

# Earnings remain strong despite increasing pressure from rising costs

17th August, 2023

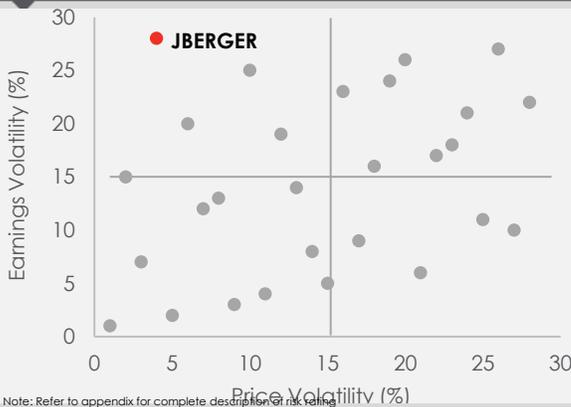
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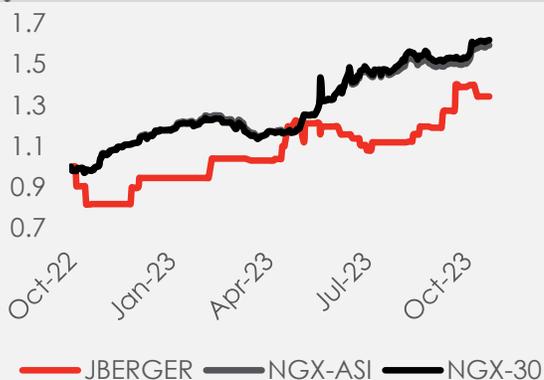
## Risk Rating: Medium



## Key Data

Last Price (₦)	34.80
Last Price (\$)	0.04
52 week High/Low (₦)	36.30/ 21.20
1M Price Change (%)	+5.45
3M Price Change (%)	+20.0
6M Price Change (%)	+21.94
YTD Change (%)	+42.04
Beta	0.41
Market Capitalization (₦'bn)	55.68
Market Capitalization (\$'mn)	66.2
Shares Outstanding. (Units'm)	1,600
Float (%)	46.87
Dividend Yield (%)	7.4

## Price Performance Chart



Sources: Bloomberg, United Capital Research

Stock Rating  
**HOLD**

Target Price  
**N37.90**

Expected Return  
**8.9%**

**Julius Berger Nigeria Plc's (JBERGER) 9M-2023 unaudited financial result showed that revenue climbed by 7.6% y/y to N333.4bn despite economic challenges and expected construction delays due to seasonal rains. The primary catalyst for the positive performance was an upsurge in public sector contracts in the period under review. JBERGER recorded a 29.4% y/y increase in after-tax profits, amounting to N9.0bn. In the following overview, we highlight key insights into the performance of JBERGER and provide expectations for FY-2023.**

### Earnings Remain Strong Despite Increasing Pressure from Rising Costs.

JBERGER's 7.6% y/y revenue growth amounting to N333.4bn is attributed to increased receipts from the public sector. Income generated from government contracts increased by 13.3% year-on-year, reaching N283.7 billion, constituting 85.1% of the total revenues during the reviewed period. However, in line with our expectations, revenue generated from the private sector declined by 16.2% y/y printing at N49.7bn owing to economic challenges in the Nigerian operating environment, from rising inflationary pressures to continued weakening of the Naira against major currency pairs. Further review of JBERGER's revenue (in terms of products/services) shows that inflows from civil works continue to account for the majority of revenues, amounting to N229.3bn (68.8% of total revenue). Notably, revenues from diversification efforts, although still marginal (0.2% of total revenues) rose 6.1x to reach N665.4mn.

Unsurprisingly, Costs of Sales surged in tandem with revenues, albeit at a slower pace of 4.9% y/y amounting to N272.4bn. Operating expenses increased significantly by 23.8% y/y to N46.3bn. Meanwhile, Admin expenses and S&D expenses advanced by 22.4% y/y and 580.0% y/y to print at N42.4bn and N612.0mn respectively. Furthermore, foreign exchange acquisition losses rose by 33.4% y/y to N6.2bn owing to the depreciation of the Naira and volatility in the

## Public Sector Activity Will Catalyse Continued Topline Growth

spot exchange rate. JBERGER's Profit Before Tax (PBT) appreciated by 23.8% y/y to N15.1bn. The increase in JBERGER's was due to an improvement in the effective tax rate, which declined to 40.2% (vs 42.8% in 9m-2022). Consequently, Profit After Tax (PAT) for the period was N9.0bn, an impressive 29.4% y/y increase when compared to same period last year.

Meanwhile, margins remain tight due to some of the aforementioned factors. However, slight improvements were observed in the period. Therefore, Gross margins (+2.1ppt) rose to 18.3%, and Net Margins (+0.5ppt) climbed to 2.7%. At the same time, JBERGER's leverage climbed to 52.6% from 32.9% in FY-2022, raising concerns regarding potential increases in future financing costs (+58.1% y/y). However, JBERGER maintains robust cash and near-cash positions (N137.0bn, reflecting a 156.4% y/y increase), mitigating potential downside risks. Similarly, Earnings per share rose to N5.63 from N4.35.

### Outlook: Public Sector Activity Will Catalyse Continued Topline Growth.

Despite challenges in the operating landscape, our forward-looking perspective for JBERGER remains optimistic. We anticipate sustained revenue growth and enhanced operational efficiency to contribute to continued earnings growth. By the same token, the conclusion of the presidential elections earlier in the year and the new administration's focus on infrastructure serve as a potential tailwind to drive the increase in JBERGER's public sector revenue.

Conversely, our optimistic forecast faces potential risks from the ongoing escalation in prices and foreign exchange volatility. This scenario could concurrently diminish revenue from private sector contracts and elevate costs for JBERGER. However, the continued success of the company's diversification efforts, such as its cashew processing business, would serve as a hedge against FX-related risks.

That said, we hold the belief that Julius Berger Nigeria Plc will continue in capitalising on the strengths within its expanding segments and strategically managing cost fluctuations to maximise value for shareholders. Consequently, we project a N37.90/share Target Price (TP) for FY-2023, with an 8.9% upside from the current price of N34.80. Thus, we maintain a **HOLD** rating on the ticker.

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...we revise our year-end Target Price to **N37.90/share with a HOLD rating on the stock.**

## Food segment weakness, higher input cost weigh on earnings

## Financial Highlights (N'Mn)

Headlines	9M - 2023 (N'Mn)	9M- 2022 (N'Mn)	Change
<b>Revenue</b>	<b>333,400</b>	<b>309,807</b>	<b>7.6%</b>
Cost of Sales	-272,413	-259,674	4.9%
<b>Gross Income</b>	<b>60,987</b>	<b>50,133</b>	<b>21.7%</b>
Operating Expense	-43,002	-34,727	23.8%
Impairment Loss/Write-back	-3,368	-2,630	28.1%
<b>Operating Profit</b>	<b>14,617</b>	<b>12,776</b>	<b>14.4%</b>
Other Gains and Losses	6,533	5,386	21.3%
Foreign exchange acquisition loss	-6,170	-4,626	33.4%
Finance Income	3,846	1,011	280.4%
Finance Costs	-3,772	-2,386	58.1%
<b>Profit/Loss Before Tax</b>	<b>15,054</b>	<b>12,161</b>	<b>23.8%</b>
Taxation	-6,052	-5,202	16.3%
<b>Profit/Loss After Tax</b>	<b>9,002</b>	<b>6,958</b>	<b>29.4%</b>
	<b>9M - 2023 (N'Mn)</b>	<b>FY - 2022 (N'Mn)</b>	
Cash and Bank Balances	136,982	53,432	156.4%
<b>Trade &amp; Other Receivables (current)</b>	<b>82,775</b>	<b>70,946</b>	<b>16.7%</b>
<b>Trade &amp; Other Payables</b>	<b>66,235</b>	<b>55,720</b>	<b>18.9%</b>
<b>Total Debt</b>	<b>45,175</b>	<b>18,751</b>	<b>140.9%</b>
<b>Total Assets</b>	<b>649,352</b>	<b>506,271</b>	<b>28.3%</b>
Net Assets	85,931	57,062	50.6%
Gross Margin	18.3%	16.2%	2.1%
Cost to Sales	81.7%	83.8%	-2.1%
Net Margin	2.7%	2.2%	0.5%
Leverage (Debt/Equity)	52.6%	32.9%	19.7%
Leverage (Net Debt/Equity)	-106.8%	-60.8%	-46.1%
Price(N)	34.8		
Trailing 12M EPS(N)	6.22		
BVPS(N)	53.7		
Trailing 12M P/E (x)	5.6		
P/BV (x)	0.6		
Trailing 12M ROAE	13.9%		

Sources: Company Financials, United Capital Research

# Disclosure Appendix

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**Hold:** Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 300bps; i.e 15.8%).

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**Medium:** Slightly high (but lower compared to 'High') probability of an imminent systematic risk or/and unsystematic risk

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