

UACN Property: Interim Results – Q1, 2008



May 28, 2008

HOLD

Fair Value: ~~NGN~~ 27.62

Current Price: ~~NGN~~ 27.50

Valuation/Analyst Recommendation

In arriving at a fair value for UPDC we estimate TO, PAT, and Dividend for the periods between 2008-2010 and Net Assets for 2008. We project a TO of N7.38bn, N9.22bn and N11.07bn based on a growth of 30%, 25% and 20% in 2008, 2009 and 2010 respectively. We estimate a PAT of N1.39bn, N1.73bn and N2.08bn respectively for the period based on PAT margin of 18.83% and total dividend payment of N0.6bn, N0.75bn and N0.9bn based on dividend payout of 43.11%. We estimate Net Assets of N27.69bn in 2008 based on an average of 3-year historical Net Asset/TO multiple of 3.75x. Applying a beta value of 0.66, risk premium of 5% and risk free rate of 10% we arrived at cost of equity of 13.28% (our discount factor). We also used a growth rate of 8.5%. The Discounted Future Earnings Model (DFEM) generates N33.20; The Dividend Discount Model (DDM) generates N14.31 and the Net Asset Model (NAM) generates N22.22. We applied a weight of 60%, 15% and 20% respectively to DFEM, DDM and NAM to arrive at our fair value of N27.62 per share. We therefore place a hold on the stock at the current price.

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	₦ 30,294,000,000
% of Market Capitalisation	0.26%
52-Week High	₦ 30.00
52-Week Low	₦ 19.20
YTD Return (%)	17.84%
52-Week Avg. Trade	1,348,447
Beta Value	0.66
Current EPS(N)	1.12
Current PE (X)	24.47

Building for Sustainable Value:

The unaudited Q1'08 results of UACN Property Development Company Plc (UPDC) for the period ended 31 March, 2008 released recently showed that its Turnover (TO) grew by 52.4% to N1.64bn, compared with N1.08bn in the corresponding period of 2007. Profit Before Tax (PBT) grew by 81.32% between 2007 and 2008 to N545.7mn from N300.9mn in the corresponding period of 2007. The tax provision which increased by 81.31% between 2007 and 2008 to N174.6mn from N96.3mn in 2007 brought about a Profit After Tax (PAT) of N371.04mn as against N204.6mn in 2007, representing a growth of 81.3%.

A cursory look at the company's profit margins reveals an improvement in the PBT margin in Q1 '08 over Q1'07 and over the FY '07. The PBT margin which increased to 33.31% in Q1 '08 from 27.99% as at Q1 '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 66.69% in Q1 '08 down from 72.01% in the corresponding period of 2007. PAT Margin currently stands at 22.65%, up from 19.04% in the corresponding period of 2007 and up from 18.85% as at FY, 07.

The results also indicate that the percentage of the TO, PBT, and PAT in the Q1 result to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: 28.86%, 38.48% and 34.64%, respectively. This suggests that while the company recorded a marginal improvement in its top-line, it should surpass its previous year's bottom-line with wide margins.

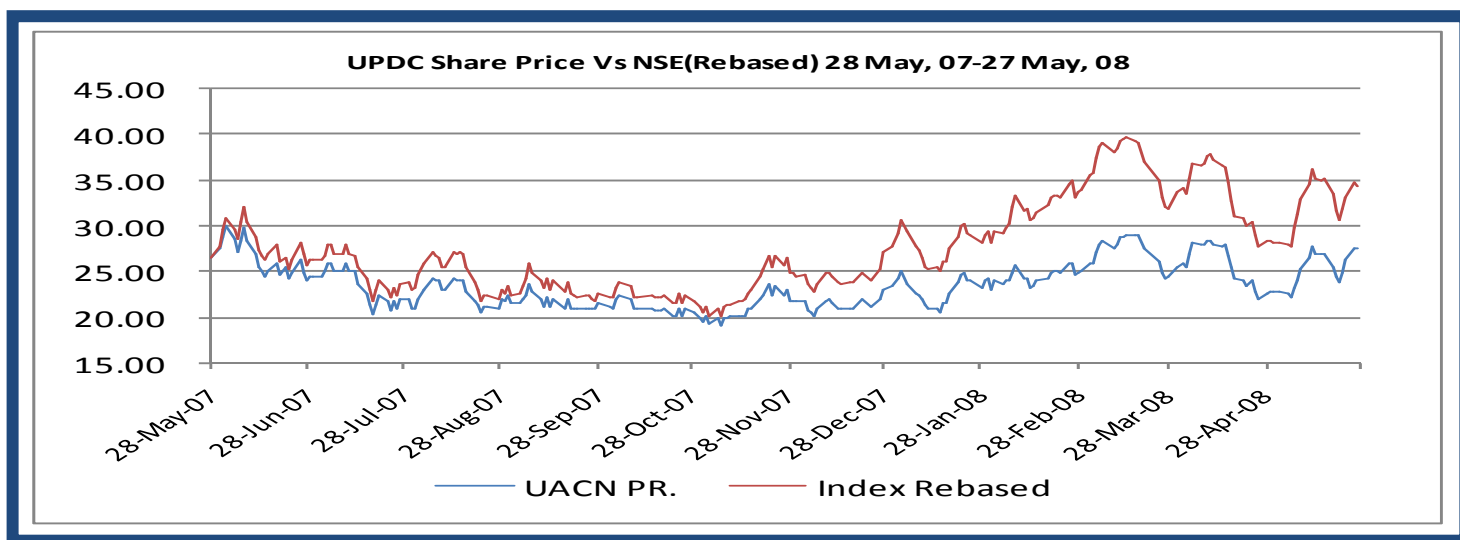
The company's cost of sales increased in 2007 over 2006 by 15.45% to N4.14bn. The increase was higher than the increase in TO which was up marginally by 3.48% to N5.68bn, thereby leading to a decrease of 19.06% in gross profit to N1.54bn. This resulted in a decline in the gross profit margin from 34.66% 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, 62% 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, 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.

Financial Performance & Projections (Nbn)							
	Q1'08	Q1'07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover (N'mn)	1,638	1,075	52.37	5,676	5,485	3.48	7,379
PBT(N'mn)	546	301	81.32	1,418	1,369	3.58	1,786
PAT(N'mn)	371	205	81.31	1,070	966	10.79	1,389
Net Asset(N'mn)	N/A	N/A	N/A	21,203	21,003	0.95	27,692
NetAsset/Share(N)	N/A	N/A	N/A	19.28	19.09	0.18	25.18
PBT Margin (%)	33.31	27.99	5.32	24.98	24.96	0.02	24.20
PAT Margin (%)	22.65	19.04	3.62	18.85	17.61	1.24	18.83
Net Asset/TO(x)	N/A	N/A	N/A	3.74	3.83	0.09	3.75
EPS (N)	1.12	0.90	24.22	0.97	0.88	10.23	1.26
DPS (N)	N/A	N/A	N/A	0.49	0.35	40	0.54

E-Estimate. N/A-Not Applicable:

Sources: FSDH Estimates; Nigerian Stock Exchange(NSE); Company's Annual Report & Accounts



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