	2.06	5.58	5.95	6.23	6.76	7.76
DPS (₦)	0.40	1.00	2.50	2.97	3.12	3.38	3.88
Balance sheet (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Current assets	22,620	39,167	59,695	70,315	80,681	90,316	104,168
Non-current assets	17,901	16,364	16,364	16,730	17,195	20,093	24,123
Total assets	40,521	55,531	76,059	87,045	97,876	110,409	128,291
Current liabilities	20,218	30,490	32,706	35,200	38,273	40,812	46,054
Non-current liabilities	5,673	5,999	12,169	11,534	10,659	11,008	12,029
Long-term debt	39	39	2,677	2,383	1,977	2,131	2,442
Shareholders' equity	14,631	19,042	31,184	40,311	48,944	58,589	70,208
Book value per share (₦)	5.52	7.19	11.77	15.21	18.47	22.11	26.50
Cash flow statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Cash from operating activities	4,996	3,500	15,453	13,661	20,629	24,000	23,513
Cash from investing activities	1,098	(896)	(2,448)	(2,681)	(3,092)	(5,429)	(6,949)
Cash from financing activities	(1,676)	3,360	(1,689)	(8,510)	(9,557)	(8,883)	(8,816)
Net increase/ (decrease) in cash	4,418	5,964	11,316	2,470	7,980	9,688	7,748
Ratio analysis (%)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
EBITDA margin	15.33%	20.19%	31.53%	30.03%	29.23%	29.01%	29.04%
Operating margin	7.61%	16.11%	28.03%	26.83%	25.98%	26.01%	26.04%
RoE	21.73%	32.48%	58.90%	44.06%	36.99%	33.29%	31.94%
RoA	7.00%	11.39%	22.48%	19.31%	17.85%	17.19%	17.23%
Dividend payout ratio	35.67%	48.44%	44.78%	50.00%	50.00%	50.00%	50.00%

**Source:** Company Accounts, WSTC Research



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- Buy Rating: estimated fair value is  $\geq 20\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $19\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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