

HY1 Ended June 30, 2015

Friday, August 14, 2015

## Powering Growth

### 1.0 HY1 2015 Performance Analysis:

The HY 2015 result of Transnational Corporation of Nigeria Plc (Transcorp) for the period ended June, 30 2015 shows that its Turnover (T/O) decreased by 4.52% to N20.25bn, compared with N21.21bn recorded in the corresponding period of 2014. The decline in T/O could be attributed to the decline in occupancy levels in the company's hotels, mostly as a result of the uncertainty surrounding the general election. Also, the lull in the power business in Q1 due to pipeline vandalism was partly responsible for the drop in T/O. The cost of sales grew by 28.73% to N8.04bn from N6.25bn recorded in HY 2014. This increase was due to the higher translated cost of gas as a result of the devaluation of the naira. 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 8.11% to N5.56bn in HY 2015. These expenses as a percentage of T/O rose to 27.46% from 24.26% in HY 2014.

The other operating income (net) stood at N944.13mn as at HY 2015, compared with the net other operating expense of N64.95mn recorded in HY 2014. The finance income and finance cost increased to N587.93mn and N3.02bn respectively in HY 2015. Leading to a net finance cost of N2.43bn, a 39.67% increase from N 1.74bn in HY 2014. The Profit Before Tax (PBT) stood at N5.16bn, representing a decrease of 35.58% from N8.02bn recorded in the corresponding period of 2014. The tax provision decreased by 22.08% to N878.97bn, leading to a Profit After Tax (PAT) of N4.28bn in HY 2015 from N6.89bn in the corresponding period of 2014, representing a decrease of 37.80%. The drop in the profitability is a reflection of the slowdown in business activities witnessed earlier in the year and the increased finance costs during the period.

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

|      | HY 2015 | HY 2014 | %Δ       | FY 2014 |
|------|---------|---------|----------|---------|
| T/O  | 20.25   | 21.21   | (4.52%)  | 41.34   |
| EBIT | 7.59    | 9.75    | (22.18%) | 13.63   |
| PBT  | 5.16    | 8.02    | (35.58%) | 7.73    |
| PAT  | 4.28    | 6.89    | (37.80%) | 3.30    |

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

|          | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 |
|----------|---------|---------|---------|---------|---------|
| Turnover | 10.26   | 9.99    | 9.94    | 10.19   | 10.68   |
| PBT      | 2.59    | 2.57    | (1.98)  | 1.69    | 4.25    |
| PAT      | 2.09    | 2.19    | (4.96)  | 1.38    | 3.73    |

| Table 1:      | BUY   |
|---------------|-------|
| Current Price | N2.57 |
| Fair Value    | N4.49 |

The turnover in HY June 2015 decreased by 4.52% to N20.25bn.

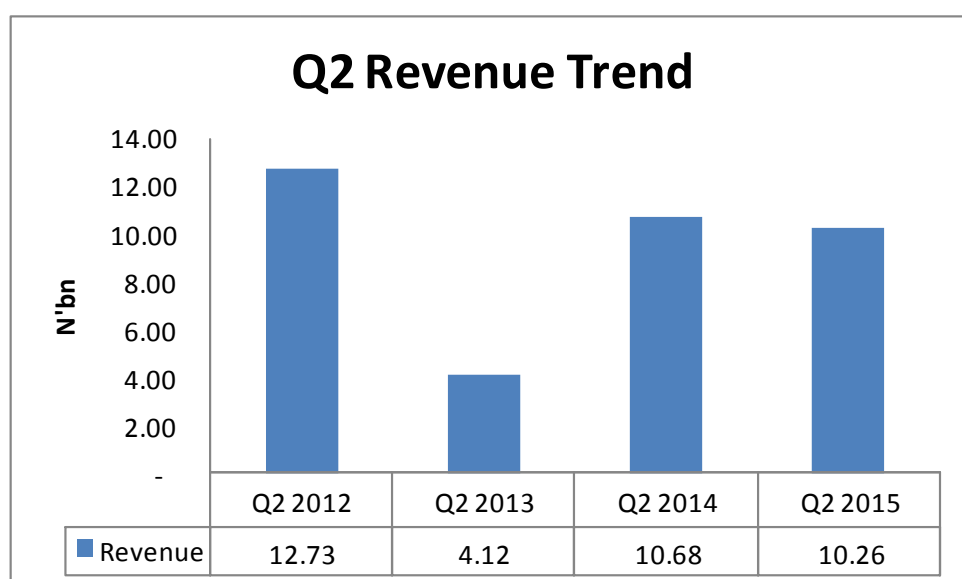
*The company's profit margins decreased in HY 2015.*

The company's profit margins decreased in HY 2015 compared with HY 2014. This could be attributed to higher operating and finance costs. The PBT Margin in HY 2015 decreased over the HY 2014 but is higher than the PBT margin of the Financial Year ended December (FY), 2014. The PBT margin decreased to 25.49% in HY 2015 from 37.79% in HY 2014 and 18.70% in FY 2014. The PAT margin currently stands at 21.15%, down from 32.47% in the corresponding period of 2014, and up from 7.99% 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: 48.99%, 66.78% and 129.66%, respectively. Given the run rate, the company should meet its previous year's profit performance with a wide margin. The company declared a dividend of 0.06 kobo per share for FY 2014.

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

**Table 4: Profitability Margins**

|                           | HY 2015 | FY 2014 | HY 2014 |
|---------------------------|---------|---------|---------|
| <b>GP* Margin</b>         | 60.28%  | 66.85%  | 70.54%  |
| <b>EBIT Margin</b>        | 37.48%  | 32.96%  | 45.98%  |
| <b>PBT Margin</b>         | 25.49%  | 18.70%  | 37.79%  |
| <b>PAT Margin</b>         | 21.15%  | 7.99%   | 32.47%  |
| <b>*GP – Gross Profit</b> |         |         |         |



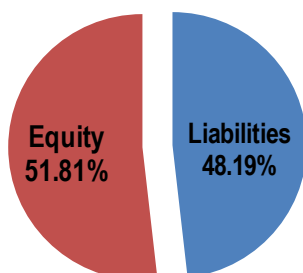
A cursory look at the balance sheet position as at HY 2015 compared with the position as at FY 2014 shows a marginal increase in the company’s fixed assets. The total fixed assets increased to N94.48bn from N93.52bn in FY 2014. The stock increased significantly by 123.55% to N3.76bn from N1.68bn in FY 2014. The cash and bank balances recorded a significant increase of 82.20% from N2.93bn in FY 2014 to N5.34bn in HY 2015. The trade creditors and other payables decreased by 5.54% to N13.01bn from N13.77bn as at FY 2014. The trade debtors and other receivables increased marginally in HY 2015 by 2.52% to N28.64bn from N27.94bn in the FY 2014. The working capital recorded a decrease to a negative N148.71mn from a positive N3.74bn recorded in FY 2014, while net assets for the period increased by 2.18% to stand at N91.72bn from N89.75bn as at FY 2014.

The total assets of the company which stood at N177.02bn as at HY 2015 were financed by a mix of equities and liabilities in the ratio of 51.81% and 48.19% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N41.47bn, accounting for 48.62% of the total liabilities, while the long-term liabilities stood at N43.83bn, accounting for 51.38% of the total liabilities. The long-term liabilities constituted mainly of borrowings which stood at N32.24bn as at HY 2015 a decrease of 13.19% from the corresponding period in 2014. The short term liabilities also constituted mainly of borrowings which stood at N20.77bn an increase of 95.20% from N10.64bn recorded in HY 2014.

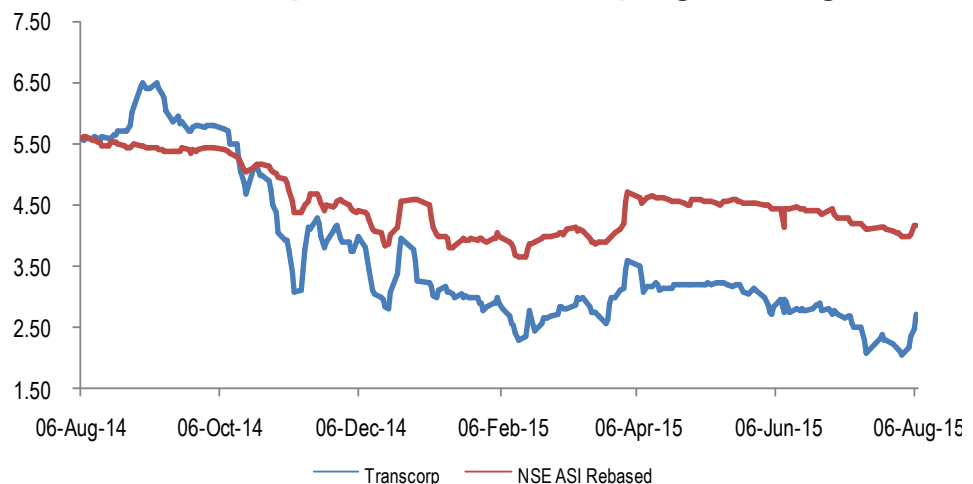
*The total fixed assets increased to N94.48bn from N93.52bn in FY 2014.*

*The total assets of the company which stood at N177.02bn as at HY 2015 were financed by a mix of equities and liabilities in the ratio of 51.81% and 48.19% respectively.*

### Financing Mix



### Transcorp VS NSE Rebased (Aug'14 - Aug'15)



## 2.0 Drivers of Performance:

Transcorp's performance can be attributed to the following:

### Positive Factors:

- Increased capacity and energy sales from the Ughelli Power plant.
- Backward integration strategy in the Agribusiness.
- Improved margins in the Agribusiness due to cost saving initiatives.
- Reforms in the power sector which has led to the payment of some of the debts owed to the power generating companies.

### Negative Factors:

- The delay in the take-off of the Transitional Electricity Market (TEM) and Multi Year Tariff Order (MYTO).
- Reduced occupancy in the hotel business due to the uncertainty surrounding the general elections.
- Inadequate gas supply in Q1 2015 due to pipeline vandalism.
- The weak purchasing power in the country.
- The exchange rate devaluation which increased the cost of funds for the foreign loans.

## 2.1 Strategic Focus:

Transcorp has strategic plans in all its businesses to further drive growth with an end-game of realising a \$1bn group PBT by Full Year 2018.

In the Agribusiness, Teragro will embark on a number of initiatives to improve its product quality while achieving cost efficiency to allow it increase market share. Additionally, Teragro recently signed a supply contract with Coca Cola. In the energy sector, Transcorp has been able to improve power output from the Ughelli plant from 160MW (November 2013) to 610MW (December 2014); with strategic plans to increase output further to 850MW by December 2015 and 2,500MW by 2018. It also aims to generate at least a quarter of Nigeria's power consumption. Transcorp has

*Transcorp plans to increase power output to 2,500MW by 2018.*

*The power plant aims to generate at least a quarter of Nigeria's power consumption*

plans to complete exploration drilling on its OPL 281 oil block in late 2015 and early 2016 while commercial oil production is estimated to start in 2018. In the hospitality space, Transcorp Hotels is taking a phased approach in developing high end hotels in Ikoyi, Lagos and Port Harcourt, as well as upgrading existing facilities in Abuja and Calabar with a target to have all ongoing projects completed by 2018.

### **3.0 Business:**

Transnational Corporation of Nigeria Plc (Transcorp) is a diversified conglomerate with interests in four business sectors: Power, Oil and Gas, Hospitality and Agriculture. In the power sector, Transcorp successfully acquired Ughelli Power Plc in 2013 creating the subsidiary company Transcorp Ughelli Power Limited (TUPL), the operator of the 972MW Ughelli Power Plant. The Group legally owns 100% of Ughelli Power Plc (UPP) but its economic interest in the entity is 50.01%. This is because UPP is a wholly owned subsidiary of TUPL and Transcorp owns 50.01% of TUPL. Transcorp recently announced a proposed merger of TUPL and UPP in order to bring overall management and operational efficiency to the power business of Transcorp. TUPL has been able to increase the plant's available capacity from 160MW to 610MW with plans to increase it to 2,500MW in the next three years.

*Transcorp is an investment company with interests in four business sectors: Power, Oil and Gas, Hospitality and Agriculture.*

In the agribusiness, Teragro Commodities Limited, a fully owned Transcorp subsidiary is the operator of the 26,500 metric tonne capacity Teragro Benfruit Plant in Benue State. Teragro produces orange, pineapple and mango juice concentrates. The company has begun its backward integration strategy by acquiring 3,500 hectares of land for cultivation in Benue.

In the oil and gas sector, Transcorp Energy oversees the group's OPL 281 asset with expectation to start crude oil production in 2018. Transcorp has also signed Production Sharing Contract (PSC) with the Nigerian National Petroleum Corporation (NNPC) for development of the OPL 281 asset.

In the hospitality sector, Transcorp Hotels Plc is the hospitality subsidiary. The company currently owns two hotels Transcorp Hilton Abuja and Transcorp Hotels

Calabar. Transcorp signed a management agreement with Hilton Worldwide to commence the development of the Transcorp Hilton Ikoyi, Lagos, as well as the Transcorp Hilton Port Harcourt. Transcorp also commenced the renovation and upgrade of the existing facilities at the Transcorp Hilton Hotel Abuja and Transcorp Hotels, Calabar. The completion of strategic expansion projects to upgrade current hotels and develop new hotels will result in Transcorp having the largest number of hotel rooms owned by any investor in Nigeria.

As at the year ended December 31, 2014, only Mr. Tony Elumelu directly and /or indirectly held a total of 44.06% of the issued share capital of Transcorp.

Table 5: Directors' Shareholding as at December 31, 2014

| Director                      | Position      | Total Holdings* |
|-------------------------------|---------------|-----------------|
| Mr Tony O.Elumelu (CON)       | Chairman      | 17,059,917,099  |
| Mr Emmanuel N.Nnorom          | President/CEO | 7,397,097       |
| Olorogun O'tega Emerhor (OON) | Non-Executive | 221,430,773     |
| Mr Abduquadir Jeli Bello***   | Non-Executive | 500,000         |
| Alhaji Mohammed Nasir Umar**  | Non-Executive | 3,735,500       |
| Mr Kayode Fasola              | Non-Executive | 1,500,000       |
| Dr Stanley Inye Lawson        | Non-Executive | 29,450,000      |
| Mr Chibundu Edozie            | Non-Executive | 10,228,066      |
| Mr Obinna Ufudo**             | Non-Executive | 142,932,621     |

\*Direct and indirect holdings

\*\*Resigned September and April 2014, \*\*\* Appointed effective April, 2014

Table 6: Shareholding Structure as at December 31, 2014

| Name                    | Number of Ordinary Shares | % of Shareholding |
|-------------------------|---------------------------|-------------------|
| Mr Tony O.Elumelu (CON) | 17,059,917,099            | 44.06             |
| Others                  | 21,661,080,326            | 55.94             |
| Total Number of Shares  | 38,720,997,425            | 100.00            |

**Table 7: Company Summary**

|                                |                        |
|--------------------------------|------------------------|
| Ticker                         | TRANSCORP              |
| Sector                         | Conglomerate           |
| Sub-sector                     | Diversified Industries |
| Date of Incorporation          | November 16, 2004      |
| Date of Listing                | November 23, 2006      |
| Financial Year End             | December               |
| Number of Fully Paid Share     | 38,720,997,425         |
| Current Capitalization(NGN)    | 94,479,233,717         |
| NSE Capitalization (NGN)       | 10,662,093,066,858.60  |
| % of NSE Capitalisation        | 0.89                   |
| 52 Week high NGN               | 6.50                   |
| 52 Week low NGN                | 2.06                   |
| YTD Return (%)                 | (23.08)                |
| 52 Weeks Average Volume Traded | 26,628,902.98          |
| Trailing EPS NGN               | 0.02                   |
| Trailing P/E Ratio (X)         | 122                    |
| *As at August, 12, 2015        |                        |



## 4.0 Product Analysis

Transcorp is a leading diversified conglomerate with interests in four business sectors: Power, Oil and Gas, Hospitality and Agriculture. The company is focused on acquiring and managing strategic businesses that create long term shareholder returns and socio-economic impact.

### 4.1 Power:

TUPL, a subsidiary of Transcorp is a leader in the Nigerian power space and drives Transcorp's strategic interests in the power sector. TUPL contributed 61.1% to revenue in HY 2015 down from 61.9% it contributed in HY 2014. The privatisation of the power sector resulted in TUPL acquiring Ughelli Power Plc, the owner and operator of the 972MW capacity Ughelli Power Plant. The energy sales from the Ughelli plant had an important role to play in Transcorp's strong revenue growth in 2014, accounting for 65% of gross earnings. TUPL has been able to increase the available capacity to 610 MW as at FY 2014 from 360MW in FY 2013 and 160MW in November 2013. The power plant is strategically located close to three other gas plants, this strategic location assures the plant of regular gas supply except in an extreme case of gas shortage. The current capacity means TUPL has achieved 91% of the 5-year 670MW target set by the Bureau of Public Enterprises ("BPE"). The recovered capacity was achieved via refurbishment of existing turbines and provision of spares for H25 turbines. The power business has been plagued by three major challenges: inadequate gas supply which was epileptic in Q1 2015 due to pipeline vandalism, interim market rules (high receivables and inappropriate tariffs) and an inefficient revenue collection system. Transcorp expects that the kick off of the Transition Electricity Market (TEM) will result in an improvement in receivables and cash flow.

*TUPL has achieved 91% of the 5-year 670MW target set by the Bureau of Public Enterprises ("BPE").*

### 4.2 Oil and Gas:

Transcorp's push into the energy sector as well as its focus on upstream petroleum development is spearheaded by Transcorp Energy. Transcorp has revised the terms of its partnership with SacOil Holdings and Energy Equity Resources (EER) on the OPL 281 asset. These revised terms will see Transcorp taking full responsibility for the operation of the oil block.

*Transcorp expects the OPL 281 asset to contribute to revenue and profit by 2018.*

In May 2014, Transcorp energy signed a Production Sharing Contract (PSC) with the NNPC. This PSC will allow Transcorp to start drilling in its OPL 281 oil block. OPL 281 will be the centrepiece of Transcorp's energy business and will provide the gas feed stock for its power plant which is located about 20km away from the oil feed. Transcorp expects the OPL 281 asset to contribute to revenue and profit by 2018.

#### **4.3 Hospitality:**

*The hospitality business contributes 34.01% to revenue.*

Transcorp Hotels Plc is the hospitality subsidiary of Transcorp. This business contributed 34.1% to revenue in HY 2015 down from 38.02% it contributed in HY 2014. In this sector, Transcorp has the following businesses; Transcorp Hilton Hotel, Abuja; The Transcorp Hilton Hotel, Abuja received the "Nigeria's Leading Hotel" award by World Travel Awards in 2013 and 2014. Situated at the heart of Abuja, it is a 670-room, 5-star hotel. This is Transcorp's flagship hotel. Transcorp is currently working on expanding and renovating the Transcorp Hilton Abuja; this project will see the addition of a 5,000 seat capacity conference centre. Transcorp Hotels, Calabar; this is a 146 room hotel located at the heart of Calabar. It also provides outstanding conferencing facilities. Transcorp has a hospitality expansion plan, which will see the development of a 300 room five star Transcorp Hilton, Ikoyi, Lagos as well as a 250 room five star Transcorp Hilton Port Harcourt. Other major competing brands in the hospitality segments of the market are: Sheraton Hotels, Protea Hotels, Lagos Oriental Hotel, Golden Tulip, Southern Sun and Intercontinental Hotel.

#### **4.4 Agriculture:**

*Teragro contributed 0.26% to revenue in HY 2015.*

Teragro is the agribusiness subsidiary of Transcorp. Teragro contributed 0.26% to revenue in HY 2015, an increase from the 0.03% contributed in HY 2014. Teragro and its products are certified by the National Agency for Food and Drugs Administration (NAFDAC) of Nigeria and the Global Food Safety Initiative (GFSI) with ISO 9001:2008 and FSSC 22000:2005. The products offered by Teragro include the following; 65\* Brix Aseptic Packed Orange Juice Concentrate, 15\* Brix Aseptic Packed Mango Puree, 60\* Brix Aseptic Packed Pineapple Concentrate. Teragro has signed an agreement for orange concentrate supply to Coca Cola.

*Teragro has signed an agreement for orange concentrate supply to Coca Cola.*

The first order was for the supply of 360,200kg of orange juice concentrates till July 2015. Transcorp has been able to improve margins in its business by implementing the following cost saving initiatives:

- The acquisition of extractor cups to improve product quality and yield,
- The conversion of fuel source for Boilers from diesel to Low Pour Fuel Oil (LPFO)
- Conducting a review of commercial agreements for the supply of raw materials.

Teragro is expecting to realise fruit from its 3,500 hectares of farmland in Benue by 2018-2020.

**Table 8: Revenue Analysis Per Business Segment – HY 2015**

|                      | Revenue (N'bn) | % of Revenue   |
|----------------------|----------------|----------------|
| <b>Power</b>         | 12.37          | 61.10%         |
| <b>Hospitality</b>   | 6.91           | 34.10%         |
| <b>Agribusiness</b>  | 0.05           | 0.26%          |
| <b>Others</b>        | 0.92           | 4.54%          |
| <b>Total Revenue</b> | <b>20.25</b>   | <b>100.00%</b> |

## 5.0 SWOT Analysis:

|  |   |
|--|---|
| <p><b>5.1 Strengths:</b></p> <ul style="list-style-type: none"> <li>○ Growing power generation business with prospects for high margins</li> <li>○ International partnerships/agreements with Hilton and Coca Cola</li> <li>○ Diversified business portfolio</li> <li>○ Good knowledge and expertise of local market</li> <li>○ Backward integration in the agribusiness will enable Transcorp increase its control on input quality and cost</li> </ul> | <p><b>5.2 Weaknesses:</b></p> <ul style="list-style-type: none"> <li>○ High cost of production</li> <li>○ High finance cost</li> <li>○ Declining profit margins</li> <li>○ Exchange rate risk</li> </ul>  |
| <p><b>5.3 Opportunities:</b></p> <ul style="list-style-type: none"> <li>○ Large market size in Nigeria</li> <li>○ Operates in the key sector of the Nigerian economy – Energy is a necessity</li> <li>○ Declaration of TEM in the power sector</li> <li>○ Import substitution policy of the Federal Government</li> </ul>  | <p><b>5.4 Threats:</b></p> <ul style="list-style-type: none"> <li>○ Continued security threats could continue to affect occupancy levels in the hospitality business</li> <li>○ Intense competition within the industry</li> <li>○ Low price of crude oil impacting the development of OPL 281</li> </ul> |

## 6.0 Forecast: Our Forecast Drivers

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

Positive Factors:

- The diversified business portfolio
- The backward integration and expansion in the Agribusiness
- Increased revenue from the power business
- The company's competitive position in the hospitality industry
- Commencement of commercial production at OPL 281 in 2018
- The planned expansion of the hospitality business
- Expected stable macroeconomic environment in Nigeria
- Expected stability and expansion in the power business

Negative factors:

- The high cost of production and finance costs
- Low price of crude oil

*We estimate a dividend per share of N0.08 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 N61.08bn, N76.48bn, N104.46bn, N182.14bn and N192.12bn for the periods ending December 2015, 2016, 2017, 2018 and 2019. We estimate EBIT of N20.94bn, N27.12bn, N41.92bn, N92.78bn and N96.35bn, and EBITDA of N28.30bn, N35.43bn, N51.53bn, N104.42bn and N110.14bn for the same period using EBIT margins of 34.28%, 35.46%, 40.13%, 50.94% and 50.15% respectively. Our PBT forecasts for the periods are: N14.50bn, N20.31bn, N34.96bn, N85.59bn and N88.75bn. Adjusting for tax, our PAT forecasts are N9.86bn, N13.81bn, N23.78bn, N58.20bn and N60.35bn. PAT Margin for the period are 16.14%, 18.05%, 22.76%, 31.95% and 31.41%. Our forecast final dividend for the FY 2015 is N0.08 per share.

| Profit and Loss =N='bn                 | Dec-15  | Dec-16  | Dec-17  | Dec-18  | Dec-19  |
|--|---------|---------|---------|---------|---------|
| Turnover (Net Sales)                   | 61.08   | 76.48   | 104.46  | 182.14  | 192.12  |
| Cost of Sales                          | (20.25) | (25.35) | (31.49) | (49.45) | (52.16) |
| Gross Profit                           | 40.83   | 51.13   | 72.96   | 132.69  | 139.96  |
| Admin, Selling & Distribution Expenses | (12.63) | (15.81) | (21.59) | (28.54) | (30.10) |
| Depreciation                           | (7.36)  | (8.31)  | (9.61)  | (11.64) | (13.79) |
| Other Operating Income                 | 0.090   | 0.113   | 0.154   | 0.268   | 0.283   |
| EBIT                                   | 20.94   | 27.12   | 41.92   | 92.78   | 96.35   |
| EBITDA                                 | 28.30   | 35.43   | 51.53   | 104.42  | 110.14  |
| Net Finance Income                     | (6.44)  | (6.82)  | (6.95)  | (7.18)  | (7.60)  |
| PBT                                    | 14.50   | 20.31   | 34.96   | 85.59   | 88.75   |
| Taxation                               | (4.64)  | (6.50)  | (11.19) | (27.39) | (28.40) |
| PAT                                    | 9.86    | 13.81   | 23.78   | 58.20   | 60.35   |

|                                    | Dec-15 | Dec-16 | Dec-17 | Dec-18 | Dec-19 |
|------------------------------------|--------|--------|--------|--------|--------|
| EBITDA Margin                      | 46.33% | 46.33% | 49.33% | 57.33% | 57.33% |
| EBIT Margin                        | 34.28% | 35.46% | 40.13% | 50.94% | 50.15% |
| PBT Margin                         | 23.74% | 26.55% | 33.47% | 46.99% | 46.19% |
| PAT Margin                         | 16.14% | 18.05% | 22.76% | 31.95% | 31.41% |
| EPS(N)                             | 0.25   | 0.36   | 0.61   | 1.50   | 1.56   |
| DPS(N)                             | 0.08   | 0.11   | 0.19   | 0.47   | 0.48   |
| Dividend Payout                    | 31.07% | 31.07% | 31.07% | 31.07% | 31.07% |
| Earnings Yield *                   | 5.67%  | 7.94%  | 13.67% | 33.47% | 34.70% |
| Dividend Yield *                   | 1.76%  | 2.47%  | 4.25%  | 10.40% | 10.78% |
| P/E Ratio*                         | 17.64x | 12.59x | 7.31x  | 2.99x  | 2.88x  |
| Number of Shares ('bn)             | 38.72  | 38.72  | 38.72  | 38.72  | 38.72  |
| Collection Days                    | 108.50 | 108.50 | 108.50 | 108.50 | 108.50 |
| Payment Days                       | 130.95 | 130.95 | 130.95 | 130.95 | 130.95 |
| Inventory Turnover                 | 8.80   | 8.80   | 8.80   | 8.80   | 8.80   |
| Interest Cover                     | 2.51   | 3.10   | 4.69   | 10.09  | 9.98   |
| <i>*At Our Fair Value of N4.49</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 6.44%, which is the average rate for the real GDP growth rate for the Nigerian economy in the last four years. We used a beta value of 1. We used the yield of **14.61%** on the approximately 5 year tenor-to-maturity of the 7% FGN Bond October 2019 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 **25.76%**. The company has long term debt, with the weighted after tax cost of the debt estimated at 7.70%. Using a tax rate of 32%, the Weighted Average Cost of Capital (**WACC**), which is our discount rate, was estimated at 20.66%. Using 38.72bn shares in issue the DCF model generated **N4.49** per share, which is our fair value.

*The fair value for Transnational Corporation of Nigeria Plc is N4.49.*

The current market price of Transcorp shares is N2.57. The highest and the lowest closing price in the last 52 weeks are N6.50 and N2.06 respectively. The 2015 forward earnings yield and dividend yield based on our fair value are: 5.67% and 1.76% respectively. The stock has about 74.71% upside potential from the current price. We therefore place a **BUY** on the shares of Transnational Corporation of Nigeria Plc at the current price of N2.57 as of August 14, 2015.

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