

PZ Cussons Nigeria Plc.

First Glance: Impressive Q4-17 Result Caps Solid 2017FY Performance

PZ released 2017FY and Q4-17 results late yesterday. For the 2017FY, revenue grew by 14.5% while PAT increased by 78.4%. The revenue N79.6 billion slightly beat our N79.1 billion estimate while the PAT of N3.3 billion is marginally below the N3.4 billion we estimated. For Q4-17 (March-May), the revenue growth of 19.1% y/y beat our 16.3% y/y estimate while the PAT growth of 370.7% y/y was ahead of our estimate of 349.2% y/y owing to the significantly lower effective tax rate (15% vs. our estimate of 32%) reported during the period. The Board recommended a final dividend of 50 kobo per share, the same as in 2016FY, but less than the 70 kobo we expected.

The Q4 result capped the impressive recovery in the group's performance which began from the second quarter. Higher selling prices, combined with seasonality effect, accounted for the strong double-digit top-line growth the group achieved in each of the last two quarters of the year. While revenue from the Durable Electrical division contracted less (by 0.5% vs. 9.4% in 2016FY), the strong growth (22% vs. -2.3% in 2016FY) achieved by the Branded Consumer goods division (HPC) is consistent with what competitors have reported (UNILEVER's HPC segment grew by 58% in H1-17).

During the three months period, the group reported 38.8% gross margin, the highest in all quarters of the year, and also historically. But adjusting cost of goods sold (COGS) for FX losses, as was the previous practice by the group, produced gross margin of 26.8%, 498 bps higher y/y, but lower than the margins reported in Q3-17 (27.6%) and Q2-17 (32.9%). The FX loss of N2.7 billion reported during the final quarter was the group's second biggest in 2017FY (N4.7 billion loss was reported in Q1-17), and surprising, given the appreciation of the Naira in the secondary markets where the group said it sourced FX to settle long outstanding trade payables. For 2017FY, the group's FX loss tripled to N8.8 billion.

Operating expenses increased by 14.9% y/y in Q4 but fell by 6.9% q/q. As a proportion of revenue, opex was lower (-60 bps y/y and -20 bps q/q). For 2017FY, opex grew by a marginal 4.7%, consistent with the benign growth recorded by most consumer goods companies in our universe in 2016FY.

From 33% average in nine months, effective tax rate (ETR) reduced to 15% in Q4, bringing the average for the 2017FY to 23.4%, much lower than the group's 5-year average ETR of 32%. The group recognized a deferred tax credit of N1.3 billion in 2017FY (vs. N209.6 million in 2016FY).

PZ's latest results are impressive, but given the consistency with consensus, suggesting they are already priced into the stock, we do not expect significant movement in the share price from current level. Besides, from the local investor perspective, the lower dividend proposed (equating to 60% payout vs. 5-year average of 75%) is discouraging. Based on our last TP of N14.29, at 45% discount to the current market price of N25.94, we have a SELL recommendation on the stock. Our estimates are under review.

Income Statement (N'bn)	Q1-17	Q2-17	Q3-17	Q4-17	Q4-17e
Revenue	16.75	16.55	23.85	22.48	21.94
Cost of sales (COS)	-10.97	-10.86	-16.09	-13.76	
Forex loss	-4.70	-0.24	-1.17	-2.69	0.00
Normalized COS	-15.67	-11.10	-17.26	-16.45	-15.80
Gross profit	1.08	5.45	6.59	6.03	6.14
Operating expenses	-3.57	-3.55	-3.94	-3.67	-3.73
Other income	0.05	0.06	0.04	0.05	0.04
Net finance cost	0.00	0.06	0.09	0.04	0.06
Profit before tax	-2.44	2.01	2.78	2.46	2.51
Taxation	0.85	-0.71	-0.89	-0.37	-0.75
Profit after tax	-1.44	1.08	1.84	1.84	1.76

Source: Company Account, Cordros Research estimates

SELL

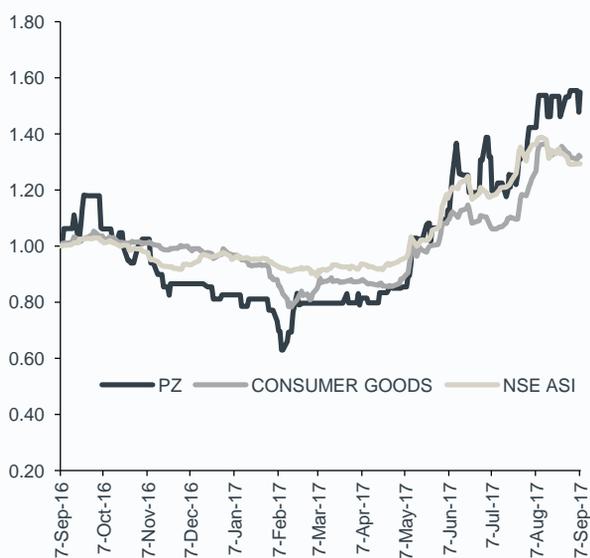
Target Price (N)	14.29
Current Price (N)	25.94
Implied Return (%)	-44.91

Company Data

NSE Code	PZ
Bloomberg Code	PZ:NL
Reuters Code	PZ.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	102.99
Free Float (%)	26.97

Ratios	Q4-17	Q4-16	2017FY
Gross margin (adjusted)	26.83%	21.85%	24.05%
Opex margin	16.33%	16.93%	18.50%
EBIT margin (adjusted)	10.73%	5.33%	5.80%
PAT margin	8.20%	2.08%	4.17%
EPS (N)	0.46	0.10	0.84

Price movement (PZ vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (N'billion).

Income Statement						Profitability Ratios					
	2014a	2015a	2016a	2017e	2018e		2014a	2015a	2016a	2017e	2018e
Revenue	72.91	73.13	69.53	79.09	81.86	Gross profit margin	26.3%	28.0%	24.9%	24.4%	25.0%
Cost of sales	-53.71	-52.67	-52.21	-59.83	-61.39	EBITDA margin	12.4%	12.3%	8.2%	8.9%	8.5%
Gross profit	19.19	20.45	17.32	19.26	20.46	PBT margin	9.5%	9.0%	4.5%	6.2%	5.6%
Operating expenses	-12.89	-13.80	-14.07	-14.79	-16.37	Net prof it margin	7.0%	6.3%	3.1%	4.3%	3.9%
Other income	0.28	0.12	0.29	0.19	0.20	RoAE	11.7%	10.6%	4.9%	7.8%	7.3%
Net finance (cost)/income	0.37	-0.22	-0.39	0.21	0.28	RoAA	7.1%	6.6%	3.0%	4.0%	3.3%
Profit before tax	6.95	6.56	3.15	4.87	4.58						
Tax	-1.87	-1.99	-1.02	-1.51	-1.35	Liquidity Ratios					
Profit after tax	5.08	4.57	2.13	3.36	3.23	Working capital (N'bn)	22.7	22.6	20.8	17.7	17.4
						Current ratio	2.0x	2.2x	1.8x	1.4x	1.4x
Financial Position						Efficiency Ratios					
	2014a	2015a	2016a	2017e	2018e		2014a	2015a	2016a	2017e	2018e
PPE	24.49	25.22	26.50	33.21	33.96	Quick ratio	1.1x	1.1x	1.1x	0.8x	0.8x
Total non-current assets	24.49	25.22	26.50	33.21	33.96	Cash ratio	0.2x	0.1x	0.5x	0.3x	0.3x
Inventory	20.29	21.01	19.28	26.37	26.97	Fixed assets turnover	3.0x	2.9x	2.6x	2.4x	2.4x
Debtors	20.68	17.91	15.59	21.49	21.98	Current assets turnover	1.6x	1.7x	1.5x	1.2x	1.2x
Deposit for LCs	1.03	0.92	0.19	2.94	3.01	Total assets turnover	1.0x	1.1x	0.9x	0.8x	0.8x
Cash & bank balances	4.48	2.33	12.87	13.63	13.90	Inventory turnover	0.4x	0.4x	0.4x	0.4x	0.4x
Total current assets	46.48	42.17	47.93	64.43	65.87	Receivables turnover	0.3x	0.3x	0.2x	0.2x	0.3x
Total Assets	70.97	67.39	74.43	97.64	99.83	Payables turnover	0.4x	0.4x	0.4x	0.6x	0.8x
Trade creditors	21.90	17.83	25.72	45.53	47.16	Days inventory outstanding	130	143	141	139	159
Taxation	1.86	1.67	1.29	1.08	1.12	Days collection/sales outstanding	103	96	88	86	97
Total current liabilities	23.76	19.56	27.10	46.74	48.42	Days payable outstanding	149	124	180	278	280
Deferred taxation	4.37	3.90	3.69	6.22	6.45	Cash conversion cycle	84	116	49	-53	-25
Provisions	0.11	0.25	0.24	0.61	0.61						
Total non-current liabilities	4.48	4.15	3.93	6.83	7.05	Investment Ratios					
Total liabilities	28.24	23.72	31.03	53.56	55.47		2014a	2015a	2016a	2017e	2018e
Total Equity	42.73	43.67	43.40	44.08	44.35	Earnings per share (N)	1.2	1.0	0.5	0.8	0.7
						Dividend per share (N)	0.8	0.8	0.5	0.7	0.7
						Payout	69.1%	79.3%	106.6%	86.7%	87.2%
						Dividend yield	2.2%	3.0%	2.3%	3.8%	3.6%

Source: Company Accounts, Cordros Research

Disclosures

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