

UPDATE

March 22, 2016

Table 1:	HOLD
Current Price	N22.84
Fair Value	N21.61

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A Share of a Challenging Economic Climate

1.0 Q3 February 2016 Performance Analysis:

PZ Cussons Nigeria Plc's (PZ) top line showed some resilience in Q3 February 2016 despite the difficult operating environment. The company's revenue dropped marginally while its profit fell significantly, mainly as a result of the increase in operating and financing expenses. The revenue fell due to the weak purchasing power consumers faced in the country and the security challenges in Northern Nigeria. The company's Turnover (T/O) decreased by 4.22% to N50.66bn in Q3 2016, compared with N52.89bn recorded in the corresponding period of 2015. The cost of sales dropped by 2.80% to N37.46bn from N38.54bn recorded in Q3 2015 leading to a decrease in Gross Profit (GP) to N13.20bn, from N14.35bn in 2015. The cost of sales as a percentage of T/O increased marginally to 73.95% from 73.87% as at Q3 2015. Selling and distribution expenses decreased by 0.75% to N6.88bn, while administrative expenses increased by 16.85% to N4bn. Administrative, selling and distribution expenses as a percentage of T/O increased to 21.47% in Q3 2016 from 19.57% in Q3 2015. **The company hopes to address the challenging business environment through its diversification strategy. PZ plans to pursue its diversification strategy and participate more in the increasing food processing sector of the economy through strategic alliances with its related parties.**

The finance costs increased by 103.16% to N549.84mn in Q3 2016 from N270.65mn in Q3 2015. The increase in the finance charge may be due to short-term advances received from the related parties. The Profit Before Tax (PBT) fell to N2.14bn, a decrease of 46.39% from N3.99bn recorded in the corresponding period of 2015. The tax provision also fell by 59.12% to N492.44mn in Q3 2016 from N1.20bn in Q3 2015, leading to a Profit After Tax (PAT) of N1.65bn in Q3 2016 from N2.79bn in the corresponding period of 2015. The company's profit margins dropped in Q3 2016 compared with Q3 2015. **A review of PZ Cussons' group and company's accounts shows that the group made a profit while the company barely made profit during the period. The weak purchasing power, increasing operating expenses and growing finance costs had negative impacts on the profitability. PZ plans to drive both its revenue and profitability by investing in capacity and efficiencies in the supply chain. It also plans to maintain operational efficiency and invest in its customer's favourite brands.**

The company's total assets increased to N76.03bn in Q3 2016, from N67.39bn recorded in FY 2015. The working capital declined to N21.26bn; while the current ratio fell to 1.7x. This signifies that the company should be able to meet its short-term obligations as and when due.

Table 2: Financial Performance (N'bn)

	Q3,2016	Q3,2015	Change
T/O	50.66	52.89	(4.22%)
EBIT	2.53	4.11	(38.47%)
PBT	2.14	3.99	(46.39%)
PAT	1.65	2.79	(40.89%)
EM*	4.99%	7.77%	(35.76%)
PM*	3.25%	5.27%	(38.29%)

*EM: EBIT Margin; PM: PAT Margin

Source: Company's Annual Account and FSDH Research

We estimate a PAT of N2.01bn for the FY 2016. This will generate an Earning Per Share (EPS) of N0.51 and a final Dividend Per Share (DPS) of N0.43 based on a dividend pay-out of 84.32%.

Looking at the performance in Q3 ended February 2016, we revised our previous rating on the stock of the PZ Cussons from a BUY to a HOLD at the current price of N22.84 per share.

	Q3, 2016	Q2, 2015	Q1, 2015	Q4, 2015	Q3, 2015
Turnover	20.04	15.67	14.95	20.24	21.23
PBT	0.99	0.61	0.55	2.56	2.05
PAT	0.87	0.35	0.43	1.78	1.35

Source: Company's Annual Account and FSDH Research

Profit and Loss =N='bn	MayA-15	May-16	May-17	May-18	May-19	May-20
Turnover (Net Sales)	73.13	69.97	77.45	88.05	100.11	113.11
Cost of Sales	52.67	(50.92)	(55.59)	(62.76)	(70.35)	(79.43)
Gross Profit	20.45	19.05	21.86	25.29	29.75	33.68
Admin, Selling & Distribution Expenses	(13.80)	(13.80)	(14.48)	(16.29)	(18.52)	(20.02)
Depreciation	(2.04)	(2.06)	(2.32)	(2.64)	(3.03)	(3.52)
EBIT	4.74	3.44	5.33	6.68	8.57	10.55
EBITDA	6.78	5.50	7.66	9.32	11.60	14.06
Net Finance Cost	0.37	(0.48)	0.01	0.01	0.01	0.02
PBT	5.10	2.95	5.34	6.69	8.57	10.57
Taxation	1.99	(0.94)	(1.70)	(2.13)	(2.74)	(3.37)
PAT	3.12	2.01	3.63	4.55	5.84	7.19
EBITDA Margin	9.27%	7.86%	9.88%	10.58%	11.58%	12.43%
EBIT Margin	6.48%	4.91%	6.88%	7.58%	8.56%	9.33%
PBT Margin	6.98%	4.22%	6.89%	7.59%	8.57%	9.34%
PAT Margin	4.26%	2.87%	4.69%	5.17%	5.83%	6.36%
EPS(N)	0.79	0.51	0.92	1.15	1.47	1.81
DPS(N)	0.81	0.43	0.77	0.97	1.24	1.53
Dividend Payout	103.04%	84.32%	84.32%	84.32%	84.32%	84.32%
Earnings Yield *	3.44%	2.34%	4.24%	5.30%	6.80%	8.38%
Dividend Yield *	3.55%	1.98%	3.57%	4.47%	5.74%	7.07%
P/E Ratio*	29.09x	42.68x	23.61x	18.85x	14.70x	11.93x
Number of Shares ('bn)	3.97	3.97	3.97	3.97	3.97	3.97
Inventory Turnover	2.51	2.64	2.64	2.64	2.64	2.64

*At our fair value of N21.61

Source: Company's Annual Account and FSDH Research

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