Q3 Ended February 28, 2015

Monday June 22, 2015

Table 1: BUY	
Current Price	31.77
Fair Value	35.43

Strategic Alliance for Growth

1.0 Q3 2015 Performance Analysis:

The turnover in Q3 2015 increased marginally by 0.56% to N52.89bn.

The unaudited third quarter (Q3 2015) result of PZ Cussons Nigeria Plc (PZ) for the period ended February 2015 shows that its Turnover (T/O) increased marginally by 0.56% to N52.89bn, compared with N52.59bn recorded in the corresponding period of 2014. The cost of sales also increased marginally by 0.99% to N38.54bn from N38.16bn recorded in Q3 2014. The cost of sales as a percentage of T/O rose marginally to 72.87% from 72.56% as at Q3 2014. The administrative, selling and distribution expenses increased by 7.34% to N10.35bn. These expenses as a percentage of turnover increased to 19.57% in Q3 2015 from 18.33% in Q3 2014.

The company's profit margins decreased in Q3 2015, compared with Q3 2014.

The other operating income stood at N113.88mn as at Q3 2015, representing an increase of 16.57%, compared with N97.69mn recorded in Q3 2014. The company also recorded an increase of 57.89% in its finance cost of N270.65mn in Q3 2015 from N171.41mn in 2014. The finance income fell by 67.09% to N150.78mn, leading to a net finance cost of N119.87mn. The Profit Before Tax (PBT) fell to N3.99bn, a decrease of 22.85% from N5.17bn recorded in the corresponding period of 2014. The tax provision also decreased by 7.90% to N1.20bn from N1.31bn, leading to a Profit After Tax (PAT) of N2.79bn in Q3 2015 from N3.87bn in the corresponding period of 2014, representing a decrease of 27.91%. The decline in the company's profit margins in Q3 2015 compared with Q3 2014 is a reflection of the challenges the company faced with regards to stiff competition, a difficult operating environment and the security challenges in the North-East of the country which hindered access to the market.

Table 2: Financial Performance (N'mn)

	Q3 2015	Q3 2014	%∆	FY May 2014
T/O	52,890	52,594	0.56%	72,906
EBIT	4,112	4,888	(15.87%)	6,583
PBT	3,992	5,174	(22.85%)	6,950
PAT	2,787	3,867	(27.91%)	5,083

Table 3: Quarterly Result Highlights (N'mn)

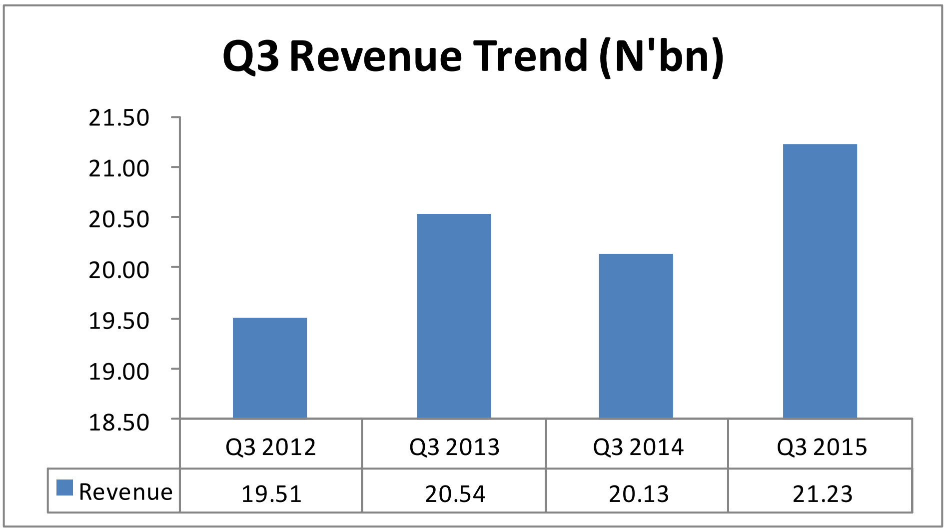
	Q3 2015	Q2 2014	Q1 2014	Q4 2014	Q3 2014
Turnover	21,230	16,641	15,019	20,311	20,134
PBT	2,050	1,069	872	1,776	2,097
PAT	1,346	799	642	1,216	1,549

Given the run rate, the company is likely going to fall short of its previous year's performance.

The PBT Margin in Q3 2015 decreased over the Q3 2014, and the Financial Year ended May (FY), 2014 figure. The PBT margin decreased to 7.55% in Q3 2015 from 9.84% as at Q3 2014, and from 9.53% as at the end of FY May 2014. Also, the PAT margin currently stands at 5.27%, down from 7.35% in the corresponding period of 2014, and also down from 6.97% as at FY 2014. The result also indicates that the percentage of T/O, PBT, and PAT in the Q3 2015 to the Audited T/O, PBT and PAT for the period ended May 2014 are: 72.55%, 57.44% and 54.84%, respectively. Given the run rate, the company is likely to fall slightly short of its top line performance in the previous year, and unless it can manage costs, would fall significantly short of its bottom line performance compared to the previous year.

Table 4: Profitability Margins (%)

	Q3 2015	FY 2014	Q3 2014
GP* Margin	27.13	26.33	27.44
EBIT Margin	7.77	9.03	9.29
PBT Margin	7.55	9.53	9.84
PAT Margin	5.27	6.97	7.35
***GP – Gross Profit**			



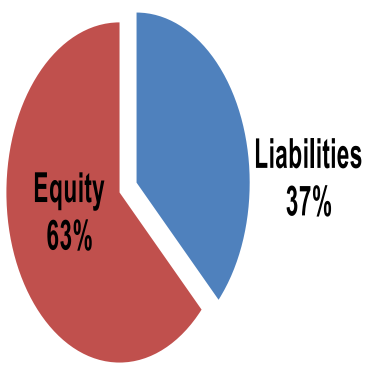
The company's assets were financed by a mix of equities and liabilities in the ratio of 62.91% and 37.09% respectively.

A cursory look at the balance sheet position as at Q3 2015 compared with the position as at FY May 2014 shows a marginal decrease in the company's fixed assets. The total fixed assets decreased by 1.51% to N24.12bn from N24.49bn in FY 2014. The inventory increased to N22.21bn from N20.29bn in FY 2014. The cash and bank balances recorded a decrease of 23.69% from N4.48bn in FY 2014 to N3.42bn in Q3 2015. The trade debtors and other receivables decreased in Q3 2015 by 18.77% to N16.80bn from N20.68bn in the FY 2014 period. The trade creditors and other payables decreased by 8.47% to N20.04bn from N21.90bn as at FY 2014. The working capital stood at N22.45bn from N22.53bn recorded in FY 2014, while net assets for the period increased by 0.34% to stand at N42.68bn from N42.54bn as at FY 2014.

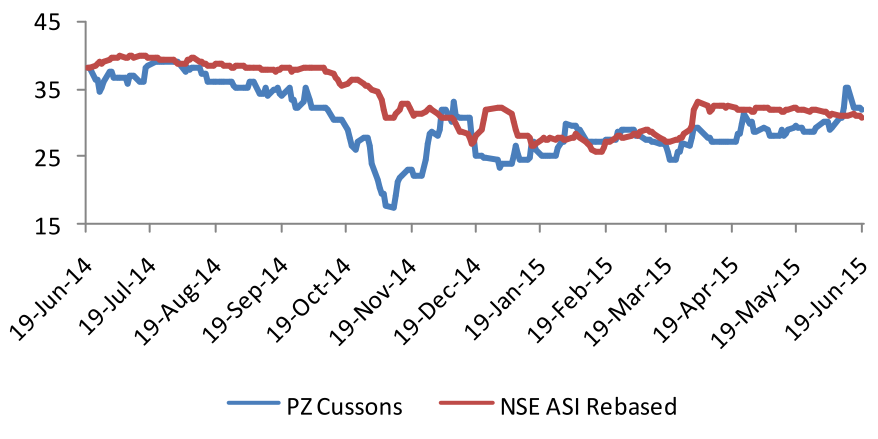
Given its current financing mix, PZ has the capacity to take on additional debt to finance its expansion and growth.

The total assets of the company which stood at N67.85bn as at Q3 2015 were financed by a mix of equities and liabilities in the ratio of 62.91% and 37.09% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N21.28bn, accounting for 84.56% of the total liabilities, while the long-term liabilities stood at N3.88bn accounting for 15.44% of the total liabilities. The long-term liabilities constituted mainly of deferred tax liabilities which stood at N3.72bn a decrease of 14.88% from N4.37bn. The short-term liabilities constituted mainly of trade and other payables. Given its current financing mix, PZ has the capacity to take on additional debt to finance its expansion and growth.

Financing Mix



PZ VS NSE ASI Rebased (Jun'14 vs Jun'15)



2.0 Drivers of Performance and Strategic Focus:

PZ's earnings were adversely impacted by the following:

- Stiff competition in its operating market
- Weak infrastructure in the country
- Rising interest rates
- Security challenges in certain parts of the country
- The weak spending power of consumers
- Devaluation of the currency

PZ had significant foreign exchange exposure in FY 2014 that could have affected its earnings given the devaluation of the Naira in November 2014 and in February 2015.

PZ had significant foreign exchange exposure in FY 2014 that could have affected its earnings given the devaluation of the Naira in November 2014 and February 2015 earnings. As at FY 2014, PZ's total foreign exchange exposure stood at N42bn.The bought in materials accounted for most of the foreign exchange exposure with imported materials accounting for 72% of total bought in materials. The exports in FY 2014 accounted for only 4.99% of the total revenue.

2.1 Strategic Focus:

PZ plans on driving both the revenue and profitability growth by investing in improving efficiencies in the supply chain, managing operational efficiencies and investing in its customers favourite brands while minimising the cost base. The Detergent and Soap manufacturing processes in particular have been improved to drive efficiencies and meet the increasing demand for these products. These initiatives plus other investments to optimise the supply chain and overall overheads will ensure a flexible and competitive cost structure for the company going forward.

3.0 Business:

The principal activities of PZ is the production, distribution and sale of a wide range of Consumer Products and Electrical Appliances under various brand names.

PZ's principal activity is the production, distribution and sale of a wide range of Consumer Products and Electrical Appliances under various brand names. PZ distributes these products nation-wide through its 25 depots and hundreds of distributors located throughout the country. In order to expand into new businesses over the years PZ set up joint ventures within the group. For the expansion of the Thermo cool business, a joint venture was set up between PZ and Haier Group in

China, to form HPZ Limited for the manufacturing and distribution of Haier-Thermo cool brand of home appliances under Haier and TEC brands. In 2013, PZ commissioned new production lines for the assembly of refrigerators and air-conditioners in order to expand capacity and deepen market penetration.

The company is in various strategic alliances to boost growth.

PZ Wilmar Nigeria Limited was incorporated in December 2010 as a joint venture between PZ Cussons Plc and Wilmar International Limited to develop a range of branded products including edible oil and nutritional spreads. As part of this joint venture a fully backward-integrated project tagged from Plantation to Plate has invested in new plantations and 1,000 MT/day refineries. In 2013, a 32,000 hectares palm plantation was commissioned in Cross River State. The refineries produce Devon Kings and Mamador vegetable oil. Similarly, Nutricima Limited was established as a joint venture between PZ's parent company, PZ Cussons UK and Glambia Limited, Ireland. The principal activity of the company is the production and sale of powdered and evaporated milk, which PZ distributes.

Table 5: Company Summary

Ticker	PZ
Sector	Consumer Goods
Sub-sector	Personal/Household Products
Date of Incorporation	December 04, 1948
Date of Listing	1972
Financial Year End	May
Number of Fully Paid Share	3,970,477,045
Current Capitalization(NGN)	127,055,265,440
NSE Capitalization (NGN)	11,421,666,300,464
% of NSE Capitalisation	1.11%
52 Week high NGN	39.00
52 Week low NGN	17.50
YTD Return (%)	37.86
52 Weeks Average Volume Traded	1,202,834
Trailing EPS NGN	1.01
Trailing P/E Ratio (X)	31.98

As at June 18, 2015

Table 6: Shareholding Structure as at 31st, May 2014

Shareholders	No. of Shares Held	% of Shareholding
PZ Cussons (Holdings) Ltd, UK	2,770,318,684	67.77
Others	1,200,158,362	30.23
Total	**3,970,477,045**	**100.00**

Table 7: Directors' Shareholding as at 31st May, 2014

Director	Position	Holdings
Prof. E.C. Edozien	Chairman	5,290,153
Mr. B. Oyelola	Vice Chairman	244,336
Mr. C. Giannopoulos	MD/CEO	Nil
Mr. L. Batagarawa	Independent	20,706
Mrs E. Ebi	Independent	51,500
Mr J.F Coker	Executive	3,889
Mr. A.Goma	Executive	25,000
Mr. M. Hayatu-Deen	Independent	Nil
Mrs. O.T Ifaturoti	Executive	12,245
Mr. D. Petzer	Executive	Nil
Mr. A.Raji*	Executive	163,358
Mr. P. Usoro	Non-Executive	1,000,000

*Resigned 31 May, 2014

4.0 Product Analysis

PZ's product portfolio includes leading brand names in the Consumer Good and Electrical Appliances markets. The Group also distributes milk products produced by Nutricima Limited and the products of Harefield Industrial Nigeria Limited.

PZ's product portfolio includes leading brand names in the Consumer Good and Electrical Appliances markets.

4.1 Consumer Goods

The Consumer Goods segment is the largest contributor to revenue and PAT, contributing 66.33% and 68.41% respectively in FY 2014. PZ has 6 divisions under this segment: Home Care, Personal Care, Medicaments, Baby Care, Nutrition and Oil

- **Home Care:** The products in this division are: Elephant (including Elephant Auto, Elephant Gold and Elephant Colour) , Zip (including Zip Detergent and Laundry soap), Jet, Tempo (Bulk Detergent and Laundry Soap), Rex (Bulk Detergent), Duck, Canoe (including Canoe Detergent and Laundry soap), Roberts Antiseptic, Drum and Morning Fresh. Competing products include Omo, Ariel, Fairy, Bonux, Dettol, Mama and Persil.

The Consumer Goods segment is the largest contributor to revenue and PAT, contributing 66.33% and 61.35% respectively in FY 2014.

- **Personal Care:**
  - **Soaps:** The products in this division are: Premier (including Premier Milk, Alovera, Rose, Lemon and Cool Deo), Imperial Leather and Joy Tender Skincare bar. In this division, competing products include Safeguard, Dettol Soap, Lifebuoy and Lux.
  - **Hair Care:** The products in this division are: Venus Hair Care (includes the Venus Fortify Range, Radiance Range and Solutions Range) and Joy Condition Relaxer. There are a lot of other products competing with these products.
  - **Skin Care:** Venus Skin Care Range (including Venus Skin Quench range, Venus Perfect Tone range and Venus Skin toning lotion), Stella Pomade, Joy and Carex (including Carex Bacteria Protect, Complete Protect and Herbal Protect) are the products in this division. There are a lot of other products competing with these products.

PZ has 6 divisions under the consumer goods segment: Home Care, Personal Care, Medicaments, Baby Care, Nutrition and Oil.

- **Perfumes:** The products in this division are: Dan Duala, Venus Gold and Joy Gold. There are a lot of imported cheap and expensive products competing with these products.

The company is faced with stiff competition in the market and operates in the industry where products are highly fragmented.

- **Medicaments:** The products under this division are Robb (including Robb Original, Hot Robb, Robb Tarzan, Super Robb, Robb Inhaler and Robb Menthol Sweets), Heatol, and Medicated Dusting Powder. Competing products include Vicks (including Vicks Blue, Vicks Lemon Plus and Vicks Lemon Apple) and Lemon Plus.
- **Baby Care:** Nigerian Baby Care and the Cusson Baby Range are the products in this division. Competing products include the Pears Baby Range.
- **Nutrition**: Coast Milk, Yo, NuNu (including NuNu Powered, Evaporated and Ready-to-Drink) and Bliss (including Bliss 3in1 instant drink, Ready-to-Drink (Choco and Coffee), Bliss Iced Tea and Bliss Smoothies) are the products in this division. Competing products include Peak Milk, Dano Milk, Loya Milk, Nido Milk and Hollandia.
- **Oil:** Mamador Oil (Vegetable and Palm Oil) and Kings Refined Oil. Competing products include Presco Oil's range of Palm Oil.

The Electrical Appliances segment contributed 33.67% and 38.65% to revenue and PAT respectively, in FY 2014.

4.2 Electrical Appliances

The Electrical Appliances segment contributed 33.67% and 38.65% to revenue and PAT respectively, in FY 2014. In FY 2013 the segment contributed 33.52% and 31.59% to revenue and PAT respectively. This segment is run by HPZ Limited a partnership between PZ Cussons and Haier to produce the Haier Thermocool range of home and consumer appliances. Haier Thermocool products cover the following categories:

- **Refrigerators:** The Haier Thermacool refrigerator product portfolio includes the Luxury Refrigerator range, the Single Small Door Refrigerator range, the Single Door Medium Refrigerator range, the Double Door Refrigerator range, the Combi Refrigerator range, the Frost Free Refrigerator range and the Wine Cooler range.

- **Freezers:** The Haier Thermacool freezer portfolio includes Chest Freezers (Small, Medium, Large and Commercial), Ice Master Upright Freezers and Ice Cream freezers.
- **Air Conditioners:** The Haier Thermacool air conditioner product portfolio includes a range of split unit and package unit air conditioners.
- **Washing Machine:** The Haier Thermacool washing machine product portfolio includes a range of Front Load Automatic washing machines, Top Load Automatic washing machines, Top Load Semi Automatic washing machines, Single Washers and Dryers. The LG washing machine range is the market leader in this category.
- **Televisions:** The Haier Thermacool television product portfolio includes a range of LCD and LED Televisions.
- **Microwave:** The Haier Thermacool microwave product portfolio includes a range of electronic and manual microwaves.

Competitors in this segment include LG, Samsung, Sony and Panasonic

5.0 SWOT Analysis:

5.1 Strengths:	5.2 Weaknesses:
○ Strong brand name ○ Good knowledge and expertise of domestic market ○ Quality products in the market ○ Long standing reputation and reliability ○ Diverse product portfolio	○ Declining margins ○ Foreign exchange exposure leading to rising interest costs
5.3 Opportunities:	**5.4 Threats:**
○ Large market size in Nigeria ○ Availability of raw materials ○ Favourable weather condition for the cultivation of palm plantation	○ Security challenges in the Northern region ○ Inadequate physical infrastructure in the country ○ Stiff competition in the industry ○ Operates in a highly fragmented industry ○ Foreign exchange rate risk ○ Rising interest rate in the country

6.0 Forecast:
Our Forecast Drivers

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

Positive Factors:

- The growing market in Nigeria for both consumer products and electrical appliances
- Expected improvement in the security situation in Nigeria
- Expected improvement in consumer spending
- Efficiency gains are expected from the company due to the current innovation
- The competitive position of the company in the industry

Negative Factors:

- Security challenges in Nigeria
- Rising finance costs
- Foreign exchange exposure and risk
- The fragmented nature of the industry
- The weak consumers' spending

We estimate a dividend per share of 90 Kobo for the FY 2015.

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 N73.78bn, N77.99bn, N83.60bn, N89.20bn and N94.73bn for the periods ending May 2014, 2015, 2016, 2017 and 2018. We estimate EBIT of N6.37bn, N7.25bn, N8.21bn, N10.54bn and N11.18bn, and EBITDA of N8.42bn, N9.45bn, N10.55bn, N13.04bn and N13.84bn for the same period using EBIT margins of 8.46%, 9.13%, 9.66%, 11.67% and 11.67% respectively. Our PBT forecasts for the periods are: N6.24bn, N7.12bn, N8.07bn, N10.41bn and N11.06bn. Adjusting for tax, our PAT forecasts are N4.28bn, N4.88bn, N5.54bn, N7.14bn and N7.58bn. PAT Margin for the period are 5.80%, 6.26%, 6.62%, 8.00% and 8.00%. Our forecast final dividend for the FY 2015 is 90kobo per share.

Table 8: FSDH Research Income Forecast for PZ Cussons Plc (2015 - 2019)					
Profit and Loss =N='bn	**May-15**	**May-16**	**May-17**	**May-18**	**May-19**
Turnover	73.78	77.99	83.60	89.20	94.73
Cost of Sales	(55.31)	(57.92)	(61.67)	(64.02)	(67.98)
Gross Profit	18.47	20.07	21.93	25.19	26.75
Admin, Selling & Distribution Expenses	(10.32)	(10.91)	(11.70)	(12.48)	(13.25)
Depreciation	(2.06)	(2.19)	(2.34)	(2.50)	(2.66)
Other Operating Income	0.27	0.29	0.31	0.33	0.35
EBIT	6.37	7.25	8.21	10.54	11.18
EBITDA	8.42	9.45	10.55	13.04	13.84
Net Finance Cost	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)
PBT	6.24	7.12	8.07	10.41	11.06
Taxation	(1.96)	(2.24)	(2.54)	(3.27)	(3.47)
PAT	4.28	4.88	5.54	7.14	7.58

Table 9: FSDH Research Earnings Forecast for PZ Cussons Plc (2015 - 2019)					
	May-15	**May-16**	**May-17**	**May-18**	**May-19**
EBITDA Margin	11.41%	12.11%	12.61%	14.61%	14.61%
EBIT Margin	8.63%	9.30%	9.82%	11.82%	11.80%
PBT Margin	8.46%	9.13%	9.66%	11.67%	11.67%
PAT Margin	5.80%	6.26%	6.62%	8.00%	8.00%
EPS(N)	1.08	1.23	1.39	1.80	1.91
DPS(N)	0.90	1.03	1.17	1.51	1.60
Dividend Payout	83.80%	83.80%	83.80%	83.80%	83.80%
Earnings Yield *	3.04%	3.47%	3.93%	5.07%	5.39%
Dividend Yield *	2.55%	2.91%	3.30%	4.25%	4.52%
P/E Ratio*	32.89	28.80	25.42	19.71	18.56
Number of Shares ('bn)	3.97	3.97	3.97	3.97	3.97
ROE	9.80%	11.13%	12.57%	15.80%	17.15%
Collection Days	29.75	29.75	29.75	29.75	29.75
Payment Days	12.67	12.67	12.67	12.67	12.67
Inventory Turnover	2.69	2.69	2.69	2.69	2.69
Interest Cover	20.87	23.32	25.86	32.57	33.87
***At Our Fair Value of N35.43**					

Table 10 : Comparable Analysis (Nbn)		
Company	**PZ Cussons**	**Unilever***
Turnover	72.91	55.75
Gross Profit	19.19	20.17
EBIT	6.58	4.61
PBT	6.95	2.87
PAT	5.08	2.41
GP Margin	26.33%	36.18%
EBIT Margin	9.03%	8.28%
PBT Margin	9.53%	5.15%
PAT Margin	6.97%	4.33%
ROE	11.95%	32.26%
Net Assets	42.54	7.48
Net Assets Per Share	10.71	1.98
PE Ratio	31.68	75.00
Earnings Yield	3.16%	1.33%
**Unilever's Year End is December*		

7.0 Valuation:

We employed relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

Assumptions:

- EV/EBITDA Multiple: 16.18x
- Debt: Nil
- Cash: N4.48bn
- Number of shares in issue: 3.97bn

The fair value for PZ Cussons Plc is N35.43.

Applying the EV/EBITDA multiple of **16.18x**, we arrived at **N35.43** per share as the fair value.

The current market value of PZ share is N31.77, the highest and the lowest closing prices in the last 52 weeks are N39.00 and N17.50 respectively. The forward earnings yield and dividend yield of the company at our fair value are 3.04% and 2.55% respectively. The total return, a combination of the capital appreciation and the dividend, generates 14.38%. This is higher than the current yield on the FGN Bond of 13.83%. We therefore place a **BUY** on the shares of PZ Cussons at the price of N31.77 as of June 19, 2015.

For enquiries please contact us at our offices:

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