National Salt Company of Nigeria Plc: *Interim Results – Q3, Sept. 2009*

March 15, 2010 **HOLD** **Fair Value: N6.69** **Current Price: N6.58**

Valuation/Analyst Recommendation

In placing a fair value on the Ordinary Shares of **NASCON**, we estimated **TO**, Earning Before Interest Tax Depreciation and Amortization (**EBITDA**) and **PAT** for the period ended December, 2009. We project a **TO** of **N8.83bn,** based on a growth rate of **11.90%** over the previous year. We project **EBITDA** of **N2.25bn** based on EBITDA margin of **25.54%** and a **PAT** of **N1.79bn** based on a PAT Margin of **20.30%.** We used **2.649bn** Ordinary Shares in issue as at December 2009. The Earnings Per Share **(EPS)** generates **N0.68**. We estimated Dividend Per Share **(DPS)** of **N0.51** based on a dividend payout of **75.90%.** Applying Enterprise Value EV/EBITDA multiple of **7.80x,** a P/E multiple of **10x**, we arrived at **N6.63** per share using EV/EBITDA multiple and **N6.76** per share price using earnings multiple. Applying a weight of **55%** on **N6.63** and **45%** on **N6.76**, we arrived at **N6.69** per share, which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **10.11%** and **7.67%** respectively. We therefore place a **HOLD** on the shares of NASCON at the current market price. However, we note that the dividend yield is very good compared with the current level of interest rate in the money market. Therefore, this may make NASCON shares attractive to investors who are looking for income stocks.

Business Description

The principal activities of NASCON are processing of raw salt into edible salt as well as importation of Petti brand of tomato paste.

Ticker	**NASCON**
Sector	**Food/Beverages & Tobacco**
Date of Incorporation	**April 30, 1973**
Date of Listing	**October 20, 1992**
Year End	**December**
No of Ordinary Shares	**2,649,438,378**
Capitalisation (N)	**17,433,304,527.24**
% of Market Cap.	**0.30**
52-Week High (N)	**7.03**
52-Week Low(N)	**2.98**
YTD Return (%)	**51.26**
52-Week Avg. Trade	**1,387,935**
Beta Value	**1.26**
Current EPS (N)	**0.60**
Current PE(x)	**11.03**

Restructuring for Efficiency:

The unaudited Q3, 2009 result of **National Salt Company of Nigeria Plc (NASCON)** for the period ended September 30, 2009 shows that its Turnover (TO) increased by **14.10%** to **N6.50bn**, compared with N5.70bn in the corresponding period of 2008. Profit Before Tax (PBT) increased significantly by **48.55%** between 2008 and 2009 to **N2bn** from N1.35bn. The tax provision which increased significantly by 137.2% between 2008 and 2009 to **N641.87mn** from N270.61mn resulted in the Profit After Tax (PAT) of **N1.36bn,** up from N1.08bn in 2008 representing a growth of **26.20%.**

The PBT Margin in Q3, 2009 increased over the Q3, 2008 and over the FY, 2008 figure. The PBT margin increased to **30.81%** in Q3, 2009 from **23.66%** as at Q3, 2008, and also up from **24.05%** as at the end of the financial year in December, 2008.This shows that the company's total costs as a percentage of TO stands at **69.19%**, down from **76.34%** recorded in the corresponding period of 2008. PAT margin currently stands at **20.94%**, up from **18.92%** in the corresponding period of 2008, and also up from **16.46%** as at FY 2008.The result also indicated that the percentage of TO, PBT, and PAT in the Q3 2009 to the Full Year Audited TO, PBT and PAT for the period ended December, 2008 are: **82.45%**, **105.64%** and **104.93%** respectively. Given the current run rates NASCON should surpass its previous years performance with wide margins.

A cursory look at the balance sheet position as at Q3, 2009 compared with the position as at December 2008, shows that its fixed assets increased by 40.37% to N2.72bn from N1.94bn in FY, 2008, while the net assets increased by 35.04% to N5.25bn from N3.89bn as at FY, 2008. The growth in the fixed assets reflects the continued expansion drive of NASCON and a form of import substitution strategy of the management. The company reported recently that it is working to establish a tomato packing operations in Nigeria. This will help to reduce costs and exchange rate risks. The Chairman believes that the locally packed Dangote brand of tomato will enter the market in 2010. Cash and bank balances decreased from N555.66mn in FY, 2008 to N450.71mn in Q3, 2009. The decline in cash & bank balances may be associated with the company's payment of dividend and financing of its expansion projects. Short-term borrowing as at Q3, 2009 was down significantly by 82.16% to stand at N5.24mn from N29.36mn as FY 2008. NASCON's working capital position improved from N2.43bn in FY, 2008 to N3.04bn. Stocks also increased by 22.19% to N889.55mn from N728.03mn in FY, 2008. The trade debtors remained unchanged from the corresponding period of 2008, while trade creditors decreased significantly by 76.49% to N332.43mn in Q3, 2009 from N1.41bn as at FY, 2008.

Our analysis of the operating environment shows that the manufacturing and distribution businesses in Nigeria are faced with infrastructure challenges (transportation and power). In order to meet their power needs, manufacturing companies in Nigeria invest heavily in alternative sources of power. The cost of acquiring and maintaining these equipments add in no small measure to the operating costs. Manufacturing firms sometimes shift some of these costs to their customers in form of increase in the price of goods, while firms bear a portion of it. The extent of the shiftability also depends on the elasticity of the product in question to price. Sometimes we notice a drop in demand, as a result of increase in price. In addition to the problem of infrastructure, the current financial crisis and the unwillingness of banks to lend has reduced credit to the real sector, while the available credit commands high interest rates, thus increasing financing costs for the manufacturers. The combination of these factors has limited the growth of the manufacturing sector in the country, despite the huge market potentials within and in the neighboring countries. In the last one year, the manufacturing sector has not witnessed significant improvement as the capacity utilization fluctuates between 35% and 40%. Its contribution to the Gross Domestic Product (GDP) as at December 2009 was 4.20%, while the annual growth rate is 8.58%. This is considered too low for a country that has a huge consumption power like Nigeria; having an estimated market size of 150million. Also, there exists a growing middle class whose tastes and life style are changing for high quality consumer goods and products.

NASCON recently added two additional sachet salt production lines with a capacity of 180,000tonnes per annum to its production capacity**.** An analysis of its turnover of N7.89bn for FY 2008 showed that **Edible/Industrial Salt** contributed **95.32%** (N7.52bn), while **Petti Tomato Paste** contributed **4.68%** (N369.04mn). The shareholding structure as at December 31, 2008 shows that Dangote Industries Limited held more than 5% of the issued share capital of the company with 62.19% shareholding.

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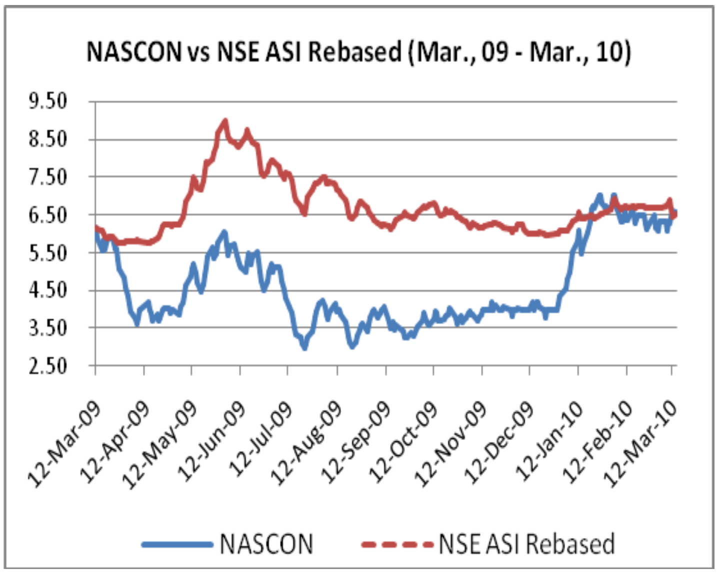
Industry Analysis (Nmn)							
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
NASCON	7,888	1,897	1,298	16.46	33.39	0.60	11.03
Dangote Sugar	80,671	30,151	21,871	27.11	67.03	1.27	13.18
Dangote Flour	47,927	3,168	2,990	6.15	12.10	1.77	8.67
NNFM *	8,533	310	236	2.77	27.31	6.50	6.82

*Source: Company Annual Reports as at FY 2008, NSE FACTBOOK. * NNFM (FY 2009) has March as its Year End.*

Financial Performance (Nmn)							
	Q3 2009	Q3 2008	%Δ	FY 2008	FY 2007	%Δ	FY 2010F
Turnover	6,504	5,702	14.10	7,888	6,252	26.20	8,827
PBT	2,004	1,349	48.60	1,897	1,752	8.30	2,365
PAT	1,362	1,079	26.20	1,298	1,259	3.10	1,792
PBT Margin (%)	30.81	23.66	7.15	24.06	28.03	3.97	26.80
PAT Margin (%)	20.94	18.92	2.02	16.46	20.15	3.69	20.29



Directors As At December 31, 2008

Name	Position	Holding
Aliko Dangote	Chairman	74,004,503
Ade Adeniji	MD	440,000
Sani Dangote	Director	9,594,772
Suleiman Olarinde	Director	Nil
Olakunle Alake	Director	4,170,000
Knut Ulmvoen	Director	Nil
C. Atoki	Director	739,490
Abdu Dantata	Director	12,000,000
M.S. Ladan-Baki	Director	279,288

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