

PZ Cussons Plc: Interim Results – Q3, February, 2010



April 21, 2010

SELL

Fair Value: N26.17

Current Price: N31.94

Valuation/Analyst Recommendation

In arriving at a fair value for PZ, we reviewed our earlier forecast and valuation in line with the current performance of the company. We revised our TO, Earning Before Interest Tax Depreciation and Amortization (EBITDA) and PAT for the FY ending May 31, 2010. We project a TO of **N60.89bn**, based on our view that the TO will contract by **24.80%**, over the previous year. We project EBITDA of **N8.29bn** based on EBITDA margin of **13.61%** and a PAT of **N5.52bn** based on a PAT margin of 9.07%. We used **3.18bn** Ordinary Shares currently in issue. The Forward Earnings Per Share (FEPS) generates **N1.74**. We estimated the Dividend Per Share (DPS) of **90kobo** based on a dividend payout of **51.91%**. Applying Enterprise Value (EV)/EBITDA multiple of **11.42x**, a P/E multiple of **12.50x**, we arrived at **N29.81** per share using EV/EBITDA multiple and **N21.72** per share using price earnings multiple. Applying a weight of **55%** on **N29.81** and **45%** on **N21.72**, we arrived at **N26.17** per share, which is our fair value. The forward earnings yield and dividend yield based, on our fair value generate **6.64%** and **3.45%** respectively. **We therefore place a SELL on PZ stock at the current market price of N31.94.**

Business Description

The principal activities of PZ is manufacturing and distribution of a wide range of consumer products and home appliances such as: detergent; soap; pharmaceuticals; cosmetics; confectionery; refrigerators; freezers; air-conditioners; plastic containers and components.

Ticker	PZ
Sector	Conglomerates
Date of Incorporation	December 04, 1948
Date of Listing	February 18, 1974
Year End	May
No of Ordinary Shares	3,176,381,636
Capitalisation (N)	101,453,629,453.84
% of Market Capitalisation	1.52
52-Week High (N)	33.00
52-Week Low(N)	15.17
YTD Return (%)	27.76
52-Week Avg. Trade	650,073
Beta Value	0.77
Current EPS (N)	1.83
Current PE(x)	17.47

Promoting Healthy Living:

The unaudited Q3, 2010 result of PZ Cussons Plc (PZ) for the period ended February 28, 2010 shows that its Turnover (TO) decreased marginally by **4.55%** to **N44.15bn**, compared with N46.26bn in the corresponding period of 2008. We reported earlier that the improvement in the sales of PZ's products with high profit margin led to the growth in the bottom-line. Profit Before Tax (PBT) increased by **23%** between 2009 and 2010 to **N5.27bn** from N4.28bn in the corresponding period of 2009. The tax provision which increased by 47.10% between 2009 and 2010 to **N1.59bn** from N1.08bn resulted in the Profit After Tax (PAT) of **N3.68bn**, up from N3.20bn in 2009, representing a growth of **14.9%**. The PBT Margin in Q3, 2010 increased over the Q3, 2009 and over the FY 2009 figure.

The PBT margin increased to **11.93%** in Q3, 2010 from **9.26%** as at Q3, 2009, and up from **9.47%** as at the end of the financial year in May, 2009. This shows that the company's total costs as a percentage of TO stands at **88.07%**, down from **90.74%** recorded in the corresponding period of 2009. PAT margin currently stands at **8.34%**, up from **6.93%** in the corresponding period of 2009, and up from **6.58%** as at FY 2009. The result also indicated that the percentage of TO, PBT, and PAT in the Q3, 2010 to the Full Year Audited TO, PBT and PAT for the period ended May, 2009 are: 54.53%, 68.69% and 69.08%, respectively. Given the current run rate, PZ may not meet its top line, but should be able to meet the bottom line if it improves on its efficiency.

A cursory look at the balance sheet position as at Q3 2010 compared with the position as at FY May, 2009 shows that the company continued its investments and upgrading of the existing plants to expand its operations to gain additional markets. Its fixed assets increased by 13.40% to N24.39bn from N21.51bn in FY 2009, while the net assets decreased marginally by 0.15% to N35.51bn from N35.57bn as at FY 2009. Cash and bank balances increased from N2.80bn in FY 2009 to N4.28bn in Q3 2010, representing a growth of 52.67%. Within the 9 months under review, PZ has been able to pay its entire short term borrowing which stood at N7.74bn as at FY 2009 but which dropped to N1.07bn as at Q2 2009. This is a positive sign as it will further improve the bottom line. PZ's working capital deteriorated from N18.44bn in FY 2009 to N15.50bn in Q3 2010. Stocks increased marginally by 0.02% to N20.64bn from N20.63bn during the review period. The trade debtors increased by 8.55% to N6.08bn from N5.60bn, while trade creditors increased significantly by 69.20% to N1bn in Q3 2010 from N592.19mn as at FY 2009. This suggests that the company may be employing cash management strategies to conserve its cash for its investment or financing needs in the future.

Our analysis of the operating environment shows that the manufacturing and distribution businesses in Nigeria are faced with infrastructure challenges (transportation and electricity). 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. PZ is a conglomerate company that utilizes great team of people to make available leading brands in selected market through world class supply chain. In order to give back to the society, the company operates a Foundation known as PZ Cusson Foundation. The Foundation has completed and commissioned a number of projects that have direct positive impacts on the welfare of its host communities and target areas. PZ adopts a Strategic Business Unit (SBU) structure in which each SBU has unambiguous spotlight on its markets; developing a profound understanding of the desires of its customers and constantly observes changes in the marketplace, which it utilizes to achieve its goals.

The company's brand continues to maintain their leadership position in the various market segments. The Haier Thermocool business continued to grow adding exciting complementary product ranges such as mobile phones, computers and water heaters. In addition, through robust R & D, existing product categories have been upgraded. Its model retail sales outlet – HT Plaza in Victoria Island, Lagos which opened last year has done well and has further boosted the brand image. The company has been encouraged by this performance to open two similar outlets in Abuja and Kano. Other products of PZ include: **Imperial Leather, Venus, Cussons Baby, Carex, Premier, Joy, Elephant Gold, Robb, Haier Thermocool, Zip, Morning Fresh, Nunu** and **Coast Milk**. The shareholding structure as at FY 2009 shows that **PZ Cussons Plc, Manchester, UK** held **63.96%** of the paid up capital. Other than this, no individual shareholder held up to 5% of the paid up capital.

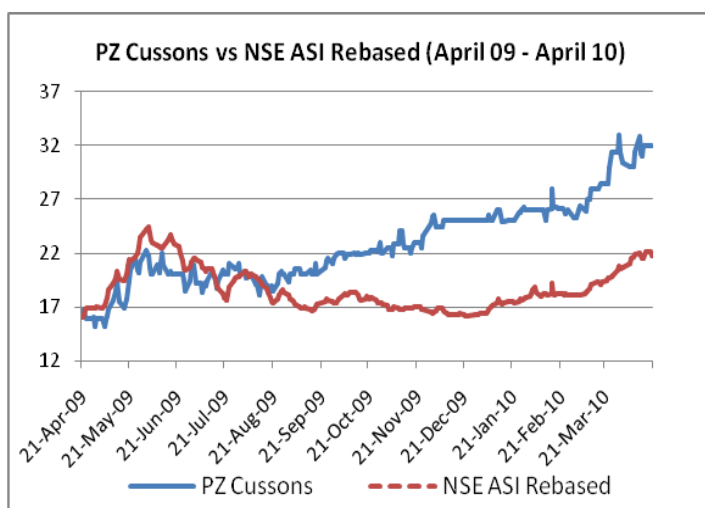
Industry Analysis (Nmn)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
PZ Cussons	80,974	7,671	5,331	6.58	13.55	1.83	17.47
UACN *	53,489	8,778	6,789	12.67	10.21	5.14	10.89
Unilever	44,481	5,661	4,094	10.47	56.78	1.08	25.78
Flour Mills	180,068	5,470	3,892	2.16	11.16	6.83	10.55

Source: Company Annual Reports as at FY 2009, NSE FACTBOOK. * FY 2008.

Financial Performance (Nmn)

	Q3 2010	Q3 2009	%Δ	FY 2009	FY 2008	% Δ	FY 2010F
Turnover	44,154	46,258	(4.55)	80,974	65,945	22.80	60,892
PBT	5,269	4,284	22.99	7,671	6,880	11.50	7,287
PAT	3,682	3,204	14.92	5,330	4,379	21.70	5,520
PBT Margin (%)	11.93	9.26	2.67	9.47	10.43	(0.96)	11.97
PAT Margin (%)	8.34	6.93	1.41	6.58	6.64	(0.06)	9.07



Directors As At May 31, 2009

Name	Position	Holding
Prof. E.C. Edozien	Chairman	4,026,775
Mr. B. Oyelola	Vice Chairman	426,810
C. Giannopoulos	Managing Director/CEO	N/A
A. Olubiyi (Mrs)	Executive Director	15,500
Mr. A. Loizos	Executive Director	N/A
K. Rodgers	Executive Director	N/A
O.T. Ifaturoti	Executive Director	9,796
A.A Raji	Executive Director	74,410
Mr. A. Kristiansson	Executive Director	N/A
M. Hayatudeen	Non-Executive Director	N/A
L. Batagarwa	Non-Executive Director	N/A
E. Ebi	Non-Executive Director	N/A

Contact us at Our Offices:

Lagos Office: UAC House (6th-8th 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, www.fsdhsecurities.com

(Email) 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.