

## Conoil Oil Plc: Interim Results – Q3, September 2010



December 23, 2010

BUY

Fair Value: NGN 40.76

Current Price: NGN34.71

### Valuation/Analyst Recommendation

We applied Discounted Free Cash Flow (DCF) Valuation Method in arriving at a fair value of Conoil. We project Turnover, Earnings Before Interest and Tax (EBIT), Earnings Before Interest Tax Depreciation and Amortization (EBITDA) and Profit After Tax (PAT) for the periods ending December 2010, 2011, 2012, 2013 and 2014. We estimate Turnover of **N89.63bn, N94.11bn, N101.17bn, N108.76bn** and **N114.20bn** for 2010, 2011, 2012, 2013 and 2014, respectively. We estimate EBIT of **N6.27bn, N6.69bn, N7.22bn, N7.77bn** and **N7.99bn** for the same period, based on EBIT Margin of 7% for 2010, 7.11% for 2011, 7.14% for 2012-2013, and 7% for 2014. We estimate EBITDA of **N8.03bn, N8.48bn, N9.05bn, N9.63bn** and **N9.90bn** for the same period. Looking at our estimate of the capital expenditure of the company within the forecast period and the notional tax on EBIT for the same period and adjusting for the net working capital, we arrived at **Free Cash Flow (FCF)** of **N3.43bn, N5.05bn, N5.65bn, N6.10bn** and **N6.12bn**. Our forecast PAT of **N2.40bn, N2.82bn, N3.05bn, N3.28bn** and **N3.44bn** is based on PAT margin of 2.68% for 2010, 3% for 2011 and 3.02% for 2012-2014. Using a dividend payout of 58% for the period, we arrived at **Dividend Payment** of **N1.39bn, N1.64bn, N1.77bn, N1.90bn** and **N2.00bn**. We applied a terminal growth rate of **7.69%**. We used a beta value of 1; risk free rate of **9.90%** and a **market risk premium** of **10.04%**. The company had no long term interest bearing debt as at the last audited account. Applying the foregoing parameters, our cost of equity is **19.94%**, which is our discount rate. Using **693.95mn** shares in issue, the **DCF** Model generates **N40.76** per share, which is our fair value. Buying the stock at the current market price of **N34.71** and holding it to our fair value of **N40.76** and adding the present value of the 5-year forecast dividends, investors will earn a total return of **39.33%**. Relating this return to the cost of equity at **19.94%**, investment in Conoil shares at the current market price will record alpha return of **19.39%**. The 2010 forward earnings yield based on earnings per share of **N3.46** at our fair value generates **8.49%**, while the 2010 forward Dividend Yield based on **N2.01** Dividend Per Share at our fair value generates **4.93%**. The earnings yield at current market price is 6.85%. We therefore place a **BUY** on Conoil shares at the current market price.

### Business Description

*Conoil engages in the marketing of refined petroleum products, manufacturing and marketing of lubricants, household and industrial chemicals.*

Ticker	CONOIL
Sector	Petroleum Marketing
Date of Incorporation	1960
Date of Listing	1989
Year End	December
No of Ordinary Shares	693,952,117
Capitalisation (₦)	24,087,077,981
% of Market Capitalisation	0.31
52-Week High(₦)	56.14
52-Week Low (₦)	27.63
YTD Return (%)	20.20
52-Week Avg. Trade	119,812
Beta Value	0.32
Current EPS (₦)	2.38
Current PE(x)	14.61

### Building Capacity to Enhance Efficiency:

The unaudited Q3, 2010 result of **Conoil Plc (Conoil)** for the period ended September 30, 2010 showed that its Turnover (TO) declined by **26.10%** to **N64.84bn**, compared with N87.76bn in the corresponding period of 2009. Our efforts to speak with the management of the company to ascertain the reasons for the drop in the profits, which is against the industry trend, were not successful. However, we think the market has appropriately reacted to this drop leading to depreciation in the share price. The Profit Before Tax (PBT) decreased by **27.70%** to **N2.55bn** in Q3 2010 from N3.53bn in the corresponding period of 2009. The tax provision also decreased by **27.60%** from N1.13bn in 2009 to N816.18mn in 2010, while Profit After Tax (PAT) decreased to **N1.73bn** in Q3 2010 from N2.40mn in 2009, representing a decrease of **27.64%**. The company recently completed the expansion of its depot in Port Harcourt. The facility is expected to increase storage capacity by 50million litres and will enable it meet the needs of its customers in the South-South, South-East and Northern part of the country more efficiently.

The company's profit margins decreased in Q3 2010 over Q3 2009, but increased over the FY December, 2009. The PBT margin decreased to 3.93% in Q3, 2010 from 4.02% as at Q3, 2009, and 4.15% as at Q2 2010, but up from 3.72% as at the end of the financial year in December, 2009. This shows that the company's total costs as a percentage of TO stand at 96.07%, higher than 95.98% recorded in the corresponding period of 2009. PAT Margin currently stands at 2.67%, down from 2.73% in the corresponding period of 2009, and 2.82% as at Q2 2010, but up from 2.27% as at FY 2009. The result also indicates that the percentage of TO, PBT, and PAT in Q3, 2010 to Full Year Audited TO, PBT and PAT for the period ended December, 2009 are: **63.66%, 67.39%** and **75.00%**, respectively. Given the current rate, Conoil may find it difficult to meet the previous year's top line, while it may barely surpass previous year's PAT

A cursory look at the balance sheet position as at Q3 2010 compared with the position as at December, 2009 shows that the company's fixed assets decreased. This may be linked to the sale of some assets and effects of depreciation. Its fixed assets decreased by 8.32% to N7.46bn from N8.14bn in FY 2009. Stock decreased by 51.87% to N1.97bn in Q3 2010 from N4.10bn in FY 2009. There was a substantial increase in cash and bank balances, which grew by 214.79% from N10.57bn in FY 2009 to N33.28bn in Q3 2010. Conoil's working capital increased from N7.63bn in FY 2009 to N10.06bn in Q3 2010. Short term borrowings as at Q3 2010 recorded a significant increase from N67.14mn in FY 2009 to N7.89bn in Q3 2010. Trade debtors increased by 82.82% to N16.70bn from N9.13bn. Net assets increased by 12.83% to N15.25bn from N13.51bn as at FY 2009.

A review of the Petroleum & Gas industry in Nigeria shows that the Federal Government of Nigeria (FGN) has implemented a number of reforms and initiatives in the last few years with the aim of bringing a lasting solution to the numerous problems that plague the industry. At the moment, the industry is important to the sustenance of the Nigerian economy as it accounts for about 80% of the country's revenue and 90% of the foreign exchange earnings. In addition, it accounted for about 15.70% of the country's Gross Domestic Product (GDP) as at June 2010. Some of the FGN initiatives are: Amnesty for the Militants; establishment of Petroleum Support Fund (FSP); Local Content Act (LCA); Petroleum Industry Bills (PIB); establishment of Sovereign Debt Note (SDN) and the proposed deregulation of the downstream sector. These initiatives were put in place to achieve the following: protect the oil and gas facilities across the country; increase production of crude oil; ensure regular supply of petroleum products to avoid queues at the filling stations; encourage oil majors to import products and reduce financing costs for oil marketing firms; and increase the participations of the Nigerian firms in the oil and gas industry. Although these measures have helped the petroleum marketing firms in the last one year, it is our view that the most important of the reforms is the full deregulation of the sector which has not been implemented. Currently, most quoted oil companies in Nigeria are primarily involved in petroleum marketing business without any incentive for them to engage in other viable investments such as constructing and running of refineries. We are of the opinion that the sector still has a lot of untapped opportunities which we think the current PIB and full deregulation of the downstream sector will address. Available data from the Petroleum Products Pricing Regulatory Agency (PPPRA) website as at December 21, 2010 shows that the total cost of Premium Motor Spirit (PMS) is N124.31per litre but the price is currently pegged at N65 per litre, meaning that government is paying N59.31 per litre as subsidy. Deregulation of the sector will attract further investments and bring in competition which has the capacity to lower retail price in the long run and allow government to spend its scarce resources on provision of social amenities and infrastructure which will make doing businesses in Nigeria competitive.

The capital employed by Conoil at December 31, 2009 of **N15.77bn** was such that equity accounted for **85.66%** while long term liabilities accounted for **14.34%** of the total. Its total Assets stood at **N39.77bn**, while total liabilities stood at **N26.26bn**. The short term liabilities stood at **N24bn**, accounting for **91.38%** of the total liabilities while the long-term liabilities stood at **N2.26bn** accounting for **8.62%** of the total liabilities. Conoil had no long term interest bearing debt as at December 31, 2009. An analysis of the TO of Conoil in 2009 shows that its revenue of **N101.85bn** was derived from Fuel, representing **94.96%** (N96.72bn), **Chemicals**, representing **3.97%** (N4.04bn) and **Lubricants** (N1.09bn), representing **1.07%**. Conoil is organized into three business segments: White Products (Consumer, Industrial and Aviation); Chemical and Lubricants. Its outstanding shares stood at about **693.95mn** out of which **516.29mn** is owned by **Conpetro Limited** representing about **74.40%** of the shares, while the remaining **25.60%** is held by other Nigerians and institutions.

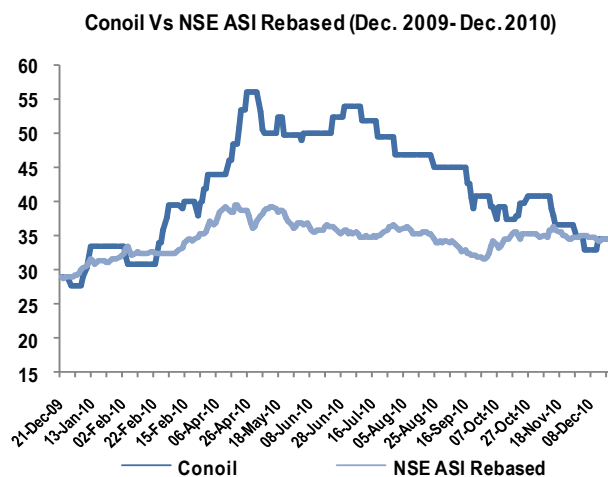
## Comparable Analysis. As at December 2009

Company	GEs	PBT	PAT	PAT Margin (%)	ROAE (%)	EPS*	PE*
Conoil	101,853	3,725	2,312	2.27	18.20	2.38	14.61
Mobil Oil	62,032	4,066	2,842	4.58	81.04	11.93	14.28
Oando	336,686	13,512	9,951	2.95	20.51	6.72	9.85
Total	178,570	6,163	3,968	2.22	55.68	15.44	15.20
MRS Oil	74,603	1,721	1,051	1.41	43.06	4.15	16.05

Source: Company Annual Reports, NSE FACTBOOK, \*Current

## Financial Performance (N'mn)

	Q3 2010	Q3 2009	% Δ	FY 2009	FY 2008	% Δ	FY 2010F
Gross Earnings	64,841	87,758	(26.11)	101,853	124,213	(18.00)	89,631
PBT	2,550	3,525	(27.66)	3,784	3,282	15.30	3,533
PAT	1,734	2,397	(27.66)	2,312	1,821	27.00	2,402
PBT Margin (%)	3.93	4.02	(0.08)	3.72	2.64	1.08	3.94
PAT Margin (%)	2.67	2.73	(0.06)	2.27	1.47	0.80	2.68



## Directors As At December 31, 2009

Name	Position	Shareholding
Dr. Mike Adenuga	Chairman	Nil
Mr. John Vasikaran	CEO	Nil
Mr. J.O. Anya	Ex. Director	25,365
Mr. Fatai Abiodun Wahab	Ex. Director	5,773
Mr. Wasiu Adeyinka Adebiyi	Ex. Director	Nil
Dr. M.E. Omatshola	Non-Ex. Dir.	34,296
Chief Kola Adegbola	Non-Ex. Dir.	9,736
Ms. Oyindamaola aDenuga	Non-Ex. Dir.	Nil
Engr. O.A. Tycus	Non-Ex. Dir.	85,488
Price M.B Adenuga	Non-Ex. Dir.	Nil

## Contact us at Our Offices:

**Lagos Office:** UAC House (5<sup>th</sup>-8<sup>th</sup> Floors) 1/5 Odunlami Street, P.M.B 12913 Lagos. (Tel.) 234-1-2640160-9 (Fax) 234-1-2702890

## Port Harcourt:

AfriBank Bank Building (2nd floor, 5 Trans Amadi Road, Port Harcourt. (Tel) 234-084-463308 (Fax) 234-084-463174

## Abuja Office:

Orji Uzor Kalu Plaza, Plot 979, 1st Avenue, Off Ahmadu Bello Way, Cadastral Zone AO, Central Business District, Abuja. (Tel) 234-09-6700535

[www.fsdhgroup.com](http://www.fsdhgroup.com), [www.fsdhsecurities.com](http://www.fsdhsecurities.com)  
(Email) [fsdhsecurities@fsdhgroup.com](mailto:fsdhsecurities@fsdhgroup.com)

This publication is produced by FSDH Securities (FSDH Sec) a subsidiary of First Securities Discount House Limited (FSDH) solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Sec may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of FSDH or FSDH Sec. for actions taken as a result of information provided in this publication.