

## OANDO Plc: Interim Results – Q3'08



November 03, 2008

BUY

Fair Value: NGN 196.82

Current Price: NGN 146.11

### Valuation/Analyst Recommendation

We maintain our forecast and valuation for Oando as we are of the opinion that the company is in line with the forecast. In arriving at a fair value for the company, we estimate a TO of **N242.61bn** for FY 08, based on the assumption that Oando will generate a turnover of **30.51%** over FY 07. We estimate EBITDA of **N12.52bn** based on EBITDA margin of **5.16%** and a PAT of **N7.28bn** based on a PAT margin of **3%**. Using an estimated Net Debt of **N31.22m**, EV/EBITDA multiple of **17x** and a forward P/E ratio of **24x**, we arrived at **N200.63** using EV/EBITDA multiple and **N193.01** per share using price earning multiple. The average of the two valuations generates **N196.82** per share which is our fair value. The forward earning yield (at N8.04 earnings per share) at our fair value generates **4.09%**. We therefore place a **BUY** on Oando stock at the current market price of **N146.11** for an upside potential of **34.7%**.

### Business Description

*Oando's businesses include: Petroleum Products Marketing; Supply and Trading; Support Services to Upstream E & P Companies; Gas Distribution & Power; Refinery; Exploration and Production of Crude Oil.*

Ticker	OANDO
Sector	Petroleum Marketing
Date of Incorporation	August 25, 1969
Date of Listing	February 01, 1992
Year End	December
No of Ordinary Shares	904,884,627
Capitalisation	₦132,212,692,938
% of Market Capitalisation	1.71
52-Week High	₦282.77
52-Week Low	₦77.50
YTD Return	43.93%
52-Week Avg. Trade	752,696
Beta Value	0.60
Current EPS	₦8.26
Current PE	17.69x

### Growing Through Diversification:

The unaudited Q3'08 result of Oando for the period ended 30 September, 2008 showed that its Turnover grew by 14% to **N198.64bn**, compared with **N174.28bn** in the corresponding period of 2007. Profit Before Tax (PBT) grew by **65.1%** between 2007 and 2008 to **N7.29bn** from **N4.42bn**. The company's provision for tax which increased by **103.4%** between 2007 and 2008 to **N1.73bn** from **N852mn** brought about a Profit After Tax (PAT) of **N5.56bn** as against **N3.57bn** in 2007, representing a growth of **56%**.

A cursory look at the company's profit margins reveals an increasing trend compared with the results at the corresponding quarter in 2007. The PBT margin increased marginally to 3.67% in Q3'08 from 2.53% as at Q3'07, but still remains the same at 3.67% 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 96.33% in Q3'08, down marginally from 97.47% in the corresponding period in 2007. PAT Margin currently stands at 2.80%, up marginally from 2.05% in the corresponding period in 2007, but down from 2.95% as at FY '07.

The results also indicate 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: 106.86%, 107.01% and 101.46%, respectively. This suggests that the company has clearly out-performed the previous year, both in top-line and bottom-line.

The company's cost of sales decreased in 2007 over 2006 by 14.53% to N164bn from N192bn in 2006. The decrease was lower than the decrease in Turnover which was down by 11.09% to N186bn, thereby leading to an increase of 28.61% in gross profit to N21.45bn. This resulted in an increase in the gross profit margin from 7.98% in 2006 to 11.54% in 2007. The operating profit grew marginally by 36.64% in 2007 to N8.11bn while PAT and minority interest grew marginally by 78.22% to N5.48bn in 2007 from N3.07bn in 2006. A further analysis of the company's Turnover shows that Fuels accounted for 84.7%; Lubricants and Other Products: 4.64%; Gas: 2.65%; Non-Fuel: 5.95% and others: 2.18%. The company paid a dividend of N6.00k and a bonus of 1 for 5 as benefits to its shareholders at the end of 2007 financial year.

Looking at the Oando'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 asset stood at a N88.75bn in 2007 a growth of 50.67% over the position of N58.90bn at FY, 06. In another development the current liabilities stood at N95.35bn as at FY 07 an increase 47.64% over N64.58bn as at YF 06. The relationship between the current assets and the current liabilities led to a negative working capital of N6.60bn as at FY 07 up from N5.68bn as at FY, 06. The higher proportionate growth in current assets than the current liabilities between the two years resulted into a marginal improvement in the current ratio which stood at 0.93: 1 in FY 07 from 0.91:1 as at FY 2006. In a similar development, the quick ratio stood at 0.67: 1 in 2007 down from 0.68: 1 in 2006. The return on capital employed stood at 12.05% in 2007 down from 21.31% in 2006. Return on Assets dropped marginally to 4.99% in 2007 from 6.42% while the return on equity stood at 11.60% in 2007 down from 13.64% in 2006.

Oando's subsidiaries include: Gaslink Nig Ltd; Eastern Horizon Gas Co. Ltd, Gaslink Benin Ltd; Oando Ghana Ltd; Oando Trading Ltd; Oando Supply and Trading Ltd; UNITAB Nig Ltd; Oando Sierra Leone Ltd; Oando Benin Ltd, TRANSGAS; Oando Energy Services Ltd; Oando Lekki Refinery Ltd; Oando Exploration & Production Ltd; Oando Port Harcourt Refinery Ltd; Oando Production & Development Company Ltd and Oando Togo SA Petroleum Products.

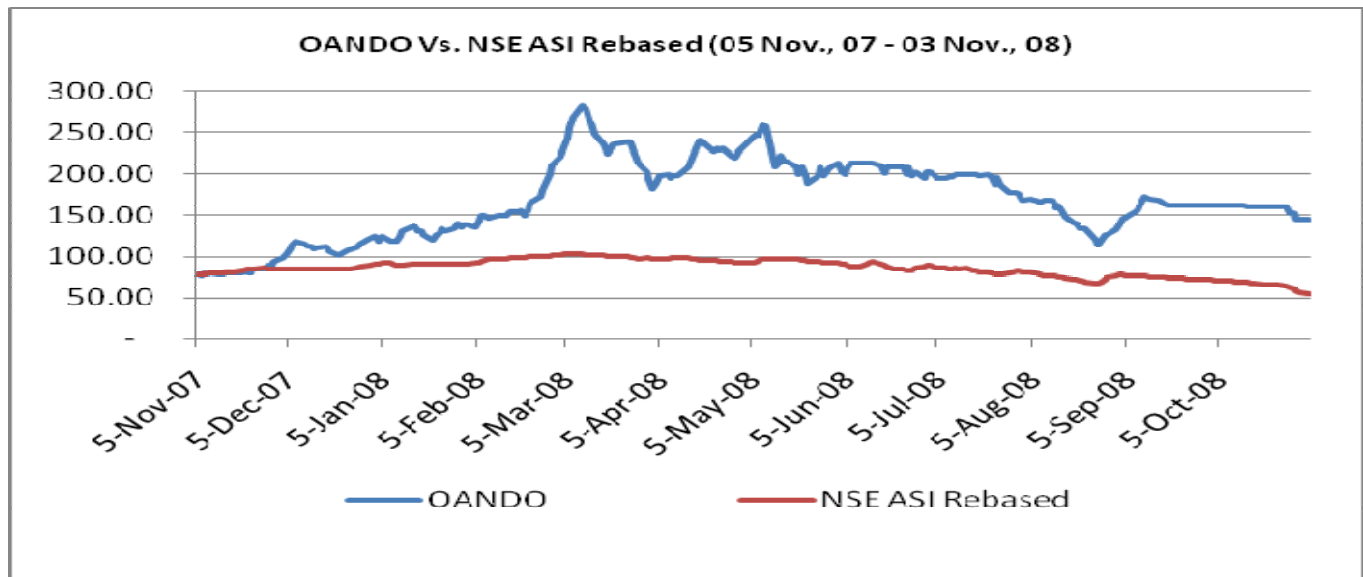
## Industry Analysis (Nmn)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Oando	185,892	6,814	5,480	2.95	11.60	8.26	17.69
Chevron	72,628	2,994	1,959	2.70	48.43	4.84	71.36
Mobil	54,542	1,764	1,131	2.07	50.31	4.35	80.15
AP	102,026	7,049	5,701	5.59	77.38	3.20	31.21
<b>Total</b>	<b>137,330</b>	<b>4,829</b>	<b>3,255</b>	<b>2.37</b>	<b>51.36</b>	<b>12.01</b>	<b>20.11</b>

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	198,644	174,281	14.00	185,892	209,200	(11.1)	242,609
PBT	7,292	4,416	65.1	6,814	3,794	73.38	9,015
PAT	5,560	3,565	56.0	5,480	3,075	96.41	7,278
PBT Margin (%)	3.67	2.53	1.14	3.67	1.89	1.78	3.72
PAT Margin (%)	2.80	2.05	0.75	2.95	1.33	1.62	3.00



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