

Wednesday, June 24, 2015

Bridging the Infrastructure Gap

1.0 FY 2014 Performance Analysis:

The full year result of Julius Berger for the period ended December 31, 2014 shows that its Turnover (T/O) declined by 7.49% to N196.81bn, compared with N212.74bn recorded in the corresponding period of 2013. This was as a result of lower revenue from building works and services business segments compared with 2013, while there was an improvement in its civil works business segment. The cost of sales declined by 9.20% to N146.31bn from N161.13bn recorded in 2013, mainly driven by cost savings initiatives and improved strategies. The company recorded a drop in gross profit by 2.15% to N50.49bn in 2014. The company's administrative expenses as a percentage of turnover increased from 15.34% in 2013 to 16.71% in 2014 as a result of the security challenges in the country.

The turnover in FY 2014 declined by 7.49% to N196.81bn.

The operating income for FY 2014 decreased by 7.28% to N17.49bn compared to N18.87bn recorded for the corresponding period of 2013, while the finance charges increased from N2.96bn to N4.59bn, representing an increase of 55.09% from the previous year. The increase in the company's finance charges was due to the significant increase of 100.64% to N31.87bn in 2014 as a result of its bank overdraft portion of its borrowing compared with N15.88bn in 2013, while its long-term borrowing decreased by 37.52% to N6.14bn in 2014, compared with N9.83bn in 2013. The increase in the bank overdrafts comprised of various facilities obtained by Julius Berger to meet its import financing and working capital requirements. The company's 2014 Profit Before Tax (PBT) stood at N13.13bn from N16.22bn in 2013. Tax provision decreased by 41.50% from N8.37bn in 2013 to N4.89bn in 2014, which led to a Profit After Tax of N8.24bn from N7.85bn recorded in 2013.

Table 2: Quarterly Result Highlights (N'bn)

	FY 2014	FY 2013	Change (%)
Turnover	196.81	212.72	(7.48%)
EBIT	17.32	19.16	(9.60%)
PBT	13.14	16.22	(19.02%)
PAT	8.24	7.85	4.92%

Table 3: Fourth Quarter Result Highlights (N'bn)

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Turnover	39.83	54.15	55.13	47.69	75.26
PBT	3.40	4.26	2.88	2.60	8.72
PAT	2.60	2.74	1.59	1.31	4.07

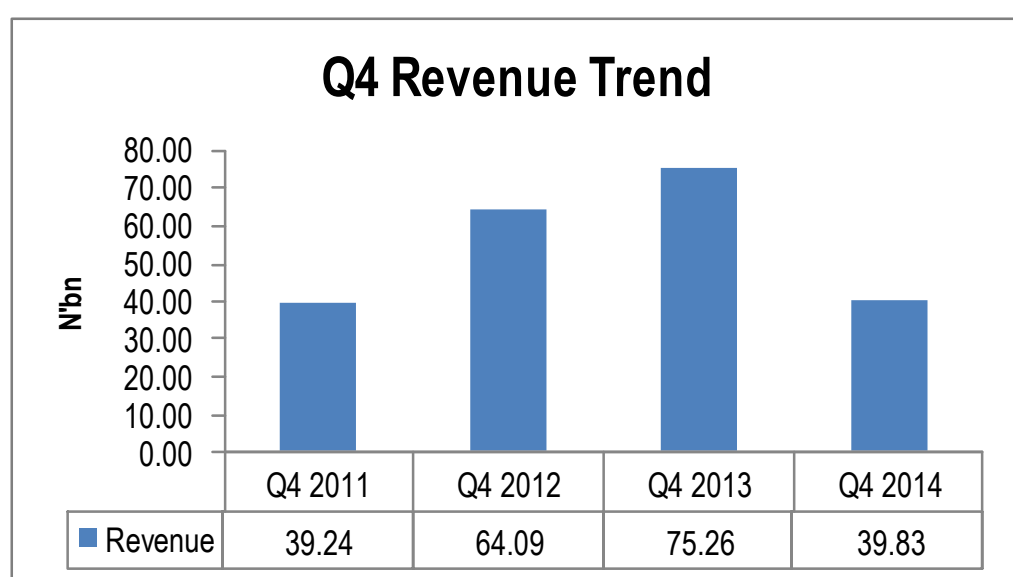
The company's gross profit margin recorded an increase to 25.66% in FY 2014 compared with 24.26% in FY 2013. The PBT margin decreased to 6.67% in 2014 from 7.62% as at 2013. PAT margin stood at 4.19% in 2014, up from 3.69% in the corresponding period of 2013.

The company's gross profit margin increased in FY 2014, while the PBT margins decreased but PAT margins increased.

Table 4: Profitability Margins

	FY 2014	FY 2013	FY 2012
GP* Margin	25.66%	24.26%	22.25%
EBIT Margin	8.80%	9.01%	7.05%
PBT Margin	6.67%	7.62%	6.12%
PAT Margin	4.19%	3.69%	3.98%

*GP – Gross Profit

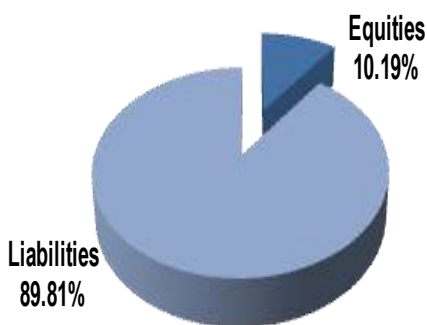


A cursory look at the balance sheet position as at FY 2014 compared with the position as at FY 2013 shows a marginal increase in the company’s fixed assets. Its total fixed assets increased by 0.55% to N68.37bn from N68bn in FY 2013; stock decreased by 43.84% to N12.11bn in 2014 from N21.57bn in FY 2013. The company’s cash and bank balances recorded an increase by 14.64% from N20.48bn in FY 2013, to N23.47bn in FY 2014. Its trade debtors increased in FY 2014 by 15.69% to N50.21bn from N43.40bn in the FY 2013, while trade creditors increased by 56.97% to N28.16bn from N17.94bn as at FY 2013. The company’s working capital stood at N19.20bn from N18.44bn in FY 2013, while net assets for the period decreased by 14.38% to stand at N26.10bn from N30.48bn in the FY 2013.

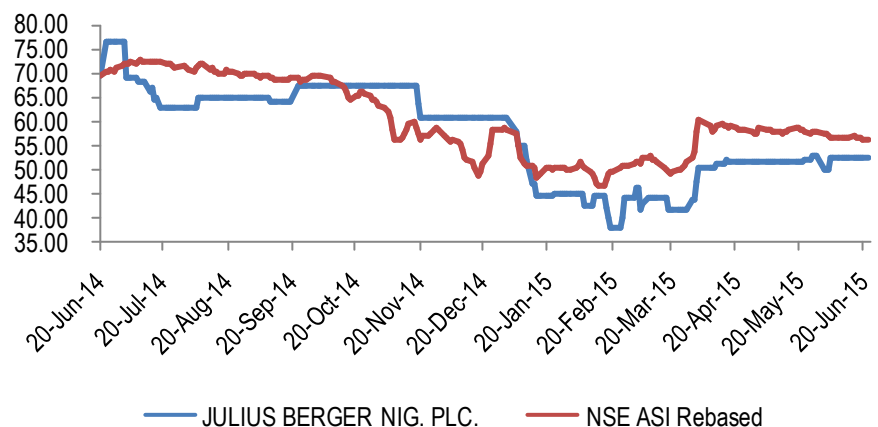
The total assets of the company which stood at N256.05bn as at FY 2014 were financed by a mix of equities and liabilities in the ratio of 10.19% and 89.81% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N115.71bn, accounting for 50.32% of the total liabilities, while the long-term liabilities which constituted mainly of amounts due to customers under construction contracts stood at N114.24bn, accounting for 49.68% of the total liabilities.

The total assets were financed by a mix of equities and liabilities in the ratio of 10.19% and 89.81% respectively.

Financing Mix



Julius Berger VS NSE Rebased (Jun'14-Jun'15)



1.1 Q1 Performance Analysis:

The increase in the finance cost was partly due to the impact of the currency devaluation on the foreign debt.

As at Q1 2015, turnover decreased by 8.81% to N43.49bn, compared with N47.69bn recorded in the corresponding period of 2014. The administrative, selling and distribution expenses increased marginally by 0.97% to N8.09bn. The company also recorded a significant increase in its net finance cost to N131.88mn from a net finance income of N469.57mn in 2014. The increase in the finance cost was partly due to the impact of the currency devaluation on the foreign debt. The Profit Before Tax (PBT) fell to N2.12bn, a decrease of 18.46% from N2.60bn recorded in the corresponding period of 2014. The tax provision also decreased by 8.81% to N1.09bn from N1.19bn, leading to a Profit After Tax (PAT) of N1.03bn in Q1 2015 from N1.41bn in the corresponding period of 2014, representing a decrease of 26.64%. We however note that construction activities slowed down in Nigeria towards the end of the year 2014 and in Q1 2015 because of the general elections in the country. We expect this to pick up as soon as the current government settles down.

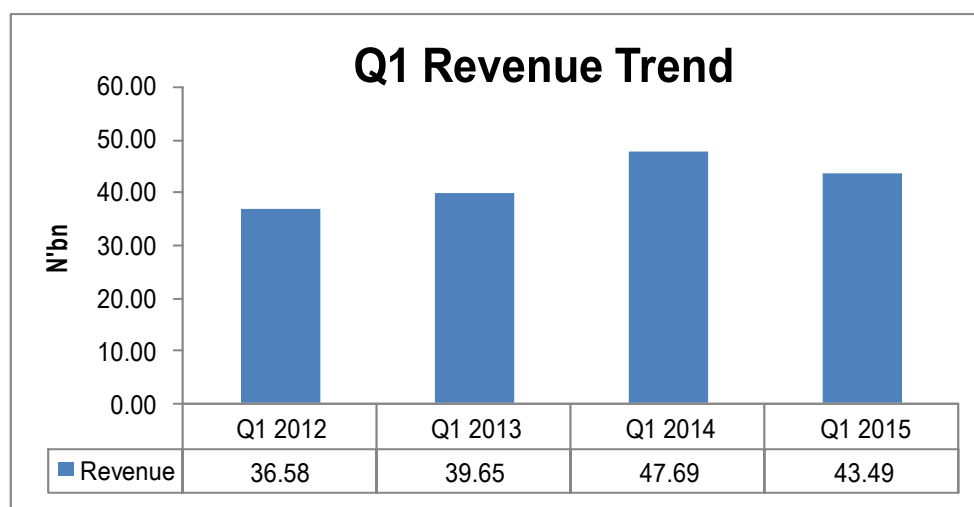
The PBT Margin decreased over the Q1 2014, and the Financial Year ended December (FY), 2014 figure. The PBT margin decreased to 4.87% in Q1 2015 from 5.45% as at Q1 2014, and from 6.67% as at the end of FY 2014. Also, the PAT margin currently stands at 2.37%, down from 2.95% in the corresponding period of 2014, and also down from 4.19% as at FY 2014. The result also indicates that the percentage of T/O, PBT, and PAT in the Q1 2015 to the Audited T/O, PBT and PAT for the period ended December 2014 are: 22.10%, 16.13% and 12.53%, respectively. Given the run rate, the company is unlikely to meet its previous year's performance.

Table 5: Profitability Margins

	Q1 2015	Q1 2014	Q1 2013	Q1 2012
GP Margin	22.95%	20.47%	11.20%	10.28%
EBIT Margin	5.18%	4.47%	4.23%	3.75%
PBT Margin	4.87%	5.45%	5.54%	5.22%
PAT Margin	2.37%	2.95%	3.14%	2.72%

Table 6: Financial Performance (N'bn)

	Q1 2015	Q1 2014	Change
T/O	43.49	47.69	(8.81%)
EBIT	2.25	2.13	5.71%
PBT	2.12	2.60	(18.46%)
PAT	1.03	1.41	(26.64%)



2.0 Drivers of Performance:

The company's performance was hinged on the following:

- The drop in the building works and services business segment of the company.
- The security challenges in the country which increased operating costs
- Devaluation in the currency.
- Significant increase in finance charges.
- Partnership and shared vision with Nigerian Government to improve the nation's infrastructure.
- High level of confidence in the company to deliver high quality standard structures.

Julius Berger is expected to be part of the infrastructure build up in Nigeria with considerable positive impact on its earnings in the medium-to long term.

2.1 Strategic Focus:

The company is involved in a number of construction works in major cities across the country. As the country goes into a new expansion phase, Julius Berger is expected to be part of the infrastructure build up in Nigeria with considerable positive impact on its earnings in the medium-to long term. The company is involved in the current expansion of the Lagos-Ibadan Expressway handling the Lagos-Sagamu portion. The company believes that the improvements in its construction methods for the project result not only in a long lasting solution for the Lagos-Ibadan Expressway, but also provide for major advances in road construction standards in Nigeria.

Julius Berger has also been linked to the construction of the second Niger Bridge which is expected to be completed by the H1 2016. The total value of the project is expected to be N130bn and will involve a Public Private Partnership (PPP) with the Ministry of Works and is expected to be managed by the Nigerian Sovereign Wealth Fund (SWF). The company expects to benefit greatly from its vast experience and renowned expertise and favourable forged Public Private Partnership (PPP) with the Nigerian Government.

The company is also involved in the construction of a 13 story building in Lagos which is expected to include ancillary facilities, such as swimming pool, generator house and a detached four-storey residence. Large scale projects like this with limited competition provide Julius Berger with more sustainable stream of income over the medium-long term.

3.0 Business:

Julius Berger offers integrated construction solutions and related services. The company specializes in executing complex building and construction works that require technical expertise and Nigeria-specific knowhow. The company's core competencies cover planning, design, engineering, construction, maintenance and operation, for infrastructure, industry and building projects. The company has six (6) subsidiaries of which it owns over 90% shareholding, these subsidiaries include Abumet Nigeria Limited, Julius Berger Services Nigeria Limited, Julius Berger Medical Services Limited, PrimeTech Design and Engineering Nigeria Limited, Julius Berger Investments Limited, Julius Berger International GmbH.

Julius Berger offers integrated construction solutions and related services.

In June 2015, Bilfinger SE, a minority shareholder decided to dispose of its 30.31% stake in Julius Berger to long term Nigerian investors on or before the end of June 2015. This proposed transaction will lead to the exit of the representative of Bilfinger SE from the board of Julius Berger. Bilfinger's decision to divest from Julius Berger was based on the company's strategic realignment from a construction company to an engineering and services group in the last decade. We made all efforts to speak to the management of the company on this but we were not successful.

The company's business is supported by vertically integrated operations, which augment efficiency and timely project execution.

The company's business is supported by vertically integrated operations, which augment efficiency and timely project execution. The subsidiaries and additional facilities make it possible to realize multifaceted construction projects.

The company operates three business segments. These are: civil works, building works and services. The details are as follows:

Civil Works: This segment is responsible for providing professional services in the areas of engineering, construction and maintenance of various infrastructures. The activities of this segment include building and refurbishing airports, designing and constructing auxiliary buildings for factories, oil and gas installations and power stations for the oil, gas and energy sector and the planning and development of traffic networks, with the segment being responsible for developing essential traffic networks in and around the cities of Abuja, Lagos and Uyo.

The company operates three business segments namely civil works, building works and services.

Building Works: The building works segment is responsible for the design and building of administration, commercial and industrial buildings, hotels, hospitals, airport terminals, sports facilities and residential districts. This segment also has a furniture segment unit which supplies furniture and interior fittings.

Services: This segment provides facility management solutions, which ensure the useful life of a building is extended and maintenance costs are significantly reduced. The services provided through this segment include a computer assisted facility and resource management.

Table 7: Directors' Shareholding as at March 18, 2015

Director	Position	Holdings
AVM (Dr.) Mohammed Nurudeen Iman, CFR	Chairman	782,383
Engr. Heinz Stockhausen (German)	Vice Chairman	49,574
HRH Igwe Peter Nwokike Anugwu JP, OFR	Independent Director	88,000
Engr. Jafaru Damulak	Director	1,980,849
Mr. Macdonald Olarinde Tubi (Deceased)	Director	Nil
Mr. Harold Samuel Tumba, Esq.	Director	41,800
Dr. Ernest Nnaemeka Azudialu - Obiejesi	Director	163,127,597
Mr. Mutiu Sunmonu, CON	Director	1,000,000
Mr. George Marks (German)	Director	Nil
Engr. Lubasch Detlev (German, Appointed)	MD/CEO (1 July 2014)	Nil
Engr. Wolfgang Goetsch (Austrian, Retired)	MD/CEO (30 June 2014)	Nil
Wolfgang Kollermann (German)	Finance Director	Nil
Mr. David Herron (Australian)	Director Operations	Nil
Alhaji Zubairu Ibrahim Bayi	Director Administration	417,119

Table 8: Shareholding Structure as at March 18, 2015

Shareholders	No. of Shares Held	% of Shareholding
Bilfinger SE Limited	400,042,007	30.31%
Watertown Energy Limited	132,000,000	10.00%
Goldstone Estates Limited	126,220,072	9.56%
Ibile Holdings Limited (Lagos State Government)	72,600,000	5.50%
Benue Investment and Property Company Limited	41,019,783	3.11%
Others	548,118,138	41.52%
Total	1,320,000,000	100.00%

Table 9: Company Summary

Ticker	JBERGER
Sector	Construction/Real Estate
Sub-sector	Infrastructure/Heavy Construct
Date of Incorporation	February 18th 1970
Date of Listing	September 20th 1991
Financial Year End	December
Number of Fully Paid Share	1,320,000,000
Current Capitalization(NGN)	69,154,800,00
NSE Capitalization (NGN)	11,396,363,915,263.50
% of NSE Capitalisation	0.61%
52 Week high NGN	76.45
52 Week low NGN	38.08
YTD Return (%)	(9.18%)
52 Weeks Average Volume Traded	403,964
Trailing EPS NGN	6.55
Trailing P/E Ratio (X)	7.99

*As at June 22 ,2015

The company's operates most frequently in Abuja, Lagos and Uyo.

4.0 Product Analysis:

Julius Berger shares are listed on the Nigerian Stock Exchange (NSE), with a majority Nigerian shareholding. The company's portfolio and key focus areas include: infrastructure development, industry, building and facility services. The company also engages in a number of design and core engineering capacities. It also engages in the building and expanding of essential traffic networks in and around its three key operational states namely: Abuja, Lagos and Uyo.

4.1 Infrastructure

This arm of the business focuses on the development of public structures and infrastructure such as Airports, Bridges, Railways, Roads, and Water Systems.

4.2 Buildings

Julius Berger focuses on the construction of functional buildings, modular buildings, offices and residences.

The company designs and builds administration, commercial and industrial buildings, hotels, hospitals, airport terminals, sports facilities and entire residential districts. Julius Berger provides forward looking facility management solutions, which ensure the useful life of buildings is extended and maintenance costs are significantly reduced. It also focuses on the construction of Functional Buildings, Modular Buildings, Offices and Residences.

4.3 Industries

Julius Berger delivers comprehensive civil works, including design, engineering and procurement, for the construction of plants, factories, auxiliary buildings, oil and gas installations and power stations. It offers decisive advantages based on the historical experiences and expertise that make up the company's Nigeria-specific knowhow. The company is experienced in the pioneering of work in remote locations and challenging circumstances and also construction of warehouses for business and logistical purposes.

4.4 Facility Services

The company also engages in facility service products such as project inspection, real estate and plant maintenance, operation refurbishment and building and structure renovations.

Julius Berger is a market leader in the Nigerian market. The other competitors include Arab Contractors, Brunelli Construction Company, Setraco Nigeria Limited, Reynolds Construction Company (RCC) and Dantata & Sawoe Construction Company Nigeria Ltd.

5.0: SWOT Analysis

<p>5.1 Strengths:</p> <ul style="list-style-type: none"> ❖ Experienced and competent management team. ❖ Impressive track record. Has handled a lot of landmark structures in Nigeria. ❖ The company's knowledge of the local market and politics. 	<p>5.2 Weaknesses:</p> <ul style="list-style-type: none"> ❖ Increasing financing costs to fund working capital and import financing. ❖ Rising operating costs because of currency devaluation. ❖ Delay in the payment for capital projects.
<p>5.3 Opportunities:</p> <ul style="list-style-type: none"> ❖ Availability of raw materials and suppliers. ❖ Rapid urbanisation. ❖ Few strong competitors. ❖ High barrier to entry (initial investment). ❖ Huge potential for infrastructure development. ❖ Large market size. ❖ Growing Public Private Partnership (PPP). 	<p>5.4 Threats:</p> <ul style="list-style-type: none"> ❖ Foreign exchange rate risk. ❖ Concentration of activities in certain parts of the country. ❖ Declining government revenue. ❖ High exposure to government projects.

6.0 Forecast:

Our Forecast Drivers

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

Positive Factors:

- The competitive position of the company in the industry.
- Limited competition in construction space in Nigeria.
- Huge infrastructure and housing deficit in Nigeria.
- Growing Public Private Partnership (PPP).

Negative Factors:

- Foreign exchange exposure and risk
- Rising interest rate.
- Growing operating expenses.

Our forecast final dividend for the FY 2015 is N2.70 per share.

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 N203.05bn, N227.15bn, N259.79bn, N291.93bn and N326.58bn for the periods ending December 2015, 2016, 2017, 2018 and 2019. We estimate EBIT of N15.89bn, N18.91bn, N23.71bn, N29.56bn and N33.07bn, and EBITDA of N26.11bn, N29.95bn, N35.71bn, N42.68bn and N47.44bn for the same period using EBIT margins of 7.83%, 8.33%, 9.13%, 10.13% and 10.13% respectively. Our PBT forecasts for the periods are: N11.02bn, N13.98bn, N18.73bn, N24.53bn and N27.98bn. Adjusting for tax, our PAT forecasts are N6.91bn, N8.77bn, N11.75bn, N15.39bn and N17.55bn. PAT Margin for the period are 3.40%, 3.86%, 4.52%, 5.27% and 5.37%. Our forecast final dividend for the FY 2015 is N2.70 per share.

Profit and Loss =N='bn	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Turnover (Net Sales)	203.05	227.15	259.79	291.93	326.58
Cost of Sales	(154.61)	(171.83)	(196.52)	(217.91)	(243.78)
Gross Profit	48.43	55.32	63.27	74.01	82.80
Admin, Selling & Distribution Expenses	(33.48)	(37.45)	(40.75)	(45.80)	(51.23)
Depreciation	(10.22)	(11.03)	(12.00)	(13.11)	(14.37)
Other Operating Income	0.936	1.048	1.198	1.346	1.506
EBIT	15.89	18.91	23.71	29.56	33.07
EBITDA	26.11	29.95	35.71	42.68	47.44
Net Finance Cost	(4.88)	(4.93)	(4.98)	(5.04)	(5.09)
PBT	11.02	13.98	18.73	24.53	27.98
Taxation	(4.10)	(5.21)	(6.98)	(9.14)	(10.43)
PAT	6.91	8.77	11.75	15.39	17.55

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
EBITDA Margin	12.86%	13.18%	13.75%	14.62%	14.53%
EBIT Margin	7.83%	8.33%	9.13%	10.13%	10.13%
PBT Margin	5.42%	6.16%	7.21%	8.40%	8.57%
PAT Margin	3.40%	3.86%	4.52%	5.27%	5.37%
EPS(N)	5.24	6.65	8.90	11.66	13.30
DPS(N)	2.70	3.00	4.01	5.26	6.00
Dividend Payout	51.51%	45.11%	45.11%	45.11%	45.11%
Earnings Yield *	8.76%	11.13%	14.90%	19.51%	22.26%
Dividend Yield *	4.51%	5.02%	6.72%	8.80%	10.04%
P/E Ratio*	11.41	8.99	6.71	5.13	4.49
Number of Shares ('bn)	1.32	1.32	1.32	1.32	1.32
ROE	23.40%	27.90%	34.46%	42.21%	47.46%
Collection Days	93.12	93.12	93.12	93.12	93.12
Payment Days	59.56	55.01	50.58	46.01	43.04
Inventory Turnover	12.21	12.21	12.21	12.21	12.21
Interest Cover	3.01	3.55	4.40	5.43	6.02
*At Our Fair Value of N59.74					

7.0 Valuation:

In arriving at a fair value for the ordinary shares of the company, we used the Discounted Free Cash Flow (DCF) model. We applied a terminal growth rate of 6.44%. We used a beta value of **0.50x** based on the 5-year daily historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used the yield of **13.98%** 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 **19.56%**. The company has long term debt, with the after tax weighted cost of the debt estimated at 11.56% using a tax rate of 32%. The Weighted Average Cost of Capital (**WACC**), which is our discount rate, was estimated at 19.20%. Using 1.32bn shares in issue, the DCF model generated **N59.74** per share, which is our fair value.

The fair value for Julius Berger Plc is N59.74

The current market price of Julius Berger shares is N52.39. The highest and the lowest closing price in the last 52 weeks are N76.45 and N38.08 respectively. The forward earnings yield and dividend yield based on our fair value are: 8.76% and 4.51% respectively. The total return, a combination of the capital appreciation and the dividend, generates 19.17%. This is higher than the current yield on the FGN Bond of 13.98%. We therefore place a **BUY** on the shares of Julius Berger Plc at the price of N52.39 as of June 23, 2015.

For enquiries please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702881-2.

Port Harcourt Office: Mainstreet Bank Building, (2nd floor, 5 Trans Amadi Road, Port Harcourt. Tel: 234-802 408 1331.

Abuja Office: Leadway House (Ground Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria.
Tel: 234-9-2918821

Website: www.fsdhgroup.com **Email:** research@fsdhgroup.com

Our Reports and Prices are also Available on Bloomberg {FSDH<GO>}

Disclaimer Policy

This publication is produced by FSDH Merchant Bank Limited solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Merchant Bank Limited may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of FSDH Merchant Bank Limited for actions taken as a result of Information provided in this publication.