

Impairment of UPDC Hotel Investment Affected Profitability

Tuesday, September 22, 2015

1.0 HY 2015 Performance Analysis:

The HY 2015 result of UACN Property Development Company Plc (UPDC) for the period ended June 30, 2015 shows that its Turnover (T/O) decreased by 41.55% to N3.50bn in HY 2015, compared with N5.98bn recorded in the corresponding period of 2014. This decline in turnover could be attributed to the socio-political uncertainties in Q1 2015 resulting in a lull in the property market as well as the declining occupancy levels in the hospitality business due to the delayed execution of government road works and infrastructure upgrades in the Festac/Mile 2 area of Lagos State. The cost of sales decreased by 46.04% to N2.67bn from N4.94bn recorded in HY 2014. These costs as a percentage of T/O fell to 76.27% in HY 2015 from 82.60% in HY 2014. The administrative, distribution and other expenses decreased by 8.87% to N714.05mn in HY 2015. These expenses as a percentage of T/O rose to 20.42% from 13.09% in HY 2014.

Turnover (T/O) decreased by 41.55% to N3.50bn in HY 2015.

The net finance cost decreased to N901.07mn in HY 2015.

UPDC took the decision to impair the N2.08bn equity value of the company's investment in the UPDC Hotel Limited.

The other income for HY 2015 decreased by 9.31% to N84.36mn, compared with N93.02mn recorded for the corresponding period of 2014, while the net finance cost decreased to N901.07mn from N1.36bn in HY 2014, representing a decrease of 33.75%. As a result of the declining performance of the hotel business in terms of revenue and occupancy levels, UPDC took the decision to impair the N2.08bn equity value of the company's investment in UPDC Hotel Limited. The company therefore recorded a HY 2015 Loss Before Tax (LBT) of N1.58bn down from a Profit Before Tax (PBT) of N465.45mn in 2014. Notably, PBT at a comparable scope (excluding the impairment charge of N2.08bn) stood at N504.67mn in HY 2015 from N465.45mn in 2014, representing an increase of 8.43%. There was no tax provision for HY 2015. This led to a Loss After Tax of N1.58bn in 2015, down by 671.55% from N276.06bn recorded in 2014. The fall in profitability is a reflection of declining sales, increasing finance costs and the impairment of investments in the hospitality business.

Table 2: Financial Performance (N'bn)

	HY 2015	HY 2014	%Δ	FY 2014
T/O	3.50	5.98	(41.55%)	11.70
EBIT	(1.88)*	0.35	(636.96%)	2.50
PBT	(1.58)*	0.47	(438.99%)	3.54
PAT	(1.58)*	0.28	(671.55%)	3.59

**Including an impairment charge of N2.08bn.*

Table 3: Quarterly Result Highlights (N'bn)

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Turnover	2.05	1.45	3.47	2.25	2.87
PBT	(1.81)	0.23	2.78	0.30	(0.02)
PAT	(1.76)	0.18	3.16	0.15	(0.11)

The company's profit margins, increased in HY 2015 compared with HY 2014, except the EBIT margin.

Adjusting for the impairment of the investment in UPDC Hotel, the company's profit margins increased in HY 2015 compared with HY 2014 except the Earnings Before Interest and Tax (EBIT) margin. The Gross Profit (GP) margin stood at 23.73% in HY 2015, up from 17.40% in HY 2014. The PBT Margin in HY 2015 increased over the HY 2014 figure. The PBT margin increased to 14.43% in HY 2015 from 7.78% in HY 2014 but down from 30.26% in FY 2014. The PAT margin currently stands at 14.43%, up from 4.61% in the corresponding period of 2014, but down from 30.67% as at FY 2014.

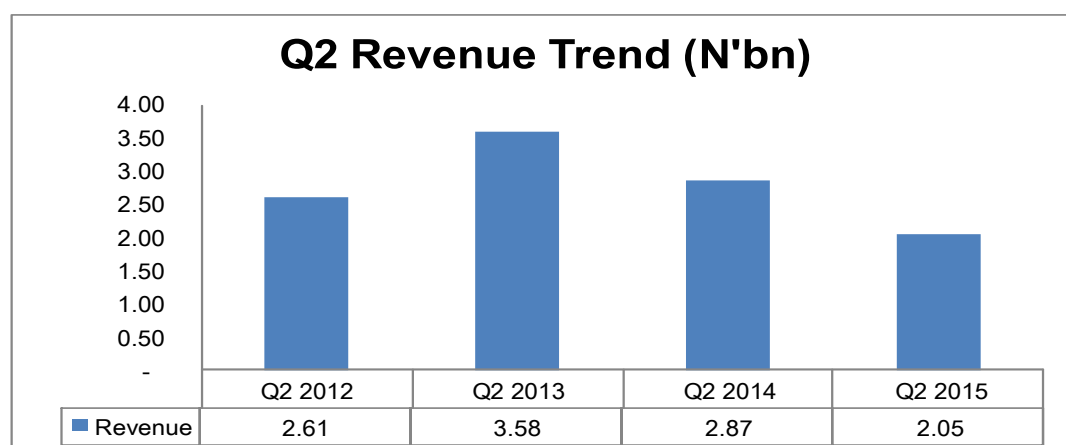
On a comparable scale PBT margin increased to 14.43% from 7.78% in HY 2014.

In the same analysis excluding the impairment, this result also indicates that the percentage of T/O, PBT, and PAT in the HY June 2015 to the Audited T/O, PBT and PAT for the period ended December 2014 are: 29.89%, 14.25% and 14.06%, respectively. Given the run rate, the company should fall short of its previous performance.

Table 4: Profitability Margins

	HY 2015	HY 2015 (Without impairment charge)	FY 2014	HY 2014
GP* Margin	23.73%	23.73%	15.64%	17.40%
EBIT Margin	(53.81%)	5.73%	21.34%	5.86%
PBT Margin	(45.11%)	14.43%	30.26%	7.78%
PAT Margin	(45.11%)	14.43%	30.67%	4.61%

*GP – Gross Profit



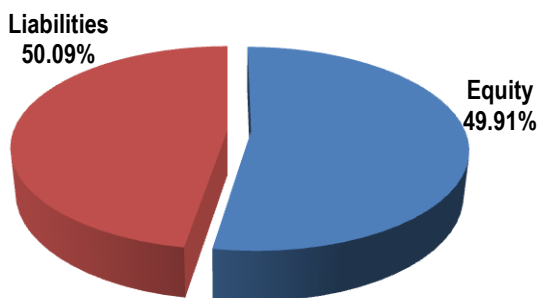
A cursory look at the statement of financial position as at HY 2015 compared with the position as at FY 2014 shows a marginal decrease in the company's fixed assets. The total fixed assets decreased by 2.11% to N48.06bn in HY 2015 from N49.09bn in FY 2014. The stock increased by 9.23% to N10.56bn in HY 2015 from N9.67bn in FY 2014. The cash and bank balances recorded a decrease by 62.97% from N126.58mn in FY 2014, to N46.88mn in HY 2015. The trade debtors and other receivables increased in HY 2015 by 13.19% to N10.42bn from N9.20bn in the FY 2014, while trade creditors and other payables also increased by 16.56% to N7.71bn from N6.61bn as at FY 2014. Net assets for the period decreased by 4.38% to stand at N34.47bn from N36.05bn in the FY 2014.

The total assets of the company which stood at N69.08bn as at HY 2015 were financed by a mix of equities and liabilities in the ratio of 49.91% and 50.09% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N26.77bn, accounting for 77.35% of the total liabilities, while the long-term liabilities which stood at N7.84bn, accounted for 22.65% of the total liabilities. The short term liabilities constituted mainly of trade and other payables and current financial liabilities. Long term liabilities constituted mainly of borrowings. Long term borrowings fell to N6.33bn in HY 2015 from N7.50bn in FY 2014. This also impacted the finance costs.

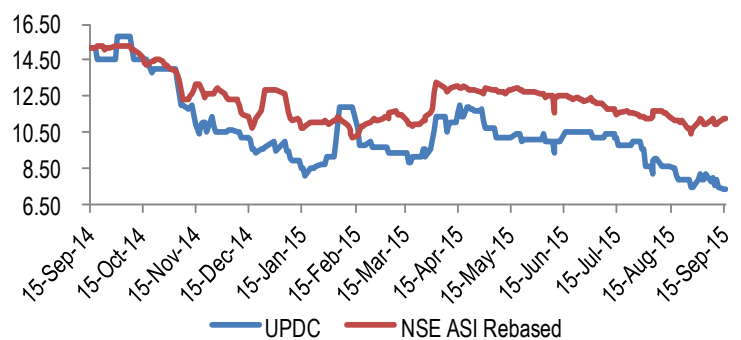
The statement of financial position as at HY 2015 compared with the position as at FY 2014 shows a marginal decrease in the company's fixed assets.

The total assets were financed by a mix of equities and liabilities in the ratio of 49.91% and 50.09% respectively.

Financing Mix



UPDC Vs NSE ASI Rebased (Sep'14-Sep'15)



1.1 FY 2014 Performance Analysis:

The tax provision decreased by 108.79% from N552.11mn to a tax credit of N48.55mn in FY 2014.

As at FY 2014, turnover increased by 3.55% to N11.70bn, compared with N11.30bn recorded in the corresponding period of 2013. The selling, distribution and administration expenses increased by 18.04% to N1.36bn in FY 2014. The company also recorded an increase in its net finance cost of N1.94bn in 2014 compared with N1.38bn in 2013. The Profit Before Tax (PBT) fell to N3.54bn, a decrease of 4.50% from N3.71bn recorded in the corresponding period of 2013. The tax provision decreased by 108.79% from N552.11mn to a tax credit of N48.55mn in FY 2014, leading to a Profit After Tax (PAT) of N3.59bn in FY 2014 from N3.16bn in the corresponding period of 2013, representing an increase of 13.74%.

The 2014 performance was premised on the backdrop of the Ebola crisis of 2014 and the warm up to the 2015 general elections.

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As at FY 2014, the profit margins decreased over the FY 2013 figures, except the PAT margin. The Gross Profit margin fell to 15.64% from 28.32% in FY 2013 while the Earnings Before Interest and Tax (EBIT) margin fell to 21.34% from 44.99% in FY 2013. The PBT margin decreased to 30.26% in FY 2014 from 32.81% as at FY 2013. However, the PAT margin stood at 30.67%, up from 27.93% in the corresponding period of 2013.

Table 5: Financial Performance (N'bn)

	FY 2014	FY 2013	Change
T/O	11.70	11.30	3.55%
EBIT	2.50	5.08	(50.88%)
PBT	3.54	3.71	(4.50%)
PAT	3.59	3.16	13.74%

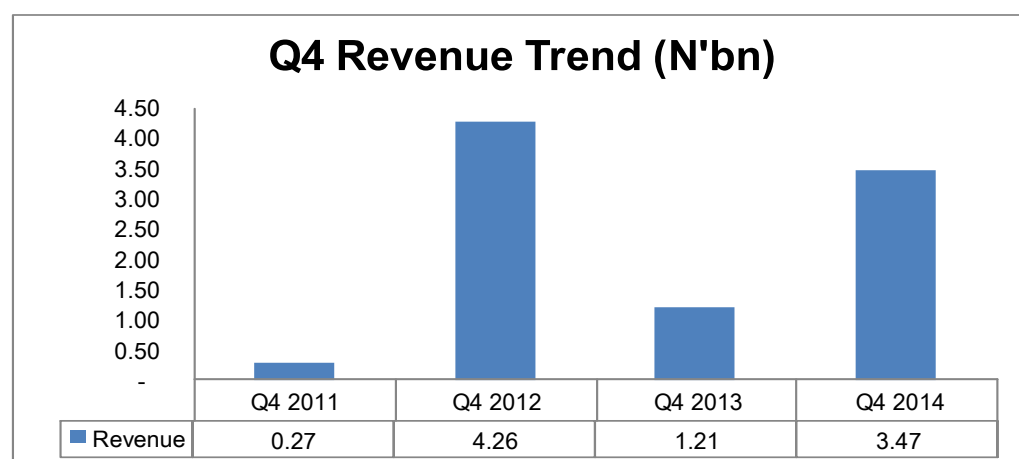


Table 6: Profitability Margins (%)

	FY 2014	FY 2013	FY 2012	FY 2011
GP* Margin	15.64%	28.32%	41.53%	49.83%
EBIT Margin	21.34%	44.99%	31.48%	53.42%
PBT Margin	30.26%	32.81%	20.39%	35.36%
PAT Margin	30.67%	27.93%	18.11%	24.62%

2.0 Drivers of Performance:

The company's performance was impacted by the following factors:

Positive Factors:

- The housing deficit in the country.
- Re-emergence of the Nigerian middle class with increased demand for decent housing.

Negative Factors:

- The socio-political uncertainties in Q1 2015 resulting in a lull in the property market.
- The weak disposable income and the purchasing power in the economy.
- Declining occupancy levels in the hotel business due to poor infrastructure in the Festac/Mile 2 area in Lagos.
- Unfavourable land policies.
- The impairment of the investment in UPDC Hotel.

2.1 Strategic Focus:

The Board and Management of UPDC are primarily focused on long term value creation and have put in place strategies to mitigate any risks as well as take advantage of emerging opportunities.

UPDC's strategy going forward includes deleveraging the business through equity capital injection. The company also plans on restructuring its portfolio to include more commercial and retail offerings which have proven to be more resilient revenue streams for the company in periods of depression. UPDC also plans to dispose of its surplus stake of 21.5% currently held in the UPDC REIT, to bring its total shareholding to 40% in order to generate liquidity. Although the lull in the stock market at the moment may make this difficult except there is a strategic investor willing to take this on.

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3.0 Business:

UPDC Plc is primarily involved in the acquisition, development, sales and management of high quality serviced commercial and residential properties, as well as retail spaces in the luxury, premium and classic segments of the real estate market. UPDC is the leader in the high-end segment of the Nigerian real estate market, with properties located in the choice areas of Lagos, Abuja and Port Harcourt. It was also the first company in the real estate sector to be quoted on The Nigerian Stock Exchange (NSE). UPDC's current portfolio includes several residential estates and commercial properties in Lagos (Cameron Green, Ikoyi; Metro Gardens, Lekki; Grandville GRA Ikeja; KPMG Towers Victoria Island etc.) Abuja (Salatu Royal Estate, Wuse II; Emerald Court Apo; Metro City, Apo; Securities and Exchange Commission Office, Central Business District etc) and Port-Harcourt (Vintage Gardens , NAFF Estate). The company also has the following ongoing and upcoming projects; Festival Mall Amuwo Odofin, Lagos; The Residences Festac, Lagos; Olive Court Agodi GRA, Ibadan; The Pinnacle Maitama, Abuja; Pineville Asaba; Golf Estate Calabar ; Victoria Mall Plaza Phase Victoria Island, Lagos, James Pinnock Place Lekki, Lagos and Alexander Miller Apartments Lekki, Lagos.

UPDC is the leader in the high-end segment of the Nigerian real estate market.

UPDC floated the UPDC Real Estate Investment Trust (REIT) in 2013 at a capital value of N26.7bn

UPDC also has a subsidiary in the hospitality business, UPDC Hotel Limited Plc. The hotel provides services such as sale of rooms, conferencing and banquet facilities as well as food and beverages. Additionally, UPDC jointly owns with Top Services Limited the property development company, Manor Gardens Property Development Company Limited.

UPDC floated the UPDC Real Estate Investment Trust (REIT) in 2013 at a capital value of N26.7bn. The REIT was listed on The Nigerian Stock Exchange (NSE) on July 1, 2013. The REIT is a property fund backed by five investment properties located in Lagos, Abuja and Aba. UPDC held 61.5% of the REIT fund as at December 31, 2014.

According to the register of members, UAC of Nigeria Plc and FBN Trustees Limited holding 46% and 8.65% respectively were the only shareholders that held more than 5% of the issued capital of the company as at December 31, 2014.

Table 7: Shareholding Structure as at December 31, 2014

Shareholders	Number of Shareholders	No. of Shares Held	% of Shareholding
Directors & Connected Persons	7	3,491,297	0.20%
FBN Trustees Nigeria Ltd	1	148,602,252	8.65%
Other Corporate Bodies	2,697	337,170,274	19.62%
Individuals	25,195	438,861,172	25.53%
UAC of Nigeria Plc	1	790,625,000	46.00%
Total	27,901	1,718,749,995	100%

According to the Register of members, no other shareholder held more than 5% of the Issued Share Capital as at December 31, 2014.

Table 8: Directors' Shareholding as at December 31, 2014

Director	Position	Holdings
Mr. Larry E. Ettah	Chairman	2,861,023 790,625,000*
Mr. Hakeem O. Ogunniran	MD/CEO	250,781
Mrs. Folasade O. Ogunde	Finance Director	183,750
Mr. Abdul A. Bello	Non-Executive	156,250
Mrs. Halima T. Alao	Non-Executive	39,493
Mr. Adekunle O. Awojobi	Non-Executive	148,602,252*
Prof. Okon A. Ansa	Non-Executive	Nil

***Indirect Holdings – Mr. Ettah holds shares on behalf of UACN while Mr. Awojobi holds for FBN Trustees Nig. Ltd**

Table 9: Company Summary

Ticker	UAC-PROP
Sector	Construction/Real Estate
Sub-sector	Real Estate Development
Date of Incorporation	October 06, 1997
Date of Listing	November 19, 1998
Financial Year End	December
Number of Fully Paid Share	1,718,749,995
Current Capitalization(NGN)	12,753,124,962.90
NSE Capitalization (NGN)	10,451,421,746,269.60
% of NSE Capitalisation	0.12%
52 Week high NGN	15.85
52 Week low NGN	7.42
YTD Return (%)	(16.63%)
52 Weeks Average Volume Traded	244,973
Trailing EPS NGN	1.26
Trailing P/E Ratio (X)	5.88

**As at September 17,2015*

4.0 Product Analysis

UPDC is a leader in the high-end segment of the Nigerian real estate market and it is involved in the property development, sales and management as well as hospitality services.

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4.1 Property Development, Sales & Management

Property development, sales and management represent the core services of UPDC representing 86.16% of total revenue in 2014. UPDC's main focus is on the luxury, high-end segment of the industry. The company has some key landmark residential and commercial developments including the following: Cameron Green, Ikoyi; Metro Gardens, Lekki; Grandville GRA Ikeja; KPMG Towers, Victoria Island; Salatu Royal Estate, Wuse II; Emerald Court Apo; Metro City, Apo; Securities and Exchange Commission Office, Central Business District, Vintage Gardens and NAFF Estate.

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Upcoming projects include; in the premium residential category, the 50-unit Olive Court, Agodi Ibadan, a joint venture with the Oyo State Government and the 20-unit Pineville in Asaba. UPDC expects to deliver Olive Court Phase 1 and 2 and the Pineville in 2015. In Lagos, the refurbishment of Festac Block B into 192 residential apartments named 'The Residences' started in September 2014 with 33 units completed in 2014. UPDC expects to deliver the remaining units in 2015. In Calabar, construction has commenced on the 200-unit residential development located at Summit Hills, Calabar and being executed as a joint venture with the Cross River State Government. This project is planned for phased completion over 3 years.

In the luxury residential category, finishing works are currently in progress on the Pinnacle Apartment Maitama, Abuja. This project is expected to be delivered to buyers by the end of 2015. On the retail side of the business, the Festival Mall project is at an advanced stage of completion with the commencement of finishing works and anchor tenants such as Shoprite, Silverbird Cinemas and key line customers receiving their Beneficial Occupation. According to UPDC, the mall is 96% pre-let and scheduled for commissioning in 2015.

These ongoing projects will put UPDC in place to take advantage of the rise in demand for flats and retail outlets, and also position the company to take advantage of the lack of a formal retail channel in the Festac axis of Lagos State.

A number of other private estate developers and managers have emerged providing major competition for UPDC. Some of them are: Lekki Gardens Estate Limited, ARM Properties and Admiralty Homes.

4.2 Hospitality

The business unit in this sector is Golden Tulip. Golden Tulip is held and managed by the subsidiary company UPDC Hotels Limited. It is a 471 room hotel with nine meeting rooms and outdoor functional space for up to 1,000 guests. The hotel provides services such as sale of rooms, conference halls as well as food and beverages services. This business segment has fallen short of projected occupancy levels. The occupancy levels in December 2013 averaged 44% while from January to June 2015 it averaged 31%. It has also fallen below the 2013 performance in terms of revenue. UPDC Hotels contributed 13.84% to total revenue in 2014, down from 17.44% contributed in 2013. UPDC has taken the decision to impair the N2.08bn equity value of UPDC's investment in the hotel. A professional valuation has commenced to be concluded before the end of September 2015. Any further adjustments arising from the valuation exercise will be passed into 2015 accounts. UPDC expects that the completion and opening of the Festival mall and the Residences will drive more traffic to the hotel and improve its performance. The completion of ongoing road and rail works in the Festac/Mile 2 area will also improve the hotel's performance. Other major competing brands in the hospitality segments of the market are: Transcorp Hotels, Sheraton Hotels, Protea Hotels, Lagos Oriental Hotel, Southern Sun and Intercontinental Hotel.

A number of other private estate developers and managers have emerged providing major competition for UPDC.

The occupancy levels in December 2013 averaged 44% while from January to June 2015 it averaged 31%.

	2014 (N'bn)	Contribution	2013 (N'bn)	Contribution
Sales of Property Stock	9.02	77.12%	7.86	69.61%
Rental Income	0.56	4.77%	1.11	9.81%
Rest House Revenue	-	0.00%	0.01	0.06%
Project Management Fees	0.50	4.27%	0.35	3.08%
UPDC	10.08	86.16%	9.33	82.56%
UPDC Hotels Limited	1.62	13.84%	1.97	17.44%
Group Total	11.70	100.00%	11.30	100.00%

5.0: SWOT Analysis

<p>5.1 Strengths:</p> <ul style="list-style-type: none"> ❖ Strong brand name. ❖ Good knowledge and expertise of domestic market. ❖ Ability to capture niche market. ❖ Strong support from UACN. ❖ Long standing reputation and reliability. ❖ Professional and technical competence. 	<p>5.2 Weaknesses:</p> <ul style="list-style-type: none"> ❖ Declining occupancy levels in the hotel business. ❖ Rising interest cost.
<p>5.3 Opportunities:</p> <ul style="list-style-type: none"> ❖ Large market size in Nigeria. ❖ Huge housing deficit in Nigeria. ❖ Favourable mortgage reforms. ❖ Emerging opportunities in the commercial, hospitality, retail and industrial segments of the market. 	<p>5.4 Threats:</p> <ul style="list-style-type: none"> ❖ Inadequate physical infrastructure in the country. ❖ Emerging competition in the industry. ❖ Rising interest rate in Nigeria. ❖ Unfavourable land policies. ❖ Lull in the investment properties market. ❖ Devaluation of the Naira.

6.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- Expected growth of the retail business.
- Technical relationship with the parent company.
- The competitive position of the company in the industry.
- Strong market presence.
- Huge housing deficit in Nigeria.
- Ability to capture the niche market.
- Additional investment properties that will be added to portfolio.
- Opportunities in the mid-tier segment and commercial/retail categories.
- Favourable Mortgage reforms to increase credit to the sector.
- Expected increased contribution from the hotel business.

Negative Factors:

- The weak consumer spending power.
- Unstable macroeconomic environment.
- Emerging competition in the industry.

Looking at the medium to long term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate a Turnover of N10.35bn, N12.72bn, N14.53bn, N16.39bn and N18.18bn for the periods ending December 2015, 2016, 2017, 2018 and 2019. We estimate EBIT of N2.59bn, N4.01bn, N4.47bn, N4.86bn and N5.10bn, and EBITDA of N3.57bn, N5.18bn, N5.90bn, N6.62bn and N7.29bn for the same period using EBIT margins of 25.03%, 31.51%, 30.76%, 29.67% and 28.07% respectively. Our PBT forecasts for the periods are: N2.66bn, N4.58bn, N5.66bn, N6.61bn and N7.25bn. Adjusting for tax, our PAT forecasts are N2.31bn, N3.99bn, N4.93bn, N5.75bn and N6.31bn. PAT Margin for the period are 22.31%, 31.34%, 33.91%, 35.06% and 34.69%. Our forecast final dividend for the FY 2015 is N0.44 per share.

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Table 11: Statement of Financial Position Forecast (2015 - 2019) (N'bn)					
	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Property, Plant and Equipment	15.98	16.02	16.06	16.10	16.15
Intangible Assets	0.03	0.03	0.03	0.03	0.03
Investment Properties	16.98	19.89	22.57	25.26	27.64
Investments in associates and joint ventures	19.60	22.96	26.06	29.16	31.92
Long Term Assets	52.59	58.90	64.73	70.55	75.74
Stock (Inventory)	9.92	11.59	13.13	14.67	16.04
Trade Debtors	1.95	2.40	2.74	3.09	3.43
Other Debtors, Advances & Prepayment	4.76	5.86	6.69	7.55	8.37
Deposits/Balances & Cash	(2.51)	(4.99)	(7.30)	(9.40)	(11.42)
Other Assets	2.19	0.45	(0.76)	(1.72)	(1.78)
Current Assets	14.13	14.86	15.26	15.90	16.42
Total Assets	68.91	74.20	79.22	84.74	90.38
Trade Creditors	0.93	1.15	1.31	1.48	1.64
Other Creditors & Accruals	4.58	5.62	6.42	7.25	8.04
Current Year Dividend Payable	0.76	1.31	1.62	1.89	2.07
Current Income Tax Liabilities	0.35	0.60	0.74	0.86	0.95
Bank Overdraft and Current Portion of Borrowing	16.03	11.03	11.03	11.03	11.03
Current Liabilities	22.64	19.70	21.11	22.50	23.72
Working Capital/ Net Current Asset	(8.51)	(4.85)	(5.86)	(6.59)	(7.30)
Capital Employed	46.27	54.50	58.11	62.24	66.66
Borrowings	7.50	12.50	12.50	12.50	12.50
Deferred Taxation Liabilities	1.04	1.04	1.04	1.04	1.04
Deferred Income	0.14	0.14	0.14	0.14	0.14
Long Term Liabilities	8.69	13.69	13.69	13.69	13.69
Total Liabilities	31.32	33.39	34.80	36.18	37.40
Total Net Assets	37.58	40.81	44.43	48.55	52.97
Paid Up Share Capital	0.86	0.86	0.86	0.86	0.86
Share Premium	3.94	3.94	3.94	3.94	3.94
Retained Earnings	32.78	36.01	39.62	43.75	48.17
Total Reserves	36.72	39.95	43.57	47.70	52.11
Total Equity	37.58	40.81	44.43	48.55	52.97
Total Equity & Liability	68.91	74.20	79.22	84.74	90.38

Table 12: Income Forecast (2015 - 2019) (N'bn)

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Turnover (Net Sales)	10.35	12.72	14.53	16.39	18.18
Cost of Sales	(7.40)	(9.10)	(10.39)	(11.72)	(13.00)
Gross Profit	2.95	3.63	4.14	4.67	5.18
Admin, Selling & Distribution Expenses	(1.24)	(1.53)	(1.74)	(1.97)	(2.18)
Depreciation	(0.97)	(1.17)	(1.43)	(1.76)	(2.19)
Other Operating Income	0.20	0.25	0.28	0.32	0.35
EBIT	2.59	4.01	4.47	4.86	5.10
EBITDA	3.57	5.18	5.90	6.62	7.29
Net Interest Income	(1.91)	(1.74)	(1.44)	(1.20)	(1.07)
PBT	2.66	4.58	5.66	6.61	7.25
Taxation	(0.35)	(0.60)	(0.74)	(0.86)	(0.95)
PAT	2.31	3.99	4.93	5.75	6.31

Table 13: Earnings Forecast (2015 - 2019)

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
EBITDA Margin	34.45%	40.72%	40.59%	40.41%	40.12%
EBIT Margin	25.03%	31.51%	30.76%	29.67%	28.07%
PBT Margin	25.65%	36.04%	39.00%	40.32%	39.89%
PAT Margin	22.31%	31.34%	33.91%	35.06%	34.69%
EPS(N)	1.34	2.32	2.87	3.34	3.67
DPS(N)	0.44	0.76	0.94	1.10	1.21
Dividend Payout	32.86%	32.86%	32.86%	32.86%	32.86%
Earnings Yield *	10.25%	17.70%	21.87%	25.52%	28.00%
Dividend Yield *	3.37%	5.82%	7.19%	8.39%	9.20%
P/E Ratio*	9.76x	5.65x	4.57x	3.92x	3.57x
Number of Shares ('bn)	1.72	1.72	1.72	1.72	1.72
ROCE	5.60%	7.36%	7.69%	7.81%	7.65%
ROE	6.14%	9.77%	11.09%	11.84%	11.91%
Collection Days	69	69	69	69	69
Payment Days	46	46	46	46	46
Inventory Turnover	0.75	0.79	0.79	0.80	0.81
Asset Turnover	0.15	0.17	0.18	0.19	0.20
Current Ratio	0.62	0.75	0.72	0.71	0.69
Quick Ratio	0.19	0.17	0.10	0.05	0.02
Debt Ratio (Total Liabilities /Total Assets)	0.45	0.45	0.44	0.43	0.41
Gearing Ratio (Long Term Debt /Equity)	19.96%	30.63%	28.14%	25.75%	23.60%
Interest Cover	1.04	1.63	1.98	2.29	2.45
Net Asset Value Per Share	21.87	23.74	25.85	28.25	30.82

*At Our Fair Value of N13.10

7.0 Valuation:

In arriving at a fair value for the shares of UPDC, we used the Residual Income Valuation Method. We applied a terminal growth rate of 5.99% and used a beta value of **0.61x**. We used the yield of **15.95%** as our risk free rate, and market premium of **11.15%**. Applying the foregoing parameters on the Capital Asset Pricing Model (**CAPM**), the cost of equity generates **22.72%** which is our discount rate for the forecast period. The equity value of the Company derived from the present value of the residual income in the forecast period, that of the terminal income and the net asset value as at December 2014 generates N22.52bn.

The fair value for UACN Property Development Company Plc is N13.10.

We used the cost of equity of 13% in the normalised period. Using **1,719mn** shares in issue our model generates **N13.10** per share which is our fair value for the period ending December 2015. We therefore place a **BUY** on the shares of the Company at the current market price of **N7.42**. The Net Asset Per Share (NAPS) is estimated at **N21.87**, we note that the fair value of the company is at a 40.07% discount to its NAPS.

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