

September, 2015

Nascon Allied Industries Plc - Current Market Price (N6.70)

We rate the counter **NEUTRAL**

In spite of a 22.79% y/y increase in sales, half year after tax profits declined 2.98% y/y due higher operating expenses and rising input costs. The company has 5-year sales CAGR of 6.05% (2010-2014).

NASCON Allied Industries Plc reported a revenue growth of 22.79% y/y to N6.60billion, compared with N5.37billion for the corresponding period last year. In Q2 2015 alone, revenue came in at N3.73billion, an increase of 39.02% y/y and 29.90% q/q.

The company's primary business is the refining and selling of edible salt (for industrial use) and sachet salt fortified with iodine for domestic use as well as the importation and sale of petti brand tomato paste. NASCON currently controls over 60% market share in the domestic salt industry, and has 450,000 tonnes per annum of installed production capacity for 25-50kg bags of salt and 125,000 tonnes per annum for smaller sachet. The company recently changed its name from NASCON Nig Plc to NASCON Allied Industries Plc; a name that reflects the current investment and new operational status of the company as a manufacturer of other related consumer and daily-needs products. The company is pursuing a diversification strategy by entering the condiments market with DANG-Q brand of seasoning and intends to expand its activities into tomato paste and vegetable oil refining.

Income Statement

	HY'14	HY'15	Change
Gross Margin (%)	37.32	31.25	6.07
Net Margin (%)	19.76	15.61	4.15
EPS (Kobo)	40	39	(2.5)

Source: NSE, Planet Capital Research

Key Ratios

	FY'14	FY'15(E)
P/Sales (x)	1.46	1.42
P/E (x)	8.89	9.71
P/B (x)	2.61	2.18
ROA (%)	14.87	11.95
ROE (%)	29.60	22.54

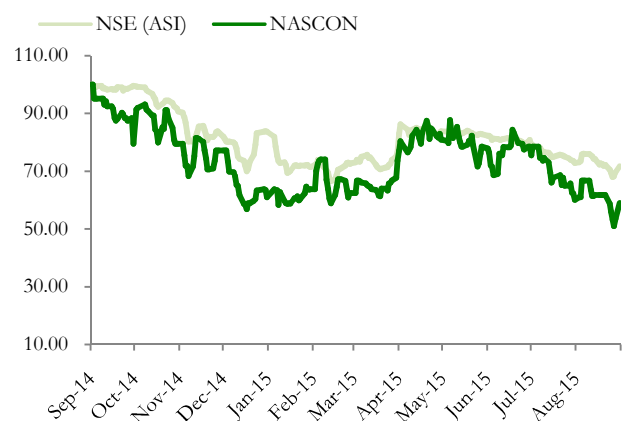
Source: NSE, Planet Capital Research

Stock Data

Ticker Symbol	NASCON
Year end	December
52-week range	5.20 – 9.49
Price Mov't YtD	7.71%
Average daily vol./val	1,396.10/10,048.03
Outstanding Share (Mn)	2,649.43
Market Cap.(N'm)	17,883.70
EPS (6Months)	39Kobo
DPS	50Kobo

Source: Bloomberg, Planet Capital Research

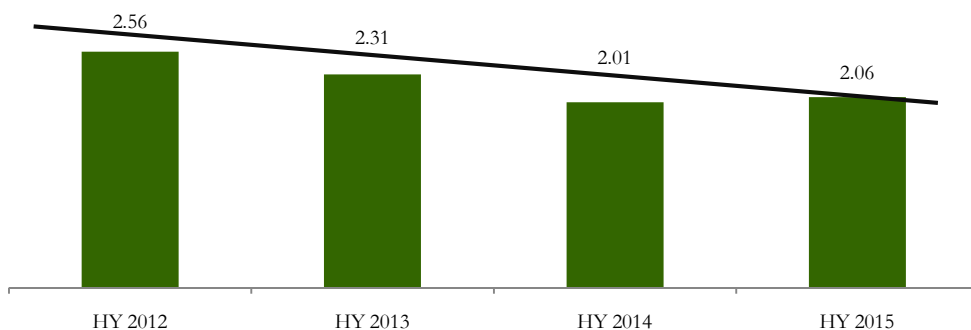
Share Price Movement (52-Week)



An increase in cost of goods sold from 62.68% in HY 2014 to 68.75% in HY 2015 led to a 31.25% decline in gross profit margin in half year 2015 from 37.31% in half year 2014 though gross profit grew 2.84% y/y to N2.06billion in HY 2015 from N2.00billion in the same period of 2014.

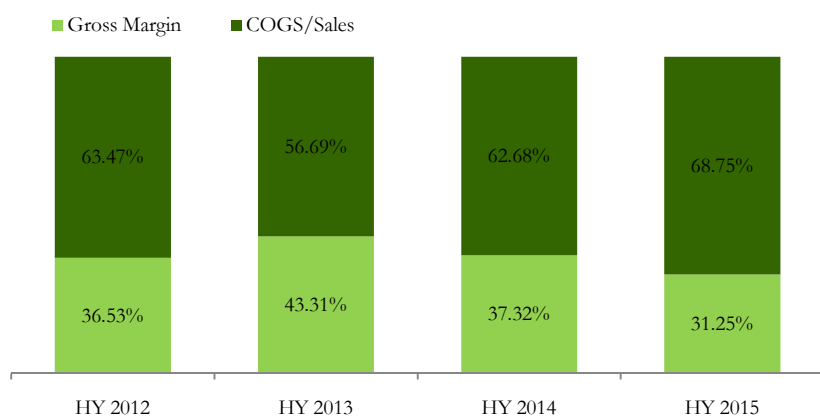
Management is strategically focused on market expansion and growth to other African countries as NASCON has commenced exportation of its products to neighbouring West African countries.

Fig 1 : Gross Profit (N'billion)



Source: NSE, Planet Capital Research

Fig 2: Gross Margin & COGS/Sales

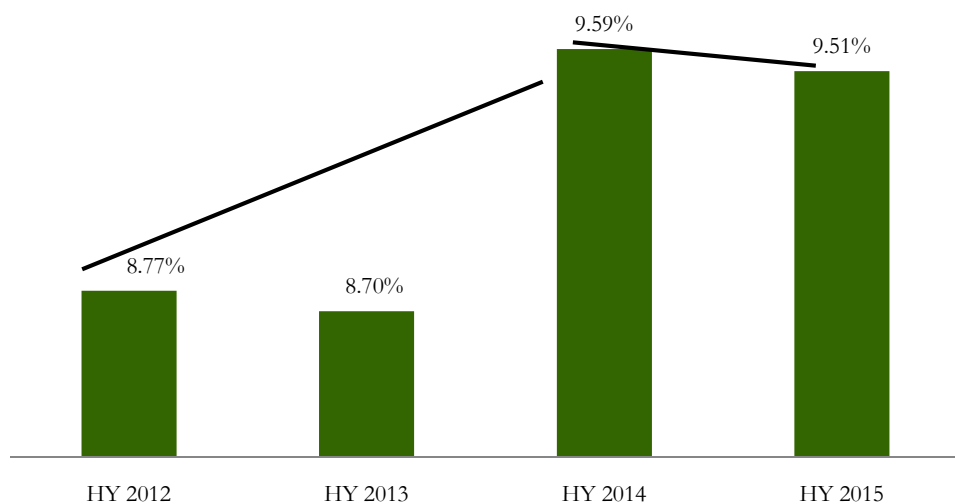


Source: NSE, Planet Capital Research

With Nigeria's domestic salt industry being largely import-dependent, (necessitated by the nation's failure to leverage its immense endowment of natural brine and rock salt deposits especially in the northern region) NASCON remains highly susceptible to exchange rate volatility as most of its raw materials are imported from Brazil and Australia. This exposure resulted in the company incurring higher input costs due to FOREX losses during the period.

Operating expense increased 21.83% y/y to N628.29million from N515.73million in HY 2014 and 8.37% q/q to N326.76million from N301.53million in Q1 2015. Higher opex was driven by a 30.63% y/y uptick in administration expense to N583.09million from N446.36million in HY 2014. However, this was partly off-set by a 34.84% y/y reduction in selling & distribution expense to N45.20million from N69.37million in HY 2014.

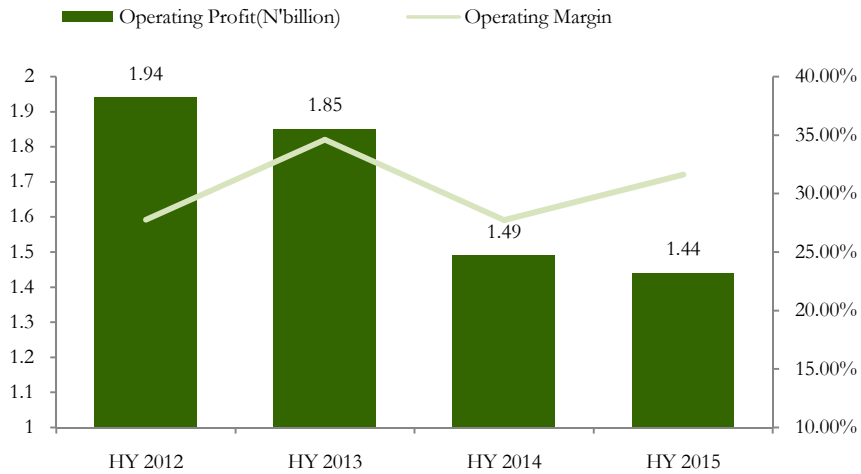
Fig 3: OPEX/Sales



Source; NSE, Planet Capital Research

Higher administration expenses reflect NASCON's on-going investments necessitated by their expansion drive. Operating expense/sales ratio recorded a slight decrease of 0.08% y/y.

Fig 4: Operating Profit (N'billion) & Operating Margin



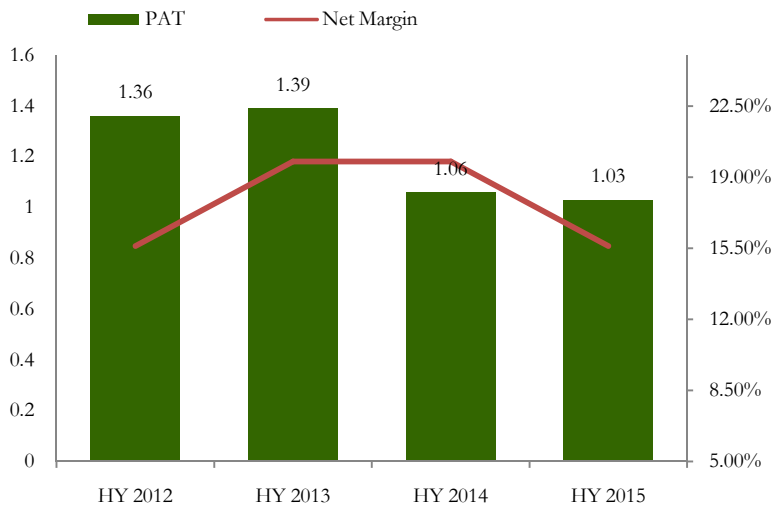
Source: NSE, Planet Capital Research

The group's after tax profit dropped 2.98% y/y to N1.03billion from N1.06billion, pressured by higher opex. As a result, net margin contracted by 4.15% to 15.61% from 19.76% in HY 2014. However, PAT was up by 17.65 percent QoQ to N557.46million for Q2 2015.

Fig 5: Result

	HY'14	HY'15	%Changes
Revenue (N'billion)	5.37	6.6	22.91%
Operating Profit (N'billion)	1.49	1.43	-4.03%
PAT (N'billion)	1.06	1.03	-2.83%

Fig 6: Profit after Tax (N'billion) and Net Margin



Source: NSE, Planet Capital Research

RISK

NASCON Plc currently shows a healthy long term solvency status with low risk level as debt ratio indicates conservative financing; hence the company can borrow in the future to finance capital expenditures without significant risks. Overall, borrowing level remains the same with debt to equity ratio rising marginally to 0.007x in Q1, 2015 compared to 0.006x as at FY 2014 but remains well below peer average of 3.26x.

The industry is exposed to regulatory risks with respect to health related issues in iodized salt production; there is widespread iodine deficiency in developing countries especially Africa. The stability of iodine in salt and levels of iodization are questions of importance to national salt producers as well as risk associated with exposure to exchange rate variability because it is an import dependent market segment.

Challenges facing the industry include prevalence of illegal large packages of iodized and plain salt; the industry also requires massive technological changes to harness the immense mineral deposits available in the country.

Valuation

We employed three valuation methods; the discounted dividend model (DDM), Free Cash Flow to Equity (FCFE) and Price Multiples. The input parameters for CAPM include 15.54 percent risk free rate on FG bond (20-year tenor), market return of 18 percent and a beta of 1.25. We calculated Gordon's sustainable growth rate of 8.46percent.

The output of DDM yields a simple average intrinsic value of N4.29, after employing a long run economic growth rate of 4.5 percent as the terminal growth rate. Valuation based on comparables using price-to-earnings, price-to-sales and price-to-book gave an average price of N6.01. Free Cash Flow to Equity (FCFE) which measures how much cash is available to the holders of ordinary shares after all operational expenses (such as interests and principal are paid, in addition to all necessary investments in net working capital and fixed assets are achieved) generated a fair value of N7.59.

Premised on the above analysis and coupled with appropriate consideration of comparable pricings, we arrived at a target price of **N5.96**. At the current price of N6.70, this shows the stock is trading at a 12.40 percent premium but a dividend yield of 7.5% (assuming last year's dividend is maintained) supports our neutral position with a BUY recommendation below N5.50. YtD, NASCON shares have returned 7.71% compared to market return of -12.48%.

Profit & Loss (N'Mn)

	2011	2012	2013	2014	2015(E)
Revenue	10,306.94	13,414.18	10,837.26	11,250.54	12,476.75
Changes (%)	15.89	30.15	(19.21)	3.81	10.90
Cost of Sales	6,236.45	8,323.19	6,244.15	7,464.78	8,634.01
Changes (%)	2.82	33.46	(24.98)	19.55	15.66
Gross Profit	4,070.48	5,090.99	4,593.10	3,785.76	3,845.76
Changes (%)	43.89	25.07	(9.78)	(17.58)	1.58
Operating Expense	1,081.74	1,315.61	1,004.86	1,047.24	1,159.80
Changes (%)	3.67	21.62	(23.62)	4.22	10.75
Investment Income	152.01	268.49	230.13	30.22	0.570
Changes (%)	43.90	76.62	(14.29)	(86.87)	(98.11)
Other income	11.01	0.415	228.34	102.87	139.53
Changes (%)	(93.82)	(96.23)	(54921.93)	(54.95)	35.64
EBIT	3,151.76	4,044.28	4,046.72	2,871.62	2,823.06
Changes (%)	52.31	28.32	0.06	(29.04)	(1.69)
Finance Cost	13.16	7.95	8.31	15.22	12.77
Changes (%)	19.41	(39.65)	4.66	83.07	(16.10)
PBT	3,138.59	4,036.33	4,038.40	2,856.39	2,810.29
Changes (%)	52.48	28.60	0.05	(29.27)	(1.61)
Tax	934	1,270	1,338	989	974.92
PAT	2,203.69	2,766.30	2,699.54	1,867.03	1,835.36
Changes (%)	33.69	25.53	(2.41)	(30.84)	(1.70)
EPS	0.81	1.04	1.02	0.70	0.69

Balance Sheet (N'Mn)

	2011	2012	2013	2014	2015(E)
Assets					
Cash and Cash equivalent	956.62	4,066.08	1,192.87	887.75	865.91
Inventories	845.25	910.32	815.48	1,471.56	1,770.28
Account Receivables	325.71	2,005.73	1,119.39	724.18	468.50
Total CA	6,739.20	7,023.08	5,682.11	5,622.86	6,604.87
Total NCA	3,307.50	3,666.45	5,749.05	6,933.01	8,753.32
Total Assets	10,046.70	10,689.54	11,431.16	12,555.88	15,363.20
Liabilities & Equity					
	2011	2012	2013	2014	2015(E)
Account Payable	2,450	1,922	1,247	2,023.91	2,130.98
Borrowings	38.57	38.57	38.57	38.57	38.57
Total Current Liabilities	3,554.37	3,377.12	3,806.7	5,346.11	6,311.92
Total NCL	707.84	707.84	731.82	902.46	908.60
Total Equity	5,784	6,577.58	6,892.62	6,307.30	8,142.67
Total Lia. & Equity	10,046.70	10,689.54	11,431.16	12,555.88	15,363.20

Activity Ratios

	2011	2012	2013	2014	2015(E)
Inventory turnover (x)	7.38	9.14	7.66	5.07	4.88
Receivables turnover(x)	20.63	11.51	6.94	12.21	20.92
Payables turnover(x)	2.54	4.33	5.01	3.69	4.05
Days inventory outstanding	49.47	39.92	47.67	71.95	74.84
Days Sales Outstanding	17.69	31.72	52.63	29.91	17.45
Days Payables Outstanding	143.44	84.29	72.93	98.96	90.09

Leverage and Solvency Ratios

	2011	2012	2013	2014	2015(E)
Equity Multiplier(x)	1.74	1.58	1.60	1.90	1.71
Debt -to-equity	0.008	0.007	0.006	0.007	0.005
Total debt-to-assets(x)	0.004	0.004	0.004	0.0035	0.0029
Total asset-to-Liability(x)	2.36	2.62	2.52	2.01	2.13
Interest coverage (x)	239.33	508.91	486.56	188.60	221.00

Efficiency Ratios

	2011	2012	2013	2014	2015(E)
Fixed assets turnover(x)	3.12	3.68	1.89	1.68	1.48
Current assets turnover(x)	1.53	1.91	1.91	2.00	1.89
Total assets turnover(x)	1.03	1.25	0.95	0.90	0.81
Equity turnover(x)	1.78	2.04	1.57	1.78	1.53

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