

Mobil Oil Plc: Interim Results – Q2, June 2010



December 13, 2010

BUY

Fair Value: NGN 150.01

Current Price: NGN144.88

Valuation/Analyst Recommendation

In arriving at a fair value for the ordinary shares of Mobil Oil, we used two valuation methods which are Discounted Future Earnings Method (DFE) and Discounted Free Cash Flow Method (DCF). 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 **N66.96bn**, **N77.64bn**, **N91.22bn**, **N107.19bn** and **N123.27bn** for 2010, 2011, 2012, 2013 and 2014, respectively. We estimate EBIT of **N7.32bn**, **N8.62bn**, **N10.23bn**, **N12.02bn** and **N13.82bn** for the same period, based on EBIT Margin of 10.94% for 2010, 11.10% for 2011, and 11.21% for 2012 to 2014. We estimate EBITDA of **N8.01bn**, **N9.37bn**, **N11.04bn**, **N12.89bn** and **N14.76bn** 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 **N3.68bn**, **N4.73bn**, **N5.84bn**, **N7.09bn** and **N8.38bn**. Our forecast PAT of **N4.39bn**, **N5.17bn**, **N6.13bn**, **N7.21bn** and **N8.29bn** is based on PAT margin of 6.56% for 2010, 6.66% for 2011, 6.72% for 2012 to 2014. Using a dividend payout of 80% for the period we arrived at **Dividend Payment** of **N3.51bn**, **N4.14bn**, **N4.91bn**, **N5.77bn** and **N6.63bn**. 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 **300.50mn** shares in issue, the DCF Model generates **N148.65** per share and the DFE Model generates **N151.68** per share. Applying a weight of 55% to the DCF and 45% to the DFE, we arrive at a value of **N150.01** per share, which is our fair value. Buying the stock at the current market price of **N144.88** and holding it to our fair value of **N150.01** and adding the present value of the 5-year forecast dividends, investors will earn a total return of **37.21%**. Relating this return to the cost of equity at **19.94%**, investment in Mobil Oil shares at the current market price will record a positive alpha return of **17.27%**. The 2010 forward earnings yield based on our fair value generates **9.74%**, while the 2010 forward Dividend Yield based on **N11.69** Dividend Per Share at our fair value generates **7.80%**. The forward earnings yield at current market price is **8.23%**. We therefore place a **BUY** on Mobil Oil shares at the current market price.

Business Description

Mobil engages in the business of marketing petroleum products and property business.

Ticker	MOBIL
Sector	Petroleum Marketing
Date of Incorporation	December 31, 1951
Date of Listing	April 24, 1979
Year End	December
No of Ordinary Shares	300,496,051
Capitalisation (₦)	43,535,867,869
% of Market Capitalisation	0.56
52-Week High(₦)	182.99
52-Week Low (₦)	93.00
YTD Return (%)	53.72
52-Week Avg. Trade	80,512
Beta Value	0.15
Current EPS (₦)	11.93
Current PE(x)	14.28

Positioning for Reform Benefits:

The unaudited Q2, 2010 result of **Mobil Oil Plc (Mobil)** for the period ended June 30, 2010 showed that its Turnover (TO) declined marginally by **1.55%** to **N31.94bn**, compared with **N32.45bn** in the corresponding period of 2009. The success of the Federal Government's Sovereign Debt Note (SDN) and the improvement in the real estate business, which contributes significantly to the bottom line of Mobil, may be responsible for the improved profitability. The Profit Before Tax (PBT) increased significantly by **223.76%** to **N3.09bn** in 2010 from **N955.02mn** in the corresponding period of 2009. The tax provision also increased by **220.61%** from **N310.73mn** in 2009 to **N996.23mn** in 2010, while Profit After Tax (PAT) also increased to **N2.10bn** in Q2 2010 from **N644.28mn** in 2009, representing an impressive increase of **225.17%**.

The company's profit margins increased in Q2 2010 over Q2 2009, and over the FY December, 2009. The PBT margin increased to 9.68% in Q2, 2010 from 2.94% as at Q2, 2009, and up from 6.55% and 9.67% as at the end of the financial year in December, 2009 and Q1 2010, respectively. This shows that the company's total costs as a percentage of TO stands at 90.32%, lower than 97.06% recorded in the corresponding period of 2009. PAT Margin currently stands at 6.56%, up from 1.99% in the corresponding period of 2009, and up from 4.58% as at FY 2009, but lower than 6.87% recorded in Q1 2010. The result also indicates that the percentage of TO, PBT, and PAT in Q2, 2010 to Full Year Audited TO, PBT and PAT for the period ended December, 2009 are: **51.49%**, **76.05%** and **73.74%**, respectively. This shows that the Mobil should surpass its previous year's bottom line performance with wide margin.

A cursory look at the balance sheet position as at Q2 2010 compared with the position as at December, 2009 shows that the company's fixed assets increased. This may be linked to additional investments plans to boost income of the company during the period. Its fixed assets increased by 6.51% to **N12.40bn** from **N11.64bn** in FY 2009. Stock decreased by 7.90% to **N4.03bn** in Q2 2010 from **N4.38** in FY 2009. There was a substantial increase in cash and bank balances, which grew by 462.56% from **N21.8mn** in FY 2009 to **N122.63mn** in Q2 2010. Mobil's working capital worsened from a negative of **N3.05bn** in FY 2009 to **N3.81bn** in Q2 2010. Trade debtors increased marginally by 0.44% to **N1.144bn** from **N1.139bn**. The net assets decreased marginally by 0.17% to **N4.17bn** from **N4.18bn** 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 initiative 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 November 26, 2010 shows that the price at which the Premium Motor Spirit (PMS) should be sold is **N114.15per litre** but the price is currently pegged at **N65 per litter**, meaning that government is paying **N48.15 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 Mobil of **N9.51bn** as at December 31, 2009 was made up of equity and long term liabilities in the proportion of 43.91% and 56.09%, respectively. Its total Assets stood at **N22.07bn**, while total liabilities stood at **N17.89bn**. The short term liabilities stood at **N12.56bn**, accounting for 70.18% of the total liabilities while the long-term liabilities stood at **N5.34bn** accounting for 29.82% of the total liabilities. Mobil had no long term interest bearing debt as at December 31, 2009. An analysis of the TO of Mobil in 2009 shows that its revenue of **N62.03bn** was derived from Inland Sales (Third Party & Inter-company), representing **95.90%** (**N61.95bn**) and Exports, representing **0.13%** (**N79.40mn**). It has two reportable business segments: Petroleum Products Marketing and Property Business. The PBT of **N4.07bn** was derived from these segments in the proportion of 63.31% and 36.69%, respectively. The company has continued to invest in Fuel Terminals, Lube Oil Blending Plant and Property Business. Its outstanding shares stood at about **300.50mn** out of which **1180.29mn** is owned by Exxon Mobil Oil Corporation, representing about **60%** of the shares, the remaining **40%** is held by other Nigerians and institutions. We recommend that the company should separate the offices of the Managing Director from the Chairman in order to abide with good corporate governance system.

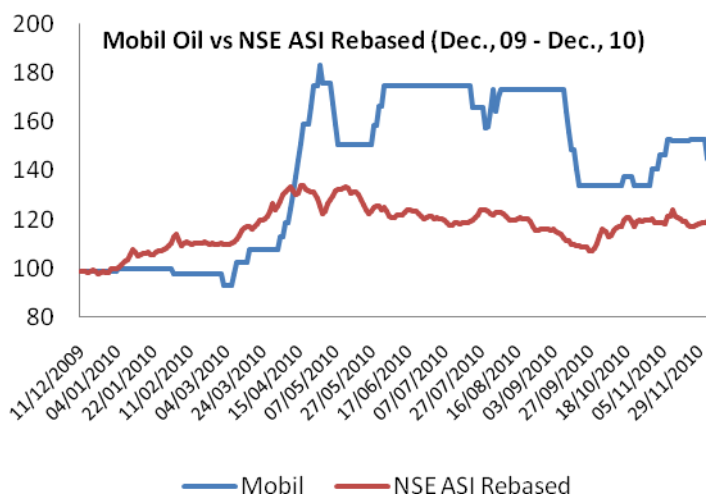
Comparable Analysis. As at December 2009

Company	GEs	PBT	PAT	PAT Margin (%)	ROAE (%)	EPS*	PE*
Mobil Oil	62,032	4,066	2,842	4.58	81.04	11.93	14.28
MRS Oil	74,603	1,721	1,051	1.41	43.06	4.15	17.79
Oando	336,686	13,512	9,951	2.95	20.51	6.72	9.57
Total	178,570	6,163	3,968	2.22	55.68	15.44	15.20
Conoil	101,853	3,725	2,312	2.27	18.20	2.38	14.61

Source: Company Annual Reports, NSE FACTBOOK, *Current

Financial Performance (N'mn)

	Q2 2010	Q2 2009	% Δ	FY 2009	FY 2008	% Δ	FY 2010F
Gross Earnings	31,943	32,447	(1.55)	62,032	66,740	(7.1)	66,960
PBT	3,092	955	224	4,066	3,181	28.80	6,460
PAT	2,095	644	225	2,841	1,718	65.40	4,393
PBT Margin (%)	9.68	2.94	6.74	6.55	4.77	1.78	9.65
PAT Margin (%)	6.56	1.99	4.57	4.58	2.57	2.01	6.56



Directors As At December 31, 2009

Name	Position	Shareholding
Adetunji A. Oyebanji	Chairman/MD	18,131
Alastair J. MacNaughton	Director	Nil
Henry Ikemefuna C. Obih	Director	Nil
John A.C Bell	Non-Ex. Dir	Nil
Mayen M. Adetiba	Non-Ex. Dir.	Nil

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