Equity Research Report — NIGERIA

FSDH Securities Limited

UACN Property: Interim Results – Q3, 2008

November 03, 2008 **BUY** **Fair Value: NG₦ 35.42** **Current Price: NG₦24.46**

Valuation/Analyst Recommendation

In view of the impressive Q3 report of UPDC and the chat we had with a key management of the company on the prospect of the company in the medium term, we are inclined to review our earlier forecast for the company. In arriving at a fair value we estimate TO, PAT, and Dividend for the period between 2008-2010 and Net Assets for 2008. We project a **TO** of **N13.02bn, N19.52bn** and **N27.33bn** based on a growth of **129%, 50%** and **40%** in 2008, 2009 and 2010 respectively. We estimate a **PAT** of **N3.25bn, N4.88bn** and **N6.83bn** respectively for the period based on PAT margin of **25%** and total dividend payment of **N1.63bn**, **N2.44bn** and **N3.42bn** based on dividend payout of **50%.** We estimate Net Assets of **N41.97bn** in 2008 based on an average of 5-year historical Ajusted Net Asset/TO multiple of **3.1x.** Applying a beta value of **0.69,** risk premium of **10.25%** and risk free rate of **12.75%** we arrived at cost of equity of **20%** (our discount factor). We used a growth rate into perpetuity of **6.65%.** The Discounted Future Earnings Model (DFEM) generates **N38.34**; The Dividend Discount Model (DDM) generates **N19.17** and the Net Asset Model (NAM) generates **N38.16.** We applied a weight of **60%, 15%** and **25%** respectively to **DFEM**, **DDM** and **NAM** to arrive at our fair value of **N35.42** per share. The forward Earnings Per Share and the Divided Per Share in 2008 generate **N2.96** and **N1.48** respectively. The earnings yield and the dividend yield based on our fair value are **8.35%** and **4.18%** respectively. **We therefore place a BUY on the stock at the current price for a capital appreciation and a dividend payment.**

Business Description

UACN Property's business is to acquire, develop and provide high quality serviced commercial and residential accommodation for its customers.

Ticker	**UAC-PROP**
Sector	**Real Estate**
Date of Incorporation	**October 6, 1997**
Date of Listing	**November 19, 1998**
Year End	**December**
No of Ordinary Shares	**1,099,999,997**
Capitalisation	**₦ 26,906,000,000**
% of Market Capitalisation	**0.36%**
52-Week High	**₦ 29.00**
52-Week Low	**₦ 19.20**
YTD Return (%)	**27.30%**
52-Week Avg. Trade	**898,721**
Beta Value	**0.69**
Current EPS(N)	**2.62**
Current PE (X)	**9.34**

Unlocking Values:

The unaudited Q3'08 results of **UACN Property Development Company Plc (UPDC)** for the period ended 30 September, 2008 showed that its Turnover (TO) grew substantially by 124% to **N11.16bn**, compared with N4.98bn in the corresponding period of 2007. Profit Before Tax (PBT) grew by 229.59% between 2007 and 2008 to **N3.82bn** from N1.16bn. The tax provision which increased by 229.1% between 2007 and 2008 to **N1.22bn** from N370.75mn in 2007 brought about a Profit After Tax (PAT) of **N2.60bn** as against N0.79bn in 2007, representing an increase of 229.6%.

A cursory look at the company's profit margins reveals an improvement in the PBT margin in Q3 '08 over Q3'07 and over the FY '07. The PBT margin increased to 34.24% in Q3 '08 from 23.27% as at Q3 '07, and up from 24.98% as at the end of the financial year in December, 2007. This shows that the company's total cost as a percentage of TO stood at 65.75% in Q3 '08 down from **76.73**% in the corresponding period of 2007. PAT Margin currently stands at 23.29%, up from 15.83% in the corresponding period of 2007 and up from 18.86% as at FY, 07.

The results also indicate that the percentage of the TO, PBT, and PAT in the Q3'08 result to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: 196.53%, 269.39% and 242.28% respectively. This shows that the company recorded huge improvements in both its top-line and has surpassed its FY, 2007 performance.

Looking at the company's audited account in 2007, the company's cost of sales increased in 2007 over 2006 by 15.45% to N4.14bn. The increase was higher than the increase in TO which was up marginally by 3.49% to N5.68bn, thereby leading to a decrease of 19.06% in gross profit to N1.54bn. This resulted in a decline in the gross profit margin from 34.66% in 2006 to 27.11% in 2007. The operating profit increased marginally by 8.70% in 2007 to N1.67bn, the increase in other income arising from the sale of investment and service charge recoveries brought about 10.79% increase in PAT to N1.07bn from N0.97bn in the previous year. Both the capital employed and the shareholders' funds increased by 26.97% to N38.62bn and 1.01% to N21.19bn respectively over the previous year. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 4.32% and 5.05% respectively in 2007. The company's net assets per share grew marginally by 1% to N19.28 from N19.07 and it paid a dividend of N0.49 as benefit to its shareholders for the financial year ended December 2007.

An analysis of the TO of UPDC in 2007 shows that its income of **N5.68bn** was derived from two major areas which are: **Business Properties (BP) N0.9bn** and **Residential Properties (RP) N4.78bn**. While BP accounted for **15.83%** of the total income, RP accounted for **84.17%** of the income. Looking at the income from the BP, **30%** of the income was derived from the Rental Income, while **62%** was derived from Sales of Investment Properties. On the other hand, **33%** of the total income from RP was derived from Luxury Apartment Sales and **34%** was derived from Premium Home Sales. On the aggregate, income from Premium Home Sales contributed the largest share of **28.31%** to the total income of the company in 2007.

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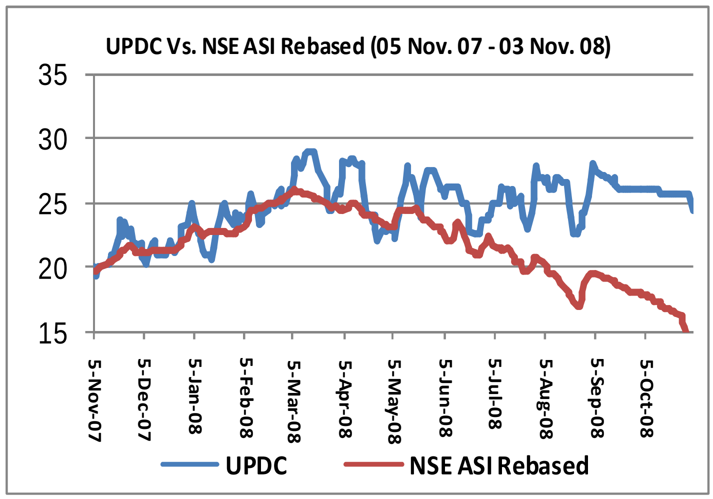
Financial Performance & Projections (Nbn)	Q3'08	Q3'07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover (N'mn)	11,155	4,980	124.0	5,676	5,485	3.49	13,015
PBT(N'mn)	3,820	1,159	229.6	1,418	1,369	3.58	4,685
PAT(N'mn)	2,598	788.24	229.6	1,070	966	10.79	3,253
Net Asset(N'mn)	N/A	N/A	N/A	21,203	21,003	0.95	41,974
NetAsset/Share(N)	N/A	N/A	N/A	19.28	19.09	0.18	38.16
PBT Margin (%)	34.24	23.27	10.97	24.98	24.96	0.02	36.00
PAT Margin (%)	23.29	15.83	7.46	18.85	17.61	1.24	25.00
Net Asset/TO(x)	N/A	N/A	N/A	3.74	3.83	0.09	3.1
EPS (N)	2.62	N/A		0.97	0.88	10.23	2.96
DPS (N)	N/A	N/A	N/A	0.49	0.35	40	1.48

E-Estimate. N/A-Not Applicable:
Sources: FSDH Estimates; Nigerian Stock Exchange(NSE); Company's Annual Report & Accounts

Directors as at 31st December, 2007		
Name	Position	Holding
Lt. Gen. M.I. Wushishi	Chairman	660,000
Mr. Abdul A. Bello	Mg. Director	NIL
Mrs. F.O Ogunde	Director	20,000
Mr. Stephen Mayaki	Non-Executive	1,084,668
Mr. Larry E. Ettah	Non-Executive	50,000
Mr. Nsikak T. Ekure	Non-Executive	88,000
Hon. (Dr.) I. Mohammed	Non-Executive	159,500
Mr. Victor Hammond	Non-Executive	NIL
Mrs. Nana Dawodu	Non-Executive	NIL



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