

# PZ Cussons Nigeria Plc.

## First Glance: Loss in Q1-18; But Profit to Return in Subsequent Quarters

PZ released Q1-18 result earlier today, showing a post-tax loss of N123.1 million, despite revenue growing by 12.8% y/y. The loss after tax was much lower than the N1.59 billion loss reported in the same period of 2017. **Q1 usually isn't great for PZ, however, compared to same period two years ago and beyond, more is demanded vis-à-vis recovery in the company's performance.**

In our view, the higher revenue compared to Q1-17 more reflects the impact of pricing, than volume, as consumers remain affected by the slow recovery of the economy. We were informed in our recent meeting with the management that PZ is experiencing low sales volume across the business divisions. The feedback, for instance, is that sales volume in both the HPC and Electrical divisions was down by 20% and 28% respectively in 2017FY. We think volume may have been flat on average during the review period. Management said it is yet to increase prices this year, and is unlikely to do so, barring any major pressure on margins from external factors.

During the three months period, the group reported 31.7% gross margin, the lowest since Q4-16. But on like-for-like basis (i.e. adjusting cost of goods sold for FX losses), gross margin stood at 22.2%, a lot higher than the 6.5% reported in Q1-17. FX loss was lower by 62% y/y, reflecting the significant savings from purchasing forex at a reduced average price compared to a year ago. We were also informed at the meeting with the company's management that FX losses arise as a result of the difference between the average rate (N367/USD) from sourcing across other markets and the CBN's official exchange rate of N305/USD applied for reporting.

Operating expenses increased by 15.9% y/y and 12.8% q/q during the review period. As a proportion of revenue, opex was 21.9% (although 557 bps higher q/q), almost the same as in Q1-17, and also consistent with the rate reported in the same period of previous years.

Asides from the weak growth in gross profit (3.6% y/y) and higher opex, also directly linked to the loss reported during the period was a finance cost of N348.2 million, being a charge on the N1.49 billion overdraft facility accessed during the period.

Given a pre-tax loss, a tax credit of N58 million was reported. Recall that effective tax rate of 15% was reported in Q4-17, arising, according to management, from a "tax audit" conducted during the period. Average tax rate of 28% has been guided for 2018F.

**We think PZ's latest result is fair, considering the environment, and compared to a year ago. Management is of the view that the environment is expected to remain very challenging, and hence, the guidance to flattish or slight earnings growth in 2018F. We do not expect serious negative reaction from investors.** Based on our last TP of N14.29, which is at 45% discount to the current market price of N26.00, we have a SELL recommendation on the stock. Our estimates are under review.

Income Statement (N'bn)	Q1-18	Q1-17	Q2-17	Q3-17	Q4-17
Revenue	18.90	16.75	16.55	23.85	22.48
Cost of sales (COS)	-12.91	-10.97	-10.86	-16.09	-13.76
Forex loss	-1.79	-4.70	-0.24	-1.17	-2.69
<b>Normalized COS</b>	<b>-14.70</b>	<b>-15.67</b>	<b>-11.10</b>	<b>-17.26</b>	<b>-16.45</b>
Gross profit	4.20	1.08	5.45	6.59	6.03
Operating expenses	-4.14	-3.57	-3.55	-3.94	-3.67
Other income	0.03	0.05	0.06	0.04	0.05
Net finance cost	-0.27	0.00	0.06	0.09	0.04
Profit before tax	-0.18	-2.44	2.01	2.78	2.46
Taxation	0.06	0.85	-0.71	-0.89	-0.37
<b>Profit after tax</b>	<b>-0.12</b>	<b>-1.59</b>	<b>1.31</b>	<b>1.89</b>	<b>2.09</b>

Source: Company Account, Cordros Research estimates

# SELL

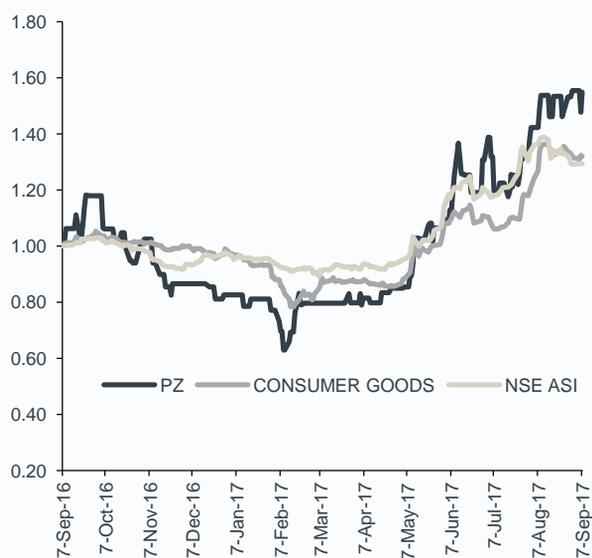
Target Price (N)	14.29
Current Price (N)	26.00
Implied Return (%)	-45.00

### Company Data

NSE Code	PZ
Bloomberg Code	PZ:NL
Reuters Code	PZ.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	103.22
Free Float (%)	26.97

Ratios	Q1-18	Q1-17	2017FY
Gross margin (adjusted)	22.22%	6.45%	24.05%
Opex margin	21.90%	21.32%	18.50%
EBIT margin (adjusted)	0.09%	-2.43%	5.80%
PAT margin	-0.33%	-8.57%	4.17%
EPS (N)	-0.03	-0.40	0.84

### Price movement (PZ vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

# Financial Statement (N'billion).

Income Statement (N'bn)						Profitability Ratios					
	2015a	2016a	2017a	2018e	2019e		2015a	2016a	2017a	2018e	2019e
Revenue	73.13	69.53	79.63	83.61	91.97	Gross profit margin	28.0%	24.9%	24.0%	26.0%	26.1%
Cost of sales	-52.67	-52.21	-60.48	-61.87	-67.97	EBITDA margin	12.3%	8.2%	8.8%	10.3%	10.5%
Gross profit	20.45	17.32	19.15	21.74	24.00	PBT margin	9.0%	4.5%	6.0%	7.6%	7.8%
Operating expenses	-13.80	-14.07	-14.73	-15.89	-17.38	Net profit margin	6.3%	3.1%	4.6%	5.4%	5.5%
Other income	0.12	0.29	0.20	0.21	0.24	RoAE	10.6%	4.9%	7.7%	9.1%	10.9%
Net finance (cost)/income	-0.22	-0.39	0.20	0.29	0.30	RoAA	6.6%	3.0%	4.3%	4.5%	4.9%
Profit before tax	6.56	3.15	4.81	6.35	7.16	<b>Liquidity Ratios</b>					
Tax	-1.99	-1.02	-1.12	-1.87	-2.11	Working capital (N'bn)	22.6	20.8	22.1	18.1	18.4
<b>Profit after tax</b>	<b>4.57</b>	<b>2.13</b>	<b>3.69</b>	<b>4.48</b>	<b>5.05</b>	Current ratio	2.2x	1.8x	1.5x	1.4x	1.4x
<b>Financial Position (N'bn)</b>						Quick ratio	1.1x	1.1x	0.9x	0.8x	0.8x
PPE	25.22	26.50	33.21	34.69	35.98	Cash ratio	0.1x	0.5x	0.3x	0.3x	0.3x
Intangible assets	-	-	1.02			<b>Efficiency Ratios</b>					
<b>Total non-current assets</b>	<b>25.22</b>	<b>26.50</b>	<b>33.21</b>	<b>34.69</b>	<b>35.98</b>	Fixed assets turnover	2.9x	2.6x	2.4x	2.4x	2.6x
Inventories	21.01	19.28	26.37	27.55	28.57	Current assets turnover	1.7x	1.5x	1.2x	1.2x	1.3x
Trade and other receivables	17.91	15.59	21.49	22.45	23.29	Total assets turnover	1.1x	0.9x	0.8x	0.8x	0.9x
Deposit for imports	0.92	0.19	2.94	3.08	3.20	Inventory turnover	0.4x	0.4x	0.4x	0.4x	0.4x
Cash & cash equivalents	2.33	12.87	13.63	14.19	14.67	Receivables turnover	0.3x	0.2x	0.2x	0.3x	0.2x
<b>Total current assets</b>	<b>42.17</b>	<b>47.93</b>	<b>64.43</b>	<b>67.28</b>	<b>69.74</b>	Payables turnover	0.4x	0.4x	0.5x	0.7x	0.7x
<b>Total Assets</b>	<b>67.39</b>	<b>74.43</b>	<b>97.64</b>	<b>101.97</b>	<b>105.72</b>	Days inventory outstanding	143	141	138	159	151
Trade and other payables	17.83	25.72	39.72	47.93	50.04	Days collection/sales outstanding	96	88	85	96	91
Current taxation payable	1.67	1.29	2.56	1.14	1.19	Days payable outstanding	124	180	240	283	269
Warranty provisions	0.06	0.09	0.09			Cash conversion cycle	116	49	-17	-28	-27
<b>Total current liabilities</b>	<b>19.56</b>	<b>27.10</b>	<b>42.37</b>	<b>49.21</b>	<b>51.38</b>	<b>Investment Ratios</b>					
Deferred taxation	3.90	3.69	2.40	6.55	6.84	Earnings per share (N)	1.0	0.5	0.84	1.1	1.3
Warranty provisions	0.25	0.24	0.18	0.62	0.62	Dividend per share (N)	0.8	0.5	0.5	0.9	1.0
<b>Total non-current liabilities</b>	<b>4.15</b>	<b>3.93</b>	<b>2.58</b>	<b>7.17</b>	<b>7.46</b>	Payout	79.3%	106.6%	59.7%	85.1%	80.0%
<b>Total liabilities</b>	<b>23.72</b>	<b>31.03</b>	<b>44.95</b>	<b>56.38</b>	<b>58.85</b>	Dividend yield	3.0%	2.3%	1.9%	3.4%	3.9%
<b>Total Equity</b>	<b>43.67</b>	<b>43.40</b>	<b>52.69</b>	<b>45.59</b>	<b>46.87</b>						

Source: Company Accounts, Cordros Research

# Disclosures

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