

UAC of Nigeria Plc: Interim Results – Q3, Sept. 2011



November 15, 2011

BUY

Fair Value: N43.60

Current Price: N29.51

Valuation/Analyst Recommendation

We maintain our earlier revenue and profit forecasts for UACN. In arriving at a fair value for the ordinary shares of UACN, we used Discounted Free Cash Flow Method (DCF). We project Turnover, Earnings Before Interest and Tax (EBIT), Earnings Before Interest Tax Depreciation and Amortization (EBITDA), Profit After Tax (PAT) and Dividend Payment for the periods ending December 2011, 2012, 2013, 2014 and 2015. We estimated the **Group Turnover** of N60.16bn, N70.09bn, N82.00bn, N96.35bn and N112.73bn for 2011, 2012, 2013, 2014 and 2015, respectively. We estimated **EBIT** of N8.72bn, N10.51bn, N12.30bn, N13.97bn and N15.78bn for the same period, based on EBIT Margin of 14.50% for 2011, 15% for 2012 and 2013, 14.5% for 2014 and 14% for 2015. We estimated **EBITDA** of N11.82bn, N13.89bn, N15.93bn, N17.80bn and N19.79bn for the same period. Taking into consideration the capital expenditure requirement, notional tax and working capital and other adjustments, we arrived at group free cash flow of N8.07bn, N10.11bn, N12.66bn, N15.02bn and N17.28bn for the period. We projected a **FCF** attributable to ordinary shareholders of N4.46bn, N5.56bn, N6.95bn, N8.31bn and N9.56bn, **PAT** attributable to ordinary shareholders of N3.97bn, N5.26bn, N5.90bn, N6.65bn and N7.78bn and **Dividend Payment** of N2.41bn, N3.20bn, N3.59bn, N4.04bn and N4.73bn for the period, based on a dividend payout of 60.82% from its earnings. We applied a terminal growth rate of 7.72% which is Nigeria's real GDP growth rate as at Q2 2011. We used a beta value of 0.74x based on the 5-year historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used 12.19% as our risk free rate, which is the average of the one year marginal rate on 5 year Federal Government of Nigeria Bond, and a **Market Premium** of 8.00%. Applying foregoing parameters on the Capital Asset Pricing Model (**CAPM**), the cost of equity generates 18.07%. We used the weighted cost of Debt of 10.88% and a tax rate of 32%. Weighing the market value of equity with the value of debt, the **Weighted Average Cost of Capital (WACC)** generates 15.92%. We used 1.60bn shares in issue. The **DFC Model** generates N43.60 per share, which is our fair value. Buying the stock at the current market price of N29.51, holding it to our fair value of N43.60 and adding the present value of the 5-year forecast dividend, investors will earn a total return of 72.19%. Relating this return to the WACC at 15.92%, investment in UACN shares will earn an excess return (alpha return) of 56.26%. The 2011 forward earnings yield based on our fair value generate 6.39%, while the 2011 forward Dividend Yield based on N1.47 Dividend Per Share at our fair value generates 3.38%. We therefore place a **BUY** on the Shares of UACN at the current market price for both dividend payment and capital appreciation.

Business Description

UACN is a conglomerate with activities in the following principal sectors: manufacturing & processing, warehousing & logistics and real estate.

Ticker	UACN
Sector	Conglomerates
Date of Incorporation	April 22, 1931
Date of Listing	1974
Year End	December
No of Ordinary Shares	1,600,720,322
Capitalisation (₦)	48,821,969,821
% of Market Capitalisation	0.75
52-Week High (₦)	42.5
52-Week Low (₦)	28.7
YTD Return (%)	(20.62)
52-Week Avg. Trade	798,061
Beta Value	0.74
Current EPS (₦)	7.03
Current PE (x)	4.34

Based on Group Result

A cursory look into the company's profit margins showed that PBT margin in Q3, 2011 dropped marginally over Q3, 2010 and the FY December, 2011 figure. The PBT margin decreased to 12.56% in Q3, 2011 from 13.82% as at Q3, 2010, and down from 13.56% as at the end of the financial year in December, 2010. This shows that the company's total costs as a percentage of TO stood at 87.44%, slightly higher than 86.18% recorded in the corresponding period of 2010. PAT Margin currently stood at 9.42%, down from 10.32% in the corresponding period of 2010 and 10.42% as at FY 2010. The result also indicated that the percentage of the TO, PBT, and PAT in the Q3, 2011 to the Full Year Audited TO, PBT and PAT for the period ended December, 2010 are: 85.26%, 78.95% and 77.06%, respectively. Looking at this run-rate, the company should surpass its previous year's performance.

A cursory look at the balance sheet position as at Q3 2011 compared with the position as at December 2010 shows that the company's fixed assets decreased during the review period. Its fixed assets decreased by 1.73% to N29.83bn from N30.35bn in FY 2010. Cash and bank balances increased by 99.56%, from N7.25bn in FY 2010 to N14.46bn in Q3 2011 buoyed by the sale to Tiger Brand. Short term borrowings increased by 42.78% to N10.11bn in Q3 2011, while the working capital increased marginally by 5% to N17.31bn. UACN's net assets also increased by 40.47%, to N51.14bn in Q3 2011, from N36.41bn as at FY 2010.

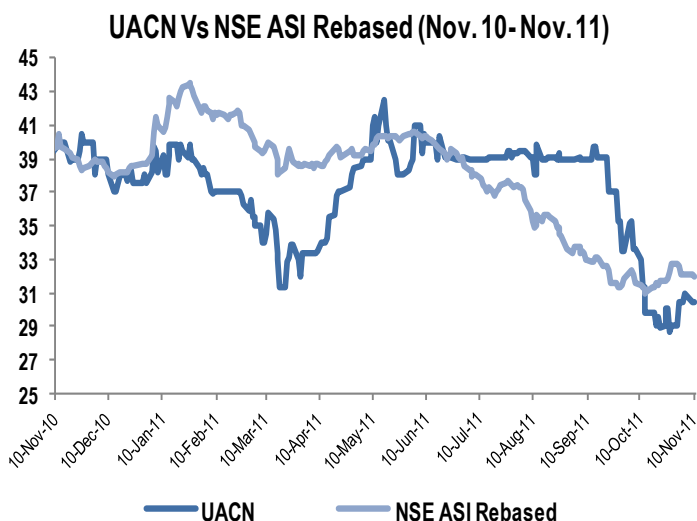
UACN is a trading conglomerate and also engages in a form of manufacturing. A review of the manufacturing industry in Nigeria shows that the industry is relatively small in relation to the size of the domestic economy. The sector has not grown remarkably over the years due to a series of factors: the neglect of the sector in favour of oil; an epileptic power supply; and the country's deficient infrastructure among others. Although the Nigerian government maintains that the industry is the main instrument of rapid growth, structural change and self-sufficiency, it has not yet pursued the necessary policies to improve the performance of the manufacturing industry. We, however, commend the ongoing efforts of the CBN to make soft loans available to Small and Medium Scale Enterprises (SMEs) and the government's proposed privatization of the Power Holding Corporation of Nigeria (PHCN). Some quoted manufacturing companies, especially those with highly capitalized stocks, did record impressive performance in the Nigerian capital market as the economy continues on the path of recovery, post the global economic and financial meltdown. The fact that some companies in the Nigerian manufacturing sector have low elasticity of demand to economic factors helped to insulate their revenue. UACN's goal is to become a food focused conglomerate. Its growth strategy envisages the building of strong regional and international corporate partnership in order to realize sustainable growth and business transformation. To achieve its aim, UACN has the following core strategies: Spin-off operating divisions and attract strategic partners to propel faster growth; Optimize existing operations through more efficient processes and systems; Grow scale in existing businesses through capacity expansion and acquisition; Invest in related Fast Moving Consumers Goods (FCMGs) categories; and To structure its property development subsidiary UPDC to meet the need of the mid-tier income earners in Lagos and Abuja.

As at December 31, 2010, the total assets of UACN were financed by a mix of equity and liabilities in the proportion of 44.53%, 55.47% respectively. The total assets of UACN stood at N102.37bn, while total liabilities stood at N56.78bn. The short term liabilities stood at N32.06bn, accounting for 56.46% of the total liabilities while the long-term liabilities stood at N24.72bn accounting for 43.54% of the total liabilities. An analysis of TO as at December 2010 showed that its business is divided into the following sectors: Food & Beverages, Real Estate, Logistics, Paints, Commercial Vehicles, Pensions, Hospitality and Others contributed 66.85%, 14.60%, 6.34%, 6.97%, 3.26%, 0.26%, 1.07% and 0.66% respectively of the total TO of N52.31bn. UACN is a diversified business with activities in the following principal sectors: Foods, Manufacturing, Automobile, Logistics and Real Estate. UACN business portfolio includes the following companies: UACN Property Development Company Plc (UPDC), Warm Spring Waters Nigeria Limited (the company has major stakes in Grand Cereals and Oil Mills Limited) and Spring Waters Nigeria Limited (SWAN). UACN's interest also includes: Chemical & Allied Products (CAP), G.M. Nigeria Limited, MDS Logistics and UACN Registrars Limited. Following the new pensions reforms in the country, UACN obtained the license of the National Pension Commission for UNICO CPFA Limited, a subsidiary of the company to operate as a Closed Pension Fund Administrator Limited, a subsidiary of the company to operate as a Closed Pension Fund Administrator.

Comparable Analysis (Nmn)							
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
UACN [^]	52,314	7,094	5,451	10.42	8.76	7.03	4.34
Unilever [^]	46,807	6,151	4,180	8.93	50.16	1.11	24.34
PZ Cussons ^{&}	65,878	8,025	5,698	7.92	12.67	1.75	17.13
Flour Mills [%]	238,797	16,445	9,450	3.96	18.77	5.06	11.87

Source: Company Annual Reports, [^]FY December 2010, & FY May 2011, [%]FY March 2011, * Current.

Financial Performance (Nmn)							
	Q3 2011	Q3 2010	%Δ	FY 2009	FY 2010	%Δ	FY 2011F
Turnover	44,600	37,110	20.18	56,604	52,314	(7.58)	60,161
PBT	5,600	5,130	9.16	8,076	7,094	(12.17)	9,732
PAT	4,200	3,830	9.66	6,177	5,451	(11.77)	6,618
PBT Margin (%)	12.56	13.82	(1.27)	14.27	13.56	(4.98)	16.18
PAT Margin (%)	9.42	10.32	(0.90)	10.91	10.42	(4.51)	11.00



Directors' Shareholding as at May 31 2010		
Director	Position	No of Shares
Senator Udo Udoma	Chairman	19,052,590
MR. Larry Ephraim Ettah	Group MD/CEO	2,346,045
Mr. Abdul Akhor Bello	Ex-Director	103,657
Mr. Joseph Ibrahim Dada	Ex-Director	85,937
Chief Samuel Olaniyi Bolarinde	Non Ex-Director	-
Dr. Mansur Muhtar, OFR	Non Ex-Director	592,612
Mrs Awuneba S. Ajumogobia	Non Ex-Director	771
Dr. Suleyman Abdu Ndanusa	Non Ex-Director	-

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