

PZ Cussons Nigeria Plc.

Loss in Q1-19; uncertain near-term catalyst for earnings

Update: PZ published Q1-19 result on Friday last week, with a loss of NGN204.6 million (Q1-18: NGN123.1 million loss). Compared to 2018, we now expect the group's earnings in Q2, and indeed the rest of 2019E, will be weaker, with the trading update also released last week by the parent company guiding to still challenged conditions in Nigeria ahead of the general elections. **We recently spoke to some PZ's distributors in Lagos and they confirmed to us that "the market has been subdued since June across all segments", with new HPC launches gaining only little traction.**

Revenue improvement initiatives: At -14% y/y and -8% q/q in Q1-19, PZ's revenue has declined y/y and q/q for the third quarter in a row. June-August is off-peak period for the group, and management had in June, guided to continued difficult trading conditions in the local market. We had expected revenue will decline by low single-digit over the low base of Q4-18, and given new products had just been introduced to the market. While revenue performance will be better over the remaining quarters – in the historical pattern – **following the last result, we believe upside is limited compared to 2018FY, against a backdrop of still subdued consumer spending (reinforced by the September trading update).**

Higher like-for-like (LFL) gross margin in Q1-19 driven by lower FX loss: At 24.3%, reported LFL gross margin was higher by 167bps vs. Q1-18. The gross margin is consistent with our expectation, and also an improvement over the last two quarters of 2018FY. We believe the lower FX loss of NGN670 million (-63% vs. Q1-18 and -68% vs. Q4-18) was supportive of the improved gross margin, but while FX – and broadly, gross margin – outlook is positive, risk is that PZ's FX loss is somewhat unstable and pricing pressure persists **(we learnt from distributors that the prices of Joy and Imperial Leather bar soaps were recently returned to their pre-hike levels).**

Sticky opex and lower revenue squeeze EBIT: Despite lower revenue, opex grew by 0.2% y/y and 11% q/q, with the corresponding ratio to revenue at a record-high of 26%. On LFL basis, we estimate that PZ recorded operating loss of NGN250 million (Q1-2018: NGN90 million) in the review period. **While the focus for PZ must be on maintaining cost control, we are afraid that increasing competition will force the group to retain opex around current level (NGN4 billion average quarterly spend since Q1-18) to maintain market share across product segments.** On our forecast 2% decline in revenue, we reduce our 2019E EBIT margin estimate to 3.5% (previously 4.1%).

Changes to earnings estimates and TP: Our adjusted PBT estimate is NGN2.4 billion in 2019E, (previously NGN3.2 billion), equating to 4% growth vs. 2018FY. **Save for materially lower opex and finance costs compared to our estimates, we see no catalysts for PZ's earnings in the near term.** On our revised TP of NGN12.18/s (previously NGN14.60/s), the stock trades at 3% downside – and expected total return of -1% after incorporating 2019E dividend yield of c.2%. HOLD.

HOLD

Target Price (NGN)	12.18
Current Price (NGN)	12.55
Implied Return (%)	-2.97
Expected Dividend Yield (%)	1.57
Expected Total Return	-1.39

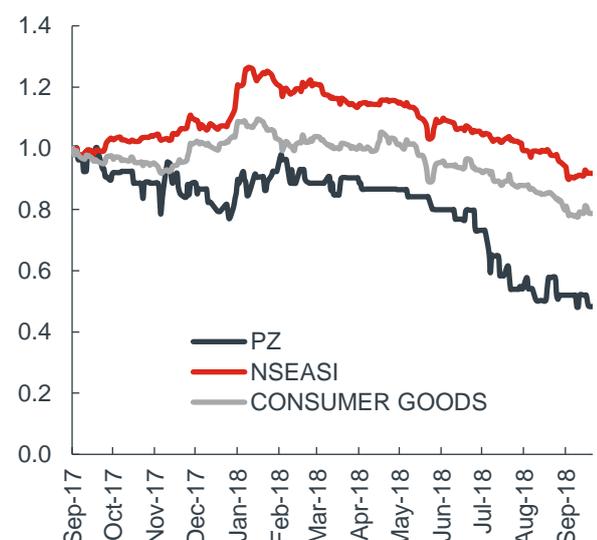
Company Data

NSE Code	PZ
Bloomberg Code	PZ:NL
Reuters Code	PZ.LG
Sector	CONSUMER GOODS
Market Cap. (NGN' bn)	49.83
Free Float (%)	26.73

Ratios	Q1-2019	Q1-2018	2018FY
*Gross margin	24.31%	22.64%	23.67%
Opex margin	26.09%	22.32%	20.15%
*EBITDA margin	2.75%	0.49%	6.99%
*EBIT margin	-1.60%	0.49%	3.68%
PAT margin	-1.29%	-0.66%	2.39%
EPS (NGN)	-0.05	-0.03	0.46

*Like-for-like basis

Price movement (PZ vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

03 October 2018

Summary of Results.

Income Statement (NGN'bn)	31-Aug-18	31-Aug-17	y/y	q/q	May'18	Feb'18	Nov'17	Aug'17
Revenue	15.90	18.54	-14.3%	-8.1%	17.29	22.14	22.22	18.90
Cost of sales	11.36	12.55	-9.5%	2.6%	11.07	16.23	15.89	12.91
Gross profit	4.53	5.99	-24.4%	-27.1%	6.22	5.91	6.33	5.99
Operating expenses	4.15	4.14	0.2%	11.4%	3.72	4.06	4.31	4.14
Other income	0.03	0.03	-11.7%	-40.4%	0.05	0.02	0.03	0.03
Net finance cost	-0.62	-2.07	-70.1%	-71.9%	-2.20	-0.77	-1.01	-2.07
Profit before tax	-0.20	-0.18	13.1%	-159.0%	0.35	1.10	1.05	-0.18
Taxation	0.00	-0.06	-100.0%	-100.0%	-0.24	0.35	0.34	-0.06
Profit after tax	-0.20	-0.12	66.3%	-134.7%	0.59	0.75	0.71	-0.12

Ratios	31-Aug-18	31-Aug-17		May'18	Feb'18	Nov'17	Aug'17
Gross margin	28.51%	32.32%		35.97%	26.70%	28.50%	31.71%
LFL gross margin	24.31%	22.64%		23.74%	23.51%	24.99%	22.22%
OPEX margin	26.09%	22.32%		21.52%	18.34%	19.38%	21.90%
CoGS margin	71.49%	67.68%		64.03%	73.30%	71.50%	68.29%
LFL CoGS margin	75.69%	77.36%		76.26%	76.49%	75.01%	77.78%
EBIT margin	2.42%	9.99%		14.44%	8.36%	9.12%	9.81%
LFL EBIT margin	-1.60%	0.49%		2.50%	5.26%	5.75%	0.48%
PBT margin	-1.29%	-0.98%		2.01%	4.96%	4.72%	-0.96%
PAT margin	-1.29%	-0.66%		3.41%	3.38%	3.21%	-0.65%
EBITDA margin	2.75%	0.49%		7.64%	8.09%	10.91%	0.48%
Tax rate	0.00%	32.00%		-70.07%	31.90%	32.11%	32.00%

Source: Company Accounts, Cordros Research estimate

Financial Statements (NGN billion).

Income Statement (NGN'bn)	2016a	2017a	2018a	2019e	2020e
Revenue	69.53	79.63	80.55	78.69	86.56
Cost of sales	-52.21	-60.48	-61.49	-59.57	-65.44
Gross profit	17.32	19.15	19.06	19.12	21.12
Operating expenses	-14.07	-14.73	-16.23	-16.53	-17.31
Other income	0.29	0.20	0.13	0.13	0.16
Net finance (cost)/income	-0.39	0.20	-0.65	-0.33	-0.38
Profit before tax	3.15	4.81	2.31	2.40	3.59
Tax	-1.02	-1.12	-0.39	-0.72	-1.08
Profit after tax	2.13	3.69	1.93	1.68	2.51
Non-controlling interest	-0.27	-0.36	-0.08	-0.12	-0.17
Equity holders of the Parent Company	1.86	3.32	1.85	1.57	2.34

Profitability Ratios	2016a	2017a	2018a	2019e	2020e
Gross profit margin	24.9%	24.0%	23.7%	24.3%	24.4%
EBITDA margin	8.2%	8.7%	7.0%	6.8%	7.9%
EBIT margin	5.1%	5.8%	3.7%	3.5%	4.6%
PBT margin	4.5%	6.0%	2.9%	3.1%	4.1%
Net profit margin	3.1%	4.6%	2.39%	2.1%	2.9%
RoAE	4.9%	8.3%	4.3%	3.7%	5.3%
RoAA	3.0%	4.5%	2.2%	1.9%	2.7%

Liquidity Ratios	2016a	2017a	2018a	2019e	2020e
Working capital (NGN'bn)	20.8	18.2	18.2	20.8	21.5
Current ratio	1.8x	1.4x	1.4x	1.5x	1.5x
Quick ratio	1.1x	0.8x	0.8x	0.8x	0.8x
Cash ratio	0.5x	0.2x	0.3x	0.3x	0.3x

Efficiency Ratios	2016a	2017a	2018a	2019e	2020e
Fixed assets turnover	2.6x	2.8x	2.8x	2.8x	3.0x
Current assets turnover	1.5x	1.3x	1.4x	1.2x	1.3x
Total assets turnover	0.9x	0.9x	0.9x	0.9x	0.9x
Inventory turnover	0.4x	0.4x	0.4x	0.5x	0.5x
Receivables turnover	0.2x	0.2x	0.2x	0.2x	0.2x
Payables turnover	0.4x	0.5x	0.6x	0.7x	0.7x
Days inventory outstanding	141	145	162	174	174
Days collection/sales outstanding	88	75	77	81	79
Days payable outstanding	180	240	239	262	248
Cash conversion cycle	49	-20	0	-7	5

Investment Ratios	2016a	2017a	2018a	2019e	2020e
Earnings per share (NGN)	0.47	0.84	0.46	0.39	0.59
Dividend per share (NGN)	0.50	0.50	0.15	0.20	0.47
Payout	106.6%	59.7%	32.3%	50.0%	80.0%
Dividend yield	2.3%	2.7%	0.7%	1.6%	3.8%

Financial Position (NGN'bn)	2016a	2017a	2018a	2019e	2020e
PPE	26.50	28.51	28.43	27.99	29.08
Intangible assets	-	1.02	0.95	1.01	1.05
Other LT receivables	-	-	0.02	-	-
Total non-current assets	26.50	29.53	29.41	29.00	30.13
Inventories	19.28	28.71	26.04	30.66	31.85
Trade and other receivables	15.59	17.22	16.57	18.37	19.08
Deposit for imports	0.19	6.60	2.34	2.35	2.44
Cash & cash equivalents	12.87	8.02	14.26	12.20	12.67
Total current assets	47.93	60.56	59.21	63.58	66.05
Total Assets	74.43	90.09	88.62	92.58	96.18
Bank overdraft	-	-	1.00	-	-
Trade and other payables	25.72	39.72	40.20	42.73	44.46
Current taxation payable	1.29	2.56	0.46	0.00	0.00
Warranty provisions	0.09	0.09	0.08	0.07	0.08
Total current liabilities	27.10	42.37	40.98	42.81	44.53
Deferred taxation	3.69	2.40	2.42	3.40	3.54
Warranty provisions	0.24	0.18	0.10	0.18	0.18
Total non-current liabilities	3.93	2.58	2.53	3.58	3.72
Total liabilities	31.03	44.95	43.51	46.38	48.25
Total Equity	43.40	45.14	45.11	46.20	47.93

PE	46.2x	22.3x	47.0x	31.8x	21.3x
EV/EBITDA	12.9x	9.5x	12.9x	7.0x	5.5x

Source: Company Accounts, Cordros Research estimates

Disclosures.

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