

# NASCON Allied Industries Plc.

CONSUMER GOODS – Agro-Allied

## Margin Compression to Undermine Earnings

**NASCON's 2021FY result aligned with our expectations that the company will see out the year with positive results, as both the top (+18.8% y/y) and bottom (+10.4% y/y) lines posted double-digit growth. However, we regard the revenue growth in 2021FY to be sub-optimal, given the exciting growth potentials for staple food producers. Going into 2022E, we expect revenue growth to be driven by price increases, as we see little scope for volume expansion in the salts segment. In addition, we expect inflationary pressures to persist and constrain margins in the year. Following the revisions to our estimates, we lower our target price to NGN14.86/s (previously: NGN21.02/s) and revise downwards our rating on the stock to a "HOLD" from "BUY".**

**Higher prices to shore revenue growth:** NASCON's revenue grew by 18.8% y/y in 2021FY, mainly driven by increases in its flagship businesses – salt (+17.4% y/y | 89.4% of revenue) and seasonings (+31.9% y/y | 10.6% of revenue). Salt revenue was driven solely by price increases (c. 12.0% y/y). We note that the reduction in volumes come despite the expansion of its refined salt capacity from 82k/mt to 250k/mt. We believe NASCON's inability to ramp up refined salt volumes is attributable to Royal Salt's (c. 70.0% of market share) control of the refined salt segment. On the other hand, the sturdy growth in the seasonings segment emanated from higher volumes and prices. On the latter, we highlight that NASCON's seasoning product (Dan-Q) retailed at lower prices to other brands, reiterating NASCON's affordability strategy. Across its regional footprint, NASCON's strategy to penetrate other regions besides from the North (62.8% of revenue | 2020FY: 67.2%) paid off, as the company gained some traction in the West (29.1% of revenue | 2020FY: 25.7%) and East (8.0% of revenue | 2020FY: 7.1%). For 2022E, we forecast a 17.0% y/y growth in topline, majorly driven by price increases. We believe higher salt prices will support higher salt sales, with volume growth unlikely given Royal Salt's dominance of the refined salts segment. For the seasonings segment, we expect the current momentum to be sustained, driven by the company's low-price strategy. Over the medium term (2023 – 2026E), we model annual revenue growth of 14.8%.

**Lower margins & profitability on cost pressures:** Gross margin declined by 534bps to 35.9% in 2021FY, owing to a 133.8% y/y increase in the cost of raw materials, reflecting the effects of FX challenges and elevated inflationary pressures. We expect these pressures to remain drags on NASCON's margins in the near term. As a result, we estimate gross margin will decline slightly by 50bps to 35.4% in 2022E, with the expected price increases providing some support. Based on our expectations for a lower gross margin and a 13.9% y/y expected increase in operating expenses, we estimate EBITDA margin will decline by 337bps to 17.3% in 2022E. Accordingly, we forecast a 11.1% y/y decline in 2022E EPS to NGN1.05. Further out, we forecast an EPS CAGR of 15.2% for 2023E-2026E. Our 2022 EPS forecast is 18.8% lower than the Bloomberg consensus estimate of NGN1.29.

**Valuation:** The net impact of our changes is a downward adjustment in our price target to NGN14.86/s (previously: NGN21.02/s) – implying a potential upside of 10.1% and a 12.9% total expected return after incorporating its 2022E dividend yield of 2.8%. On our estimates, NASCON trades at a 2022E P/E and EV/EBITDA of 14.4x and 4.3x.

INVESTMENT REPORT.

## HOLD

Prev. BUY

## Price Target

Current Price

## NGN14.86

NGN13.50

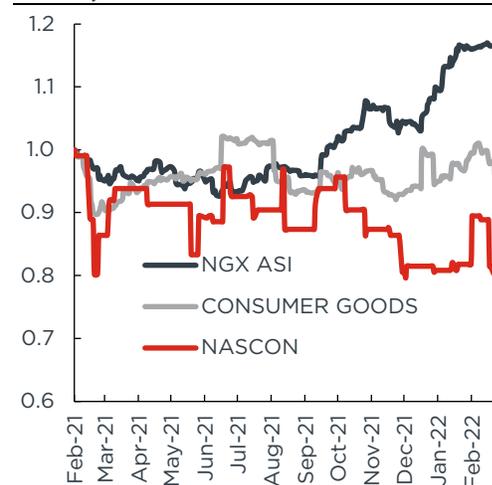
### Company Profile

NGX	NASCON
Bloomberg	NASCON:NL
Reuters	NASCON.LG
52-week range (NGN)	12.70 – 16.20
Market Cap. (NGN billion)	35.77
Shares Out. (billion)	2.65
Free Float (%)	98.86

Market Multiples	2021A	2022E	2023E
EPS	1.12	1.05	1.18
P/E	11.8x	14.2x	19.3x
EV/EBITDA	4.6x	4.3x	6.7x
EV/Sales	0.9x	0.8x	1.1x
Dividend Yield	3.0%	2.8%	3.1%

Source: Bloomberg, Cordros Research estimates

### Price movement (NASCON vs benchmark indices)



Prices in this report are as of close 14 Mar 2022

Source: NGX, Bloomberg, Cordros Research

### Analyst(s)

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## Financial Statements.

Income Statement	2020A	2021A	2022E	2023E	2024E
Revenue	28,010	33,280	38,950	45,593	52,961
COGS	(16,448)	(21,320)	(25,148)	(29,665)	(34,194)
Gross profit	11,562	11,959	13,802	15,928	18,767
Other income	600	1,835	890	1,041	1,210
OPEX	(8,187)	(9,494)	(10,614)	(12,424)	(14,432)
EBITDA	6,964	6,885	6,941	7,117	7,979
D&A	2,936	2,568	2,847	2,556	2,418
EBIT	4,028	4,317	4,094	4,561	5,561
Net Interest	(121)	(78)	(35)	31	110
PBT	3,907	4,238	4,059	4,592	5,671
Tax	(1,216)	(1,267)	(1,285)	(1,454)	(1,795)
PAT	2,690	2,971	2,774	3,138	3,876
EPS	1.02	1.12	1.05	1.18	1.46
DPS	0.40	0.40	0.37	0.42	0.52
Payout ratio	39.4%	35.7%	35.7%	35.7%	35.7%
Shares outstanding	2,649	2,649	2,649	2,649	2,649

Balance Sheet	2020A	2021A	2022E	2023E	2024E
Cash and cash equivalents	2,600	7,044	12,983	16,433	19,545
Accounts receivable	13,362	9,794	13,297	15,564	18,079
Inventories	5,159	4,292	5,730	6,759	7,791
Other current assets	2,789	1,490	1,490	1,490	1,490
Current assets	23,911	22,620	33,500	40,247	46,906
PP&E	16,698	14,063	12,625	11,945	11,971
Other non-current assets	3,700	3,838	3,838	3,838	3,838
Total assets	44,309	40,521	49,963	56,030	62,715
Short term borrowings					
Payables	23,098	14,090	21,818	25,737	29,666
Other short-term liabilities	2,424	6,128	6,128	6,128	6,128
Current liabilities	25,522	20,218	27,946	31,865	35,794
Long-term debt	39	39	39	39	39
Other long-term liabilities	6,029	5,634	5,634	5,634	5,634
Total liabilities	31,589	25,891	33,618	37,537	41,467
Shareholders' equity	12,720	14,631	16,344	18,493	21,248
Retained earnings	10,961	12,872	14,585	16,734	19,490
Total liabilities & equity	44,309	40,521	49,963	56,030	62,715
BVPS	4.80	5.52	6.17	6.98	8.02
y/y Growth	14.7%	15.0%	11.7%	13.1%	14.9%
Net debt/(cash)	1,007	(3,365)	(9,304)	(12,754)	(15,866)

Cashflow Statement	2020A	2021A	2022E	2023E	2024E
Cash flow from operating activities	8,021	5,021	8,408	6,316	6,676
o/w Depreciation & amortization	2,936	2,568	2,847	2,556	2,418
o/w Changes in working capital	2,122	(484)	2,787	622	382
Cash flow from investing activities	(3,987)	1,098	(1,408)	(1,876)	(2,444)
o/w Capital expenditure	(4,038)	(1,203)	(1,408)	(1,876)	(2,444)
as % of sales	14.4%	3.6%	3.6%	4.1%	4.6%
Cash flow from financing activities	(5,094)	(1,676)	(1,060)	(990)	(1,120)
o/w Dividends paid	(1,060)	(1,060)	(1,060)	(990)	(1,120)
o/w Debt issued/(repaid)					
Net change in cash	(1,060)	4,444	5,939	3,450	3,112
Free cash flow to firm	3,983	3,818	6,999	4,440	4,231
y/y Growth	621.2%	-4.1%	83.3%	-36.6%	-4.7%

Ratios	2020A	2021A	2022E	2023E	2024E
Gross Margin	41.3%	35.9%	35.4%	34.9%	35.4%
EBITDA Margin	24.9%	20.7%	17.8%	15.6%	15.1%
EBIT Margin	13.9%	12.7%	10.4%	10.1%	10.7%
Net Profit Margin	9.6%	8.9%	7.1%	6.9%	7.3%
ROAE	15.5%	19.7%	18.5%	15.9%	15.8%
ROAA	6.5%	7.0%	6.2%	5.9%	6.5%
ROIC	19.1%	22.0%	24.8%	44.3%	66.2%
ROCE	16.5%	16.2%	13.9%	14.2%	15.5%
OPEX/Sales	29.2%	28.5%	27.3%	27.3%	27.3%
Net debt/Equity (x)	0.1x	-0.2x	-0.6x	-0.7x	-0.7x
Net debt/EBITDA (x)	0.1x	-0.5x	-1.3x	-1.8x	-2.0x
Sales/Assets (x)	0.7x	0.8x	0.9x	0.9x	0.9x
Assets/Equity (x)	3.5x	2.8x	3.1x	3.0x	3.0x
Interest cover (x)	23.4x	33.2x	31.4x	34.9x	42.5x
Tax Rate	31.1%	29.9%	31.7%	31.7%	31.7%
Revenue y/y Growth	1.9%	18.8%	17.0%	17.1%	16.2%
EBITDA y/y Growth	35.5%	-1.1%	0.8%	2.5%	12.1%
EPS y/y Growth	45.8%	10.4%	-6.6%	13.2%	23.5%

Valuation	2020A	2021A	2022E	2023E	2024E
P/E (x)	14.3x	11.8x	14.2x	19.3x	16.9x
P/BV (x)	3.0x	2.4x	2.4x	3.3x	3.1x
EV/EBITDA (x)	5.7x	4.6x	4.3x	6.7x	6.2x
Dividend Yield	3.0%	3.0%	2.8%	3.1%	3.9%
FCF Yield	10.4%	10.9%	17.8%	7.3%	6.5%

Source: Company reports, Cordros Research estimates

Note: NGN in millions (except per-share data). Fiscal year ends in December. o/w - out of which. n/a - not applicable

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