

*HY Ended June 30, 2015*

### **Executive Summary:**

- NASCON Allied Industries Plc has taken advantage of the favourable government policy to diversify its revenue base and grow profitability. It is moving from producing only salt to vegetable oil and tomato paste
- In March 2013, NASCON entered into the food segment with DAN-Q seasoning cubes and is expected to consolidate its activities in the tomato paste and vegetable oil segments
- NASCON will be able to leverage on the existing distribution network of salt to distribute its new lines of food items
- The latest 3 month results ended June 2015 shows an improvement over the Q1 ended March 2015 and over the corresponding period of the previous year
- The drop in the profit margins compared with the corresponding period of late year and the FY 2014 is as a result of the challenging macroeconomic environment
- The major shareholder is Dangote Industries Limited (DIL) who owns 62.19% of the issued share capital while Alhaji Aliko Dangote holds 2.79%
- The backward integration and expansion in the Agribusiness is one of our major considerations in determining the drivers of the business in the forecast period
- We estimate a dividend per share of N0.65 (65kobo) for the FY 2015
- We place a BUY on the shares of NASCON at a fair value of 10.07.

Friday, October 16, 2015

## Diversifying to Capture New Markets

### 1.0 HY 2015 Performance Analysis:

The HY 2015 turnover of NASCON Allied Industries Plc (NASCON) for the period ended June, 30 2015 increased by 22.79% to N6.61bn, compared with N5.38bn in 2014. The increase in T/O could be attributed to the diversification drive of the company. The cost of sales grew by 34.68% to N4.54bn from N3.37bn recorded in HY 2014. This increase was due to the higher translated cost of gas as a result of the scarcity that took place during the year. These expenses as a percentage of T/O grew to 39.72% from 29.46% in HY 2014. The administrative, selling and distribution expenses also increased by 21.63% to N627.30mn in HY 2015. These expenses as a percentage of T/O decline to 9.50% from 9.59% in HY 2014.

The company's operating income (net) stood at N1.52bn as at HY 2015, compared with the N1.57bn recorded in HY 2014. The company's finance cost decreased by 27.89% to N6.34mn in HY 2015 from N8.79mn in HY 2014. The Profit Before Tax (PBT) stood at N1.52bn, representing a decrease of 2.89% from N1.56bn recorded in the corresponding period of 2014. The tax provision decreased by 2.89% to N485.79mn, leading to a Profit After Tax (PAT) of N1.03bn in HY 2015 from N1.06bn in the corresponding period of 2014, representing a decrease of 2.89%. The drop in the profitability was as a result of the challenging macroeconomic environment as well as a fall in the investment income category of the company. The 3 months results of the company ended June 2015 shows an improvement over the Q1 ended March 2015 and over the corresponding period of the previous year.

**Table 2: Financial Performance (N'bn)**

	HY 2015	HY 2014	%Δ	FY 2014
T/O	6.61	5.38	22.79	11.25
EBIT	1.52	1.57	(3.03)	2.87
PBT	1.52	1.56	(2.89)	2.86
PAT	1.03	1.06	(2.89)	1.87

**Table 3: Quarterly Result Highlights (N'bn)**

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Turnover	3.73	2.87	3.08	2.79	2.68
PBT	0.82	0.70	0.51	0.78	0.75
PAT	0.56	0.47	0.29	0.51	0.51

Table 1:	BUY
Current Price	N7.77
Fair Value	N10.07

*The turnover in HY June 2015 increased by 22.79% to N6.61bn.*

**The company's profit margins decreased in HY 2015 compared with HY 2014.**

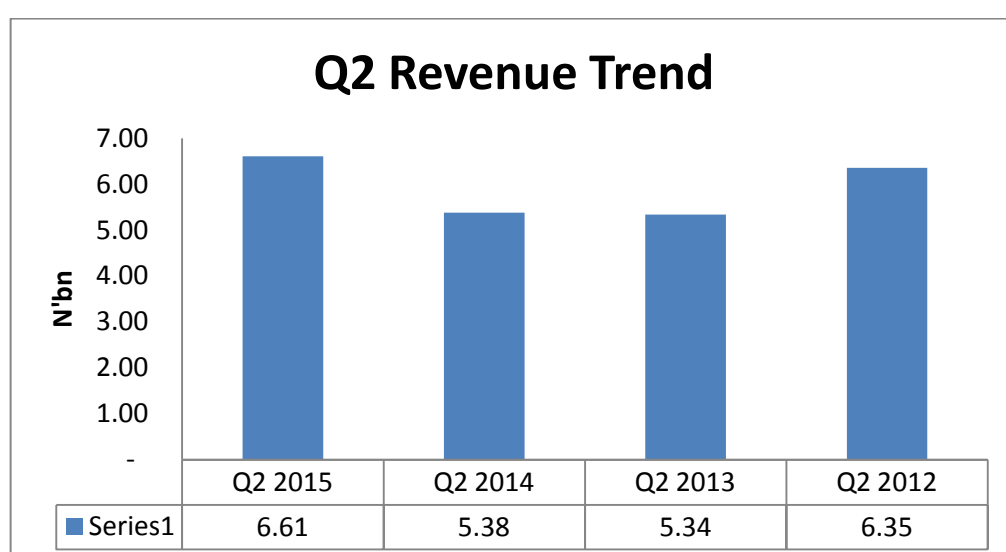
This could be attributed to higher operating costs incurred by the company. The PBT Margin in HY 2015 decreased over the HY 2014 as well as the Financial Year ended December (FY), 2014. The PBT margin decreased to 22.98% in HY 2015 from 29.06% in HY 2014 and from 25.39% in FY 2014. The PAT margin currently stands at 15.63%, down from 19.76% in the corresponding period of 2014 and down from 16.60% as at FY 2014. 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: 58.72%, 53.15% and 55.29%, respectively. Given the run rate, the company should meet its previous year's performance. The company declared a dividend of 0.50 kobo per share for FY 2014.

*The company's profit margins decreased in HY 2015.*

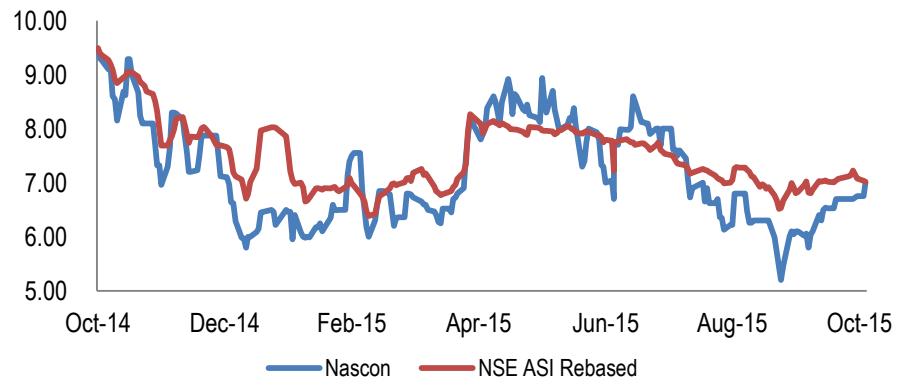
*NASCON is expected to surpass its previous year's performance.*

**Table 4: Profitability Margins**

	HY 2015	FY 2014	HY 2014
<b>GP* Margin</b>	31.25%	33.65%	37.32%
<b>EBIT Margin</b>	23.08%	25.52%	29.22%
<b>PBT Margin</b>	22.98%	25.39%	29.06%
<b>PAT Margin</b>	15.63%	16.60%	19.76%
<b>*GP – Gross Profit</b>			



### Nascon Vs NSE ASI Rebased (Oct. 14 - Oct 15)



*Salt and Seasoning business contributed to the growth in turnover.*

#### 1.1 FY 2014 Performance Analysis:

The Full Year 2014 (FY 2014) result of NASCON for the period ended December 31, 2014 shows that its turnover increased to N11.25bn. This represents a marginal growth of 3.81% from N10.83bn recorded in the corresponding period of 2013. The improvement in its T/O can be attributed to the increased income generated from its Salt and Seasoning business, which grew by 4.03% to N9.85bn in 2014 from N9.47bn in 2013. The cost of sales grew by 19.55% to N7.46bn from N6.24bn recorded in FY 2013. These expenses as a percentage of T/O grew to 66.35% from 57.62% in FY 2013. The administrative, selling and distribution expenses decreased by 2.81% to N976.56mn in FY 2014. These expenses as a percentage of T/O fell to 8.68% from 9.27% in FY 2013.

*The company's operating income (net) stood at N2.87bn as at FY 2014.*

The company's operating income (net) stood at N2.87bn as at FY 2014, compared with the operating income of N4bn recorded in FY 2013. The company's finance cost increased to N15.23mn in FY 2014 from N8.32mn. The Profit Before Tax (PBT) stood at N2.86bn, representing a decrease of 28.50% from N4bn recorded in the corresponding period of 2013. The tax provision decreased by 26.10% to N989.36mn, leading to a Profit After Tax (PAT) of N1.87bn in FY 2014 from N2.70bn in the corresponding period of 2013. The drop in the profitability is a reflection of the increase in direct costs during the period.

The company's profit margins were lower in 2014 compared with 2013. The EBIT margin decreased in 2014 to 25.52% from 36.94% in 2013. The PBT margin decreased to 25.39% in 2014 from 36.86% in 2013. The PAT margin decreased to 16.60% in 2014, up from 24.51% in 2013.

*The PBT margin decreased to 25.39% in 2014 from 36.86% in 2013.*

**Table 5: Profitability Margins**

	FY 2014	FY 2013
<b>EBIT Margin</b>	25.52%	36.94%
<b>PBT Margin</b>	25.39%	36.86%
<b>PAT Margin</b>	16.60%	24.51%

## 2.0 Business:

NASCON, a subsidiary of Dangote Group, is engaged in the refining and marketing of salt of different grades; kitchen, table and industrial salt. NASCON was incorporated on 30th April, 1973, fully privatized in April, 1982 and became listed on The Nigerian Stock Exchange on October, 1992. After Dangote Industries (a member of Dangote Group) acquired it in January 2007, NASCON began to recover after many years of poor performance. The ownership change was accompanied by a major turnaround in the company's operations. Installed capacity went up to around 450,000 tonnes per annum for 25-50 kg bags of salt and 125,000 tonnes per annum for smaller sachets but later increased to 700,000 metric tonnes. The company listed its shares on the main board of The Nigerian Stock Exchange in 1992 under the Consumer Goods sector and Food Products sub-sector. NASCON has 2.65bn shares outstanding and with a current Market Capitalization of N24.53bn.

*NASCON expects to successfully develop and expand its activities to the Tomato and Vegetable oil segments.*

In March 2013, the Company entered Foods segment with DAN-Q cubes. **NASCON expects to successfully develop and expand its activities to the Tomato and Vegetable oil segments.** The diversification drive of the company to other activities necessitated the change of name. In 2014, it changed from National Salt Company of Nigeria Plc to NASCON Allied Industries Plc.

### 3.0 Drivers of Performance:

NASCON's performance can be attributed to the following:

#### Positive Factors:

- Diversification of its business operations
- The import substitution policy of the government
- Large market space in Nigeria
- Leveraging on the existing distribution network

#### Negative Factors:

- The poor macroeconomic environment impacting consumer demand
- Foreign exchange instability
- Inadequate gas supply
- Highly competitive business segment resulting in declining margins
- Poor infrastructure in Nigeria

### 3.1 Strategic Focus:

Diversification remains the major strategic focus of the company. It plans to introduce and increase its share of the tomato paste and vegetable oil market.

**The company expects that the new productions in tomato paste and vegetable oil should be in the market in 2015.** The company plans to focus its resources on becoming a competitive food business within the Nigerian food industry.

*Diversification remains the major strategic focus of the company.*

*The company expects that the new productions in tomato paste and vegetable oil should be in the market in 2015.*

Table 6: Directors' Shareholding as at December 31, 2014

Director	Position	Total Holdings
Alhaji Aliko Dangote	Chairman	74,004,503
Alhaji Sani Dangote	Director	36,042,062
Mr Olakunle Alake	Director	4,170,000
Halima Aliko Dangote	Director	—
Mr. Knut Ulmvoen	Director	—
Mr. Suleiman Olarinde	Director	—
Alhaji Sada Ladan-Baki	Director	1,758,673
Alhaji Abdu Dantata	Director	12,000,000
Mr. Paul Farrer	Managing Director	—

Table 7: Shareholding Structure as at December 31, 2014

Name	Number of Ordinary Shares	% of Shareholding
Dangote Industries Limited	1,647,763,557	62.19%
Others	1,001,674,443	37.81%
Total Number of Shares	2,649,438,000	100.00%

**Table 8: Company Summary**

Ticker	NASCON
Sector	Consumer Goods
Sub-sector	Food Products
Date of Incorporation	April 30th 1973
Date of Listing	October 20th 1992
Financial Year End	December
Number of Fully Paid Share	2,649,438,378
Current Capitalization(NGN)	20,586,136,197
NSE Capitalization (NGN)	10,207,299,933,396
% of NSE Capitalisation	0.20%
52 Week high NGN	9.29
52 Week low NGN	5.20
YTD Return (%)	39.39
52 Weeks Average Volume Traded	1,198,856
Trailing EPS NGN	0.69
Trailing P/E Ratio (X)	11.26

\*As at October 15 , 2015



## 4.0 Product Analysis

**NASCON is a leading Salt production company that engages in the refining and sale of edible, refined, bulk and industrial salt as well as seasoning.**

*NASCON refines and markets salt. It has diversified into the tomato paste and vegetable oil production.*

### 4.1 Salt

NASCON produces salts of different grades based on the needs of its customers:

- Dangote Edible Salt is used as regular table salt in homes providing flavor to cooked meals and snacks. Competition includes Dicon salt and Royal Salt
- Dangote Butter Salt is used for the production of butter and buttery snacks
- Dangote Refined Salt (sachet) in 250g, 500g, 1kg for daily use
- Dangote Industrial Salt is deployed for large confectionaries companies and companies that require massive volumes of salts to produce their goods such Honeywell and Cadbury
- Dangote Kitchen Salt is usually made available for restaurants and other eateries
- Dangote Pure Dried Vacuum (P.D.V) Salt is used universally throughout the food industry and for other applications where a fine food grade salt is required

### 4.2 Tomato Paste

The company was heavily involved in the importation of tomatoes but will now be focusing on backward integration following the new foreign exchange restrictions placed on tomatoes. The company expects to complete its tomato paste plants in the near future. Competing products include Gino tomato paste, De Rica tomato paste and Vitali Gold tomato paste.

### 4.3 Vegetable Oil

The company is involved in the production of vegetable oil which is a highly competitive market within the Nigerian economy considering that these food items are used every day and consumers have a wide array of different brands to choose from. Other competing products are Grand Pure Groundnut oil, Grand Pure Soya oil, Mamador vegetable oil, Wesson oil and King's vegetable oil.

## 5.0 SWOT Analysis:

<p><b>5.1 Strengths:</b></p> <ul style="list-style-type: none"> <li>○ Leader in salt Industry ( Good Market Share)</li> <li>○ Good brand name</li> <li>○ Stable dividend payment</li> <li>○ Good Return on Equity</li> <li>○ Diversified business portfolio</li> <li>○ Focused on continued market expansion and growth in selected markets within Nigeria and other African countries</li> <li>○ Leverage on existing distribution network</li> </ul>	<p><b>5.2 Weaknesses:</b></p> <ul style="list-style-type: none"> <li>○ High finance cost</li> <li>○ Declining profit margins</li> <li>○ Perceived as a mono-product company</li> </ul>
<p><b>5.3 Opportunities:</b></p> <ul style="list-style-type: none"> <li>○ Good government policy on food sector</li> <li>○ Favourable import substitution policy of the Federal Government</li> <li>○ Favourable government policy</li> <li>○ Large market size in Nigeria and in the West African market</li> </ul>	<p><b>5.4 Threats:</b></p> <ul style="list-style-type: none"> <li>○ Difficult economic environment</li> <li>○ Security challenges in the Northern part of the country.</li> <li>○ Poor infrastructure</li> <li>○ Intense competition within the industry</li> <li>○ Exchange rate risk</li> </ul>

## 6.0 Forecast: Our Forecast Drivers

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

Positive Factors:

- Large market size
- The backward integration and expansion in the Agribusiness
- Favourable Federal Government Policy
- Leverage on existing distribution network

Negative factors:

- The high finance costs faced by the country
- Unstable macroeconomic environment in Nigeria
- Security challenges in the North

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 N13.64bn, N17.03bn, N21.49bn, N26.71bn and N32.97bn for the periods ending December 2015, 2016, 2017, 2018 and 2019. We estimate EBIT of N3.67bn, N4.57bn, N5.87bn, N7.82bn and N10.46bn, and EBITDA of N3.77bn, N4.70bn, N6.04bn, N8.04bn and N10.75bn for the same period using EBIT margins of 26.87%, 26.85%, 27.33%, 29.29% and 31.73% respectively. Our PBT forecasts for the periods are: N3.68bn, N4.58bn, N5.88bn, N7.82bn and N10.46bn. Adjusting for tax, our PAT forecasts are N2.42bn, N3.02bn, N3.87bn, N5.16bn and N6.90bn. PAT Margin for the period are 17.77%, 17.73%, 18.03%, 19.31% and 20.92%. Our forecast final dividend for the FY 2015 is N0.65 per share.

*We estimate a dividend per share of N0.65 for the FY 2015.*

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Property, Plant and Equipment	7.50	8.30	9.00	9.50	10.23
Other Assets	0.25	0.25	0.25	0.25	0.25
<b>Long Term Assets</b>	<b>7.75</b>	<b>8.55</b>	<b>9.25</b>	<b>9.75</b>	<b>10.48</b>
Inventory	1.45	1.81	2.27	2.73	3.23
Trade Receivables	0.38	0.47	0.59	0.74	0.91
Prepayments & Other Receivables	4.19	5.23	6.60	8.20	10.12
Cash and Bank Balances	(0.10)	0.27	1.17	3.14	5.86
<b>Current Assets</b>	<b>5.91</b>	<b>7.78</b>	<b>10.63</b>	<b>14.81</b>	<b>20.13</b>
<b>Total Assets</b>	<b>13.66</b>	<b>16.32</b>	<b>19.88</b>	<b>24.55</b>	<b>30.61</b>
Trade Payables	0.42	0.52	0.65	0.78	0.93
Due to Other related Parties	3.64	4.55	5.74	7.14	8.81
Taxation	1.25	1.56	2.00	2.67	3.56
Bank Overdraft	0.01	0.01	0.01	0.01	0.01
<b>Current Liabilities</b>	<b>5.32</b>	<b>6.63</b>	<b>8.40</b>	<b>10.59</b>	<b>13.30</b>
<b>Working Capital/ Net Current Asset</b>	<b>0.59</b>	<b>1.14</b>	<b>2.23</b>	<b>4.22</b>	<b>6.82</b>
<b>Capital Employed</b>	<b>8.35</b>	<b>9.69</b>	<b>11.48</b>	<b>13.97</b>	<b>17.31</b>
Deferred Taxation	0.54	0.54	0.54	0.54	0.54
Retirement Benefit and Charges	0.36	0.41	0.47	0.55	0.65
Long Term Debt	0.04	0.04	0.04	0.04	0.04
<b>Long Term Liabilities</b>	<b>0.94</b>	<b>0.98</b>	<b>1.04</b>	<b>1.12</b>	<b>1.22</b>
<b>Total Liabilities</b>	<b>6.26</b>	<b>7.62</b>	<b>9.44</b>	<b>11.71</b>	<b>14.53</b>
<b>Total Net Assets</b>	<b>7.41</b>	<b>8.71</b>	<b>10.44</b>	<b>12.85</b>	<b>16.08</b>
Paid Up Share Capital	1.32	1.32	1.32	1.32	1.32
Share Premium	0.43	0.43	0.43	0.43	0.43
Revenue Reserve	5.65	6.95	8.68	11.09	14.32
<b>Total Reserves</b>	<b>6.08</b>	<b>7.38</b>	<b>9.11</b>	<b>11.52</b>	<b>14.76</b>
<b>Total Equity</b>	<b>7.41</b>	<b>8.71</b>	<b>10.44</b>	<b>12.85</b>	<b>16.08</b>
<b>Total Equity &amp; Liability</b>	<b>13.66</b>	<b>16.32</b>	<b>19.88</b>	<b>24.55</b>	<b>30.61</b>

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Turnover (Net Sales)	13.64	17.03	21.49	26.71	32.97
Cost of Sales	(8.80)	(10.99)	(13.76)	(16.56)	(19.62)
Gross Profit	4.84	6.05	7.74	10.15	13.35
Selling, Distribution & Administration Expenses	(1.30)	(1.63)	(2.06)	(2.57)	(3.19)
Other Operating Income	0.12	0.16	0.20	0.24	0.30
EBIT	3.67	4.57	5.87	7.82	10.46
EBITDA	3.77	4.70	6.04	8.04	10.75
Net Finance Cost	0.01	0.01	0.00	0.00	(0.00)
PBT	3.68	4.58	5.88	7.82	10.46
Taxation	(1.25)	(1.56)	(2.00)	(2.67)	(3.56)
PAT	2.42	3.02	3.87	5.16	6.90

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
EBITDA Margin	27.61%	27.61%	28.11%	30.11%	32.61%
EBIT Margin	26.87%	26.85%	27.33%	29.29%	31.73%
PBT Margin	26.96%	26.89%	27.34%	29.29%	31.73%
PAT Margin	17.77%	17.73%	18.03%	19.31%	20.92%
EPS(N)	0.91	1.14	1.46	1.95	2.60
DPS(N)	0.65	0.81	1.04	1.38	1.85
Dividend Payout	70.95%	70.95%	70.95%	70.95%	70.95%
Earnings Yield *	9.08%	11.31%	14.52%	19.32%	25.84%
Dividend Yield *	6.44%	8.03%	10.30%	13.71%	18.33%
P/E Ratio*	11.01x	8.84x	6.89x	5.18x	3.87x
Number of Shares ('bn)	2.65	2.65	2.65	2.65	2.65
ROCE	43.92%	47.19%	51.16%	56.00%	60.45%
ROE	32.73%	34.68%	37.12%	40.14%	42.88%
Collection Days	10	10	10	10	10
Payment Days	17	17	17	17	17
Inventory Turnover	6.07	6.07	6.07	6.07	6.07
Asset Turnover	1.00	1.04	1.08	1.09	1.08
Current Ratio	1.11	1.17	1.27	1.40	1.51
Quick Ratio	0.84	0.90	1.00	1.14	1.27
Debt Ratio (Total Liabilities /Total Assets)	0.46	0.47	0.47	0.48	0.47
Gearing Ratio (Long Term Debt /Equity)	0.52%	0.44%	0.37%	0.30%	0.24%
Interest Cover	253.42	309.92	390.29	509.54	668.19

*\*At Our Fair Value of N10.07*

Table 12: Comparable Analysis (N'bn) -2014		
Company	NASCON	Dangsugar
Turnover (Net Sales)	11.25	94.86
Gross Profit (GP)	3.79	18.63
EBIT	2.84	15.09
PBT	2.86	15.27
PAT	1.87	11.64
GP Margin	33.65%	19.64%
EBIT Margin	25.26%	15.91%
PBT Margin	25.39%	16.10%
PAT Margin	16.60%	12.27%
ROE	29.60%	22.63%
Net Assets	6.31	51.41
Net Assets Per Share (N)	2.38	4.28
PE Ratio	11.26x	6.91x
Earnings Yield*	8.88%	14.47%
<i>*As at October 15, 2015</i>		

## 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 5.99% and used a beta value of **0.93x**. We used the yield of **12.90%** 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 **23.25%**. The company has long term debt, with the after tax weighted cost of the debt estimated at 9.18% using a tax rate of 32%. The Weighted Average Cost of Capital (**WACC**), which is our discount rate, was estimated at 21.64%. Using 2.65bn shares in issue, the DCF model generates **N10.07** per share, which is our fair value.

The current market price of NASCON shares is N7.77. The highest and the lowest closing price in the last 52 weeks are N9.29 and N5.20 respectively. The forward earnings yield and dividend yield based on our fair value are: 9.08% and 6.44% respectively. The total return, a combination of the capital appreciation and the forecast dividend for the year 2015, generates 38%. This is higher than the current yield on the FGN Bond of 12.90%. We therefore place a **BUY** on the shares of NASCON Allied Industries Plc at the price of N7.77 as of October 15, 2015

*The fair value for NASCON Allied Industries Plc is N10.07.*

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