

R.T. Briscoe (Nigeria) Plc: Interim Result – Q3'08

November 07, 2008

BUY

Fair Value: ~~NGN~~ 24.69

Current Price: ~~NGN~~ 15.53

Valuation/Analyst Recommendation

We maintained our earlier forecast on R.T. Briscoe as we are of the opinion that the company is in line with the forecast. However, we adjusted our parameters in line with the market dictates. In arriving at a fair value, we estimated Free Cash Flow (FCF) and PAT for the period between 2008 and 2011. We project a FCF of N1.47bn, N2.05bn, N2.49bn and N2.93bn and PAT of N0.74bn, N0.90bn, N1.10bn and N1.34bn for 2008, 2009, 2010 and 2011 respectively and applied a terminal growth rate of 6.65%. We use a beta value of 0.55x based on the 5-year historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSEASI). We used the coupon rate of 11.99% on the 10-year Federal Government of Nigeria (FGN) Bond issued in the month of September, 2008 as our risk free rate and a risk premium of 10.04%. Applying foregoing parameters on the Capital Asset Pricing Model (CAPM), the cost of capital (our discount rate) generates 17.47%. We used 567.3mn Ordinary Shares in issue at the date of this valuation. We adjusted for the N2.59bn short-term debt in the book of the company as at FY '07. The Discounted FCF Model generates N32.44 per share while the Discounted Future Earnings Model generates N16.94 per share. A simple average of the two models generates N24.69 which is our fair value. The forward earnings yield based on our fair value generate 5.28%. Meanwhile, our forecast DPS for the forecast period are 0.54k, 0.66k, 0.81k and 0.98k respectively. We therefore place a BUY on R.T. Briscoe Stock at the current market price of N15.53.

Business Description

The company is principally engaged in the sales and services of Toyota & Ford motor vehicles and technical equipment, including forklifts, industrial compressors, mining and drilling equipment & generating sets.

Ticker	RTBRISCOE
Sector	Automobile & Tyre
Date of Incorporation	May 09, 1957
Date of Listing	15 March, 1974
Year End	December
No of Ordinary Shares	567,300,938
Capitalisation	₦ 8,810,853,945.80
% of Market Capitalisation	0.01%
52-Week High	₦35.50
52-Week Low	₦15.52
YTD Return	(46.76%)
52-Week Avg. Trade	451,618
Beta Value	0.55
Current EPS	1.24
Current PE	12.51

Driving the Middle Class:

The unaudited Q3'08 result of R.T. Briscoe (Nigeria) Plc (R.T. Briscoe) for the period ended 30 September, 2008 showed that its Turnover (TO) increased by 22.5% to N14.69bn, compared with N12bn in the corresponding period of 2007. Profit Before Tax (PBT) increased by 19.9% between 2007 and 2008 to N840.11mn from N700.91mn in the corresponding period of 2007. The tax provision which increased by 19.9% between 2007 and 2008 to N268.84mn from N224.29mn in 2007 brought about a Profit After Tax (PAT) of N571.28mn as against N476.60mn in 2007, representing an increase of 19.9%.

Looking at the company's profit margins, the costs associated with a unit sale increased marginally between Q3 '07 and Q3 '08, but decreased over the position as at the end of the financial year in 2007. The PBT margin decreased marginally to 5.72% in Q3 '08 from 5.84% as at Q3 '07, but up from 5.54% as at the end of the financial year in December, 2007. This shows that the company's total costs as a percentage of TO stood at 94.28% in Q3 '08, up marginally from 94.16% in the corresponding period of 2007. PAT Margin currently stands at 3.89%, down marginally from 3.97% in the corresponding period of 2007 but up from 3.75% as at FY '07.

The result also indicates that the percentage of the TO, PBT, and PAT in the Q3 '08 to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: 90.49%, 93.42% and 93.69%, respectively. Given the current run rate the company may likely surpass its previous year performance.

If we consider R.T. Briscoe's 2007 Audited Reports, the working capital position shows that it may not have difficulties in meeting its short-term obligations as they fall due. As at 2007, the working capital stood at N2.27bn, a up from N1.98 in the previous year. This is also reflected in both the current ratio and quick ratio which stood at 1.52x and 0.83x respectively as at FY '07.

The TO increased in 2007 over 2006 by 23.38% to N16.24bn, while the cost of sales increased by 23.57% to N14.11bn. The Gross Profit (GP) increased by 22.12% between 2006 and 2007 to N2.13bn up from N1.75bn. The higher proportionate increase in the cost of sales than the increase in TO was responsible for the lower growth in the gross profit than the growth in TO and a marginal decline in the gross profit margin. The GP margin decreased marginally from 13.27% in 2006 to 13.13% in 2007. The Trading Profit (TP) increased by 31% in 2007 to N1.26bn from N0.96bn the EBITDA increased by 29% to N1.35bn from N1.05 within the period under review. The combination of the financial cost and the tax on earnings of the company resulted in a PAT of N609.9mn in 2007 up from N531.78mn in 2006 representing a modest growth of 14.70%. Its capital employed increased in 2007 by 21.41% to N3.06bn from N2.52bn in 2006 while its shareholders' funds increased by 17.35% to N2.82bn over the previous year of N2.39bn. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 41.14% and 21.65% respectively in 2007. The company gave a bonus of 1 for 4 and a dividend of 50k per share as benefits to its shareholders for the FY '07.

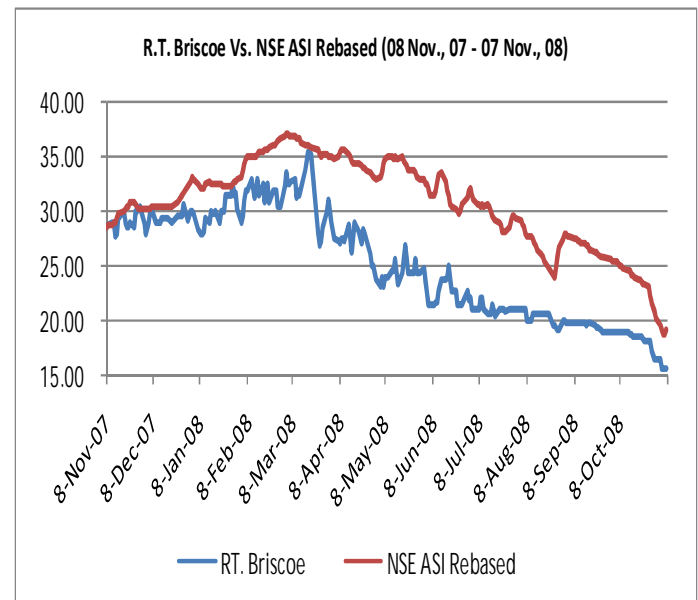
An analysis of the TO and GP of R.T. Briscoe in 2007 shows that its TO of N16.24bn was derived from Sales and Servicing Motors (93.91%), Atlas Copco (4.12%) and other transactions (1.98%). Motors, Atlas Copco (a division which deals with the sales and services of Atlas Copco brand of industrial air compressors, generating sets, mining and drilling equipment) and Other accounted for 91.52%, 7.56% and 0.92% respectively of the GP of N2.13bn. Asset & Resources Management Co. Ltd (ARM), Chief M. Ade Ojo, Classic Motors Limited and Other Investors held 40.75%, 10.54%, 8.26% and 40.45% respectively of the company's fully paid shares as at December 31, 2007.

Financial Performance & Projections

	Q3'08	Q3'07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover (N'mn)	14,694	11,997	22.48	16,239.45	13,162.02	23.38	19,975
PBT(N'mn)	840.11	700.91	19.86	899.31	745.27	20.67	975.56
PAT(N'mn)	571.28	476.60	19.87	609.94	531.78	14.70	739.06
PBT Margin (%)	5.72	5.84	(0.12)	5.54	5.66	(0.12)	4.88
PAT Margin (%)	3.89	3.97	(0.08)	3.76	4.04	(0.28)	3.70
EPS (N)	1.24	N/A	N/A	1.34	1.46	(8.24)	1.30
DPS (N)	N/A	N/A	N/A	0.50	0.50	0.00	0.52

Directors as at December 31st, 2007

Name	Position	Holding
Clement Olowokande	Chairman	312,500
Mr.D. Olatunji	Managing Director	271,719
Oluseyi Onajide	Director	250,000
Mr. A. Alli	Director	170,458,000
Adeola Sagoe	Director	37,500,00
Mr. R.O. Eso	Director	4,574,429
Mr. Rowland Esso	Director	NIL
Alhaji S.A. Bayero	Director	NIL



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