

UPDATE

Q2 Ended November 2015

January 29, 2016

Reaping the Benefits of Diversification

1.0 Q2 2015 Performance Analysis:

PZ Cussons Nigeria Plc (PZ) was able to maintain strong revenue in Q2 2015 despite the difficult operating environment. This was made possible because of its diversification strategy into the growing food processing sector of the economy. Although the revenue dropped marginally, the profit of the company dropped significantly because of the increase in operating expenses. The revenue fell on account of lower sales volumes, reflecting the difficult operating environment, weak consumer spending and the security challenges in the Northern region. The company's Turnover (T/O) decreased by 3.29% to N30.62bn in Q2 2015, compared with N31.66bn recorded in the corresponding period of 2014. The cost of sales dropped by 3.36% to N22.30bn from N23.07bn recorded in Q2 2014 leading to a decrease in Gross Profit (GP) to N8.32bn, from N8.59bn in 2014. Cost of sales as a percentage of T/O decreased marginally to 72.83% from 72.88% as at Q2 2014. Selling and distribution expenses decreased by 2.38% to N4.31bn, while administrative expenses increased by 19.64% to N2.69bn. Administrative, selling and distribution expenses as a percentage of T/O increased to 22.86% in Q2 2015 from 21.05% in Q2 2014.

The company's Turnover in Q2 2015 decreased by 3.29% to N30.62bn, compared with N31.67bn in the previous year.

PAT fell to N779.45mn, a decrease of 45.92% from N1.44bn recorded in the corresponding period of 2014.

Finance costs reduced by 13.22% to N379.94mn in Q2 2015 from N437.83mn in Q2 2014. The Profit Before Tax (PBT) fell to N1.15bn, a decrease of 40.64% from N1.94bn recorded in the corresponding period of 2014. The tax provision also fell by 25.46% to N373.14mn in Q2 2015 from N500.55mn in Q2 2014, leading to a Profit After Tax (PAT) of N779.45mn in Q2 2015 from N1.44bn in the corresponding period of 2014. The company's profit margins dropped in Q2 2015 compared with Q2 2014. **Our analysis of the group and company's account shows that the group made a profit while the company made a loss during the period. This points to the fact that its strategy to invest in high profit subsidiary businesses has positioned PZ for future profit growth.**

The company's total assets increased to N72.82bn in Q2 2015, from N67.39bn recorded in FY 2015. PZ is a recipient of the Government's Export Expansion Grant Scheme (EEGS). As at Q2 2015, it had N1.66bn receivables from the export grant. The working capital declined to N20.62bn; while the current ratio also fell to 1.77x. **However, the company can still meet its short-term obligations as and when due at this level.**

We estimate a PAT of N2.64bn for the FY 2016. This will generate an Earning Per Share (EPS) of N0.67 and a final Dividend Per Share (DPS) of N0.56 based on a dividend payout of 84.32%.

Table 1: BUY	
Current Price	N21.00
Fair Value	N29.16

Table 2: Financial Performance (N'bn)			
	Q2,2015	Q2,2014	Change
T/O	30.62	31.66	(3.29%)
EBIT	1.32	1.92	(31.31%)
PBT	1.15	1.94	(40.64%)
PAT	0.78	1.44	(45.92%)
EM*	4.31%	6.07%	(1.76%)
PM*	2.55%	4.55%	(2.01%)

*EM: EBIT Margin; PM: PAT Margin

The major challenge that PZ faces is the difficult macroeconomic environment in the country. This has adversely affected sales and operating expenses. The core operations have been particularly affected by these challenges. It has addressed these challenges through its diversification strategy. It also has a diverse product portfolio and high quality products. PZ plans to drive both its revenue and profitability by investing in its customer's favourite brands and efficiencies in supply chain.

Looking at the performance in Q2 2015, we maintain our previous BUY rating on the stock of PZ Cussons at the current price of N21 per share.

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Turnover	15.67	14.95	20.24	21.23	16.64
PBT	0.61	0.55	2.57	2.05	1.07
PAT	0.35	0.43	1.78	1.35	0.80

Profit and Loss =N'bn	May-16	May-17	May-18	May-19	May-20
Turnover (Net Sales)	71.96	75.12	80.68	85.03	89.03
Cost of Sales	(52.37)	(52.04)	(55.49)	(56.78)	(59.45)
Gross Profit	19.59	23.08	25.19	28.25	29.58
Admin, Selling & Distribution Expenses	(13.87)	(14.48)	(15.55)	(16.39)	(17.16)
Depreciation	(2.06)	(2.32)	(2.64)	(3.03)	(3.52)
EBIT	3.92	6.55	7.29	9.14	9.23
EBITDA	5.98	8.88	9.94	12.17	12.74
Net Finance Cost	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
PBT	3.88	6.52	7.26	9.11	9.20
Taxation	(1.24)	(2.08)	(2.32)	(2.91)	(2.94)
PAT	2.64	4.44	4.94	6.20	6.27
EBITDA Margin	8.31%	11.81%	12.31%	14.31%	14.31%
EBIT Margin	5.44%	8.72%	9.04%	10.75%	10.37%
PBT Margin	5.40%	8.68%	9.00%	10.71%	10.34%
PAT Margin	3.68%	5.91%	6.13%	7.29%	7.04%
EPS(N)	0.67	1.12	1.24	1.56	1.58
DPS(N)	0.56	0.94	1.05	1.32	1.33
Dividend Payout	84.32%	84.32%	84.32%	84.32%	84.32%
Earnings Yield *	2.28%	3.83%	4.27%	5.36%	5.41%
Dividend Yield *	1.93%	3.23%	3.60%	4.52%	4.56%
P/E Ratio*	43.79x	26.10x	23.43x	18.67x	18.48x
Number of Shares ('bn)	3.97	3.97	3.97	3.97	3.97
Inventory Turnover	2.64	2.64	2.64	2.64	2.64
*At our fair value of N29.16					

For enquiries please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, P.M.B 12913 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 (1st Floor), Plot 1061 Herbert Macaulay, Central Business District, Abuja-Nigeria. Tel: 234-9-2918821

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

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