Equity Research Report

NIGERIA

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Mobil Oil Nigeria Plc: Interim Results – Q3'08

Mobil

November 07, 2008 **SELL** **Fair Value: NG₦ 269.68** **Current Price: NG₦ 348.62**

Ticker	MOBIL
Sector	Petroleum Marketing
Date of Incorporation	December 31, 1951
Date of Listing	April 24, 1979
Year End	December
No of Ordinary Shares	300,496,052
Capitalisation	₦ 104,758,933,822
% of Market Capitalisation	1.39%
52-Week High	₦402
52-Week Low	₦155
YTD Return	144.71%
52-Week Avg. Trade	141,502
Beta Value	0.52
Current EPS	6.65
Current PE	52.46

Strategic Buy-in?

The unaudited Q3'08 result of **Mobil Oil Nigeria Plc (Mobil)** for the period ended 30 September, 2008 shows that its **Turnover (TO)** grew by 23.8**%** to **N49.6bn**, compared with **N40.05bn** in the corresponding period of 2007. **Profit Before Tax (PBT)** grew by 68.5**%** between 2007 and 2008 to **N3.15bn** from **N1.87bn** in the corresponding period of 2007. The company's provision for tax which increased by **68.8%** between 2007 and 2008 to **N1.01Bn** from **N602mn** in 2007 brought about a **Profit After Tax (PAT)** of **N2.14bn** as against **N1.27bn** in 2007, representing a growth of **68.3%.**

A cursory look at the company's profit margins reveals an improvement compared with the results at the corresponding quarter in 2007. The PBT margin increased to 6.36% in Q3'08 from 4.67% as at Q3'07 and up from 3.23% as at the end of the financial year in December, 2007. This shows that the company's total cost as a percentage of Turnover stood at 93.64% in Q3'08, down marginally from 95.33% in the corresponding period in 2007. PAT Margin currently stands at 4.31%, up marginally from 3.17% in the corresponding period in 2007 and up from 2.07% as at FY '07.

The result also indicates that the percentage of the Turnover, PBT, and PAT in the Q3 result to the Full Year Audited Turnover, PBT and PAT for the period ended December, 2007 are: **91.01%, 179.09%** and **189.03%,** respectively. This suggests that the company should perform higher than the previous year's bottom- line with wide margin.

The audited account of Mobil in 2007 shows that the cost of sales increased in 2007 over 2006 by 8.41% to N48.02bn. The increase was higher than the increase in TO which was up by 7.35% to N54.54bn, thereby leading to a marginal increase of 0.12% in gross profit to N6.52bn. This resulted in a decline in the gross profit margin from 12.82% in 2006 to 11.96% in 2007. The operating profit declined marginally by 2.76% in 2007 to N2.67bn, while PAT declined by 34.09% to N1.131bn. Both the capital employed and the shareholders' funds declined by 9.83% to N5.07bn and 20.66% to N2.25bn respectively over the previous year. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 52.53% and 50.31% respectively in 2007. The company paid a dividend of N4.70k and a bonus of 1 for 4 as benefits to its shareholders at the end of 2007 financial year. Meanwhile, the PAT of the Company at N1.36bn in 2007 excludes the exceptional item of N889.02mn arising from the separation of 69 employees during the year.

Looking at the Mobil's working capital position as at December 31, 2007,it might be difficult for it to meet its short term obligations as at when due. The current assets stood at a N8.77bn in 2007 a marginal decline of 5.53% over the position of N9.29bn at FY, 06. In another development, the current liabilities stood at N13.49bn as at FY 07 an increase of 14.42% over N11.79bn as at FY 06. The relationship between the current assets and the current liabilities led a to a negative working capital of (N4.71bn) as at FY 07 up from (N2.50bn) as at FY, 06. The higher proportionate growth in current liabilities in the face of declining current assets between the two years resulted into a declining current ratio which stood at 0.65: 1 in FY 07 from 0.79:1 as at FY 2006. In a similar development, the quick ratio stood at 0.41: 1 in 2007 down from 0.53: 1 in 2006.

As at December 31, 2007, Mobil's issued shares of **240,396,841** were **60%** held by **ExxonMobil Corporation, Fairfax, USA**, while the remaining **40%** was held by **Other Investors**. Analysis of the TO of **N54.54bn** in 2007 showed that **N54.51bn** representing **99.94%** was derived from **Inland Sales** while the remaining **N31.26mn** representing **0.06%** was derived from **export sales.** Meanwhile, **N1.65bn** of the **N1.97bn** other operating income was derived from rent. All the fuels which Mobil sells are purchased from the Nigerian National Petroleum Corporation (NNPC) and by direct importation sequel to the deregulation of the downstream sector, while lubricants are blended locally or purchased from associated companies.

Valuation/Analyst Recommendation

We maintain our top line forecast for **Mobil** as we are of the opinion that the company is in line with the forecast. However, the company appears to be more efficient in its cost management strategy, therefore, we have reviewed our bottom line margin from **3.31%** to **4.2%**. In arriving at our fair value, we estimated **TO**, **Earning Before Interest Tax Depreciation and Amortisation (EBITDA)** and **PAT** for December 2008. We project a **TO** of **N68.18bn,** based on a growth of **25%** over the previous year. We project **EBITDA** of **N4.04bn** based on EBITDA margin of **6%** and a **PAT** of **N2.86bn** based on a PAT margin of **4.2%.** We used **300.496mn** Ordinary Shares which we expect to be in issue as at December, 2008. The Forward Earning Per Share **(FEPS)** generates **N9.53**. We estimated the Dividend Per Share **(DPS)** of **N9.12** based on a dividend payout of 95.69%. Applying Enterprise Value EV/EBITDA multiple of **23.44x,** a P/E multiple of **24x**, we arrived at **N310.66** per share using EV/EBITDA multiple and **N228.70** per share using price earnings multiple. A simple average of the two values generates **N269.68** which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **3.53%** and **3.38%** respectively. The stock is currently trading at **N348.62** which translates to a premium of **29.27%** to our fair value. **We therefore place a SELL on Mobil Oil Nigeria Plc Stock at the current market price**

Business Description

The Principal activity of Mobil Oil Nigeria Plc is marketing of Petroleum Products.

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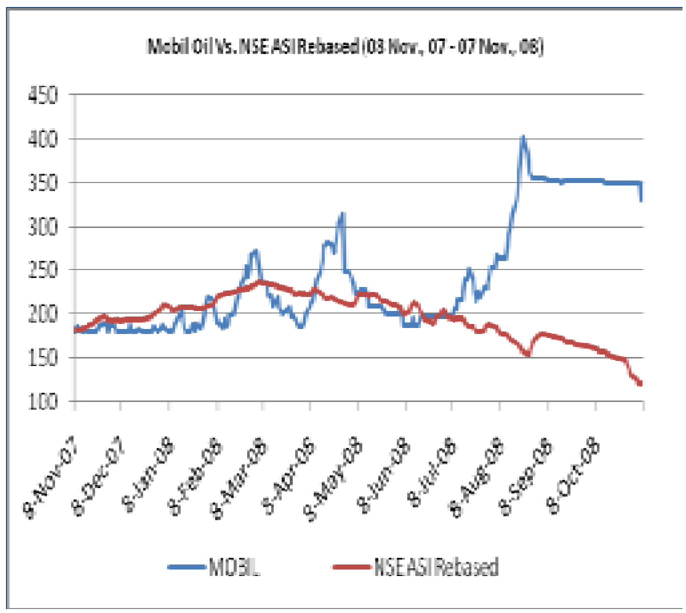
Industry Analysis (Nmn)							
Company	**TO**	**PBT**	**PAT**	**PAT Margin (%)**	**ROE (%)**	**EPS***	**PE***
Mobil	54,542	1,764	1,131	2.07	50.31	6.65	52.46
Chevron	72,628	2,994	1,959	2.70	48.43	4.84	64.40
Oando	185,892	6,814	5,480	2.95	11.60	8.26	17.69
AP	102,026	7,049	5,701	5.59	77.38	9.42	31.21
Total	137,330	4,829	3,255	2.37	51.36	12.01	20.11

Source: Company Annual Reports as at FY '07, NSE FACTBOOK.

Financial Performance (Nmn)							
	Q3 '08	**Q3 '07**	**%Δ**	**FY 2007**	**FY 2006**	**%Δ**	**FY 2008E**
Turnover	49,598	40,049	23.84	54,542	50,810	7.35	68,177
PBT	3,152	1,871	68.47	1,765	2,535	(30.40)	3,779
PAT	2,136	1,269	68.32	1,131	1,716	(34.09)	2,863
PBT Margin (%)	6.36	4.67	1.69	3.24	4.99	(1.75)	5.54
PAT Margin (%)	4.31	3.17	1.14	2.07	3.38	(1.31)	4.2

Directors as at Dec. 2007

Names	Position	Holding
Olumide Onakoya	Chairman/MD	45,434
Abdullah Bamalli	Director	NIL
John A.C. Bell	Director	NIL
Sam A. Kareem	Director	17,600
A. J. MacNaughton	Director	NIL
Adetunji Oyebanji	Director	9,505



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