

October, 2015

PZ Cussons Nig. Plc – Current Market Price (N25.18)

We rate the counter **SELL**

PZ Cussons Nig. Plc (“PZ” or “the company”) first Quarter 2015/16 result showed a marginal decline of 0.44% y/y in sales; profit after tax for Q1, 2015/16 declined 33.33% y/y due to high operating expenses.

PZ Cussons Plc is a leading consumer products group with primary business of manufacture, distribution and sale of a wide range of consumer products under various brand names: - Personal Care (Imperial Leather, Carex, CussonsBaby, Premier, Robb, Venus, Joy), HomeCare (Zip, Morning Fresh), Electricals (Haier Thermocool, TEC), Food and Nutrition (Yo! Nunu, Coast, Bliss, Mamador, Devon King’s, Olympic). The company has a number of electrical retail stores under the brand name “cool world” in key cities of the Country.

In Q1, 2015/16 the company reported a revenue decline of 0.44% y/y to N14.95billion, from N15.09billion in the same period last year. Compared to the last quarter, turnover was down by 26.11%.

Whilst performance improved in the home and personal care business, the quarter was challenging for discretionary bigger ticket electrical white goods segment.

We are of the opinion that price increases due to the naira devaluation, higher competition and reduced disposable income of consumers contributed to lower sales volume in the electrical business.

Income Statement

	FY'14/15	FY'13/14	Change
Gross Margin (%)	27.97	26.33	1.64
Net Margin (%)	6.25	6.97	(0.72)
EPS (Kobo)	1.02	1.16	(12.06%)

Source: NSE, Planet Capital Research

Balance Sheet

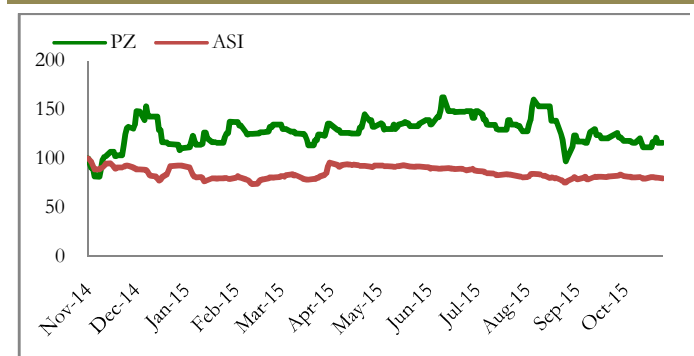
	FY'14/15	FY'13/14	Change
Equity Multiplier (x)	1.54	1.67	(7.78%)
Asset Turnover (x)	1.09	1.03	(5.8%)
P/S (x)	1.37	1.30	6.15%
P/E (x)	24.69	20.52	21.30%
P/B (x)	2.29	2.22	4.05%
PEG	-2.06	-3.61	(42.94%)
ROAE (%)	10.60	11.43	(7.26%)
ROAA (%)	6.61	7.10	(6.90%)
Div Yield (%)	3.22	0.84	2.35

Source: NSE, Planet Capital Research

Stock Data

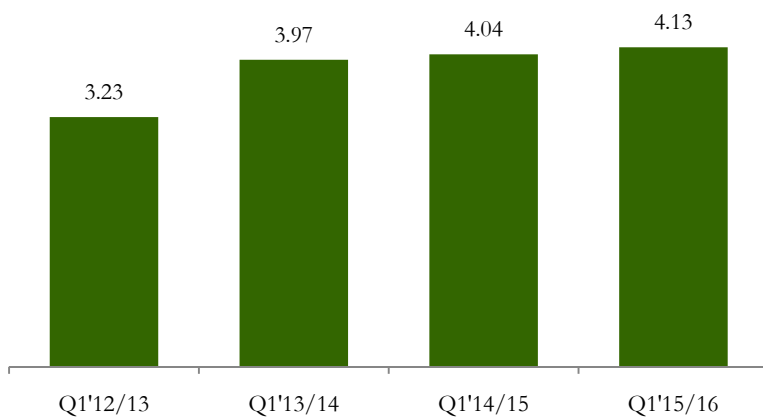
Ticker Symbol	
Full year end	May
52-week range	25.18 - 32.00
Price Mov't YtD (%)	5.79%
Average daily vol./val (Mn)	0.968/N27.10
Outstanding Share (Mn)	3,970.47
Market Cap.(N'm)	99,976.61
EPS (Kobo)	102
DPS(Kobo)	81

Source: Bloomberg, Planet Capital Research

Share Price 52 wk Movement (ASI vs. PZ Cussons)

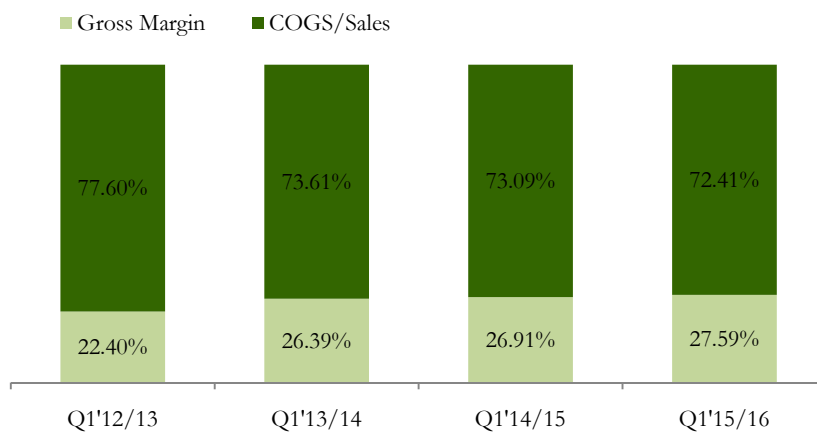
- Gross profit grew 2.08% y/y to N4.12billion following a 1.37% y/y decline in cost of sales to N10.82billion. Hence, gross margin came in at 27.59%, 0.68% higher than the prior year while COGS/sales ratio declined to 72.41% from 73.09% in Q1, 2014/15.
- During the period, the average price of PZ's major raw material –crude palm oil was 47% lower than 2014 which cushioned the effect of imported inflation on margins due to weak exchange rate and tight currency rules, where tightening in foreign currency rules led to restriction of dollar available for certain items. The group's new product pipeline and success of recent product launches has better positioned the group to counter these challenges.

Fig 1: Gross Profit (N'billion)



Source: NSE, Planet Capital Research

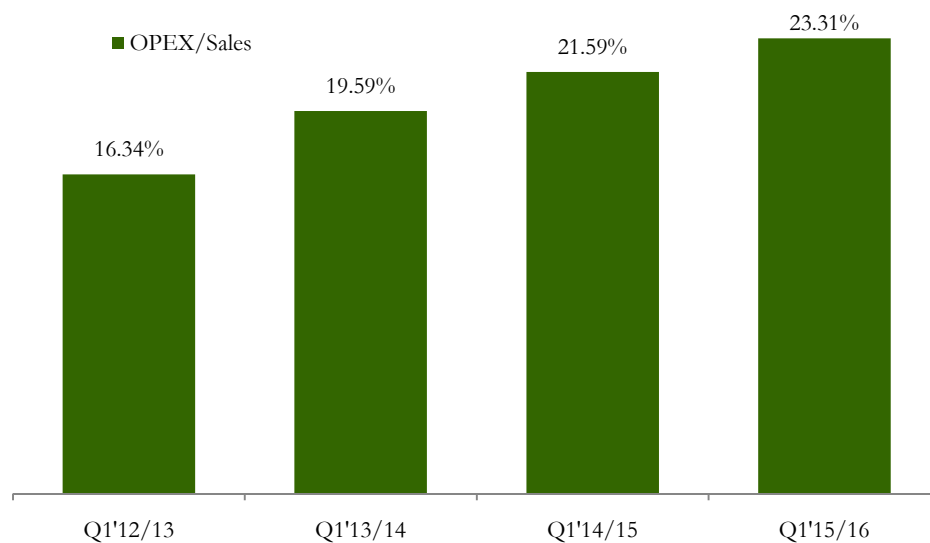
Fig 2: Gross Margin & COGS/Sales



Source: NSE, Planet Capital Research

- Operating expense continues to increase, up 7.5% y/y to N3.48billion and 0.94% up q/q from N3.45billion in Q4, 2014/15. Consequently, OPEX to sales ratio came in at 23.31% from 21.59% in Q1, 2014/15.
- Although specific details of opex were not stated, we associate the uptick partly to higher marketing expenses with PZ undertaking a brand renovation program in its HPC portfolio as seen in the be-a-player campaign for Robb, Olympic and Premier and re-launch of Canoe and Morning Fresh.

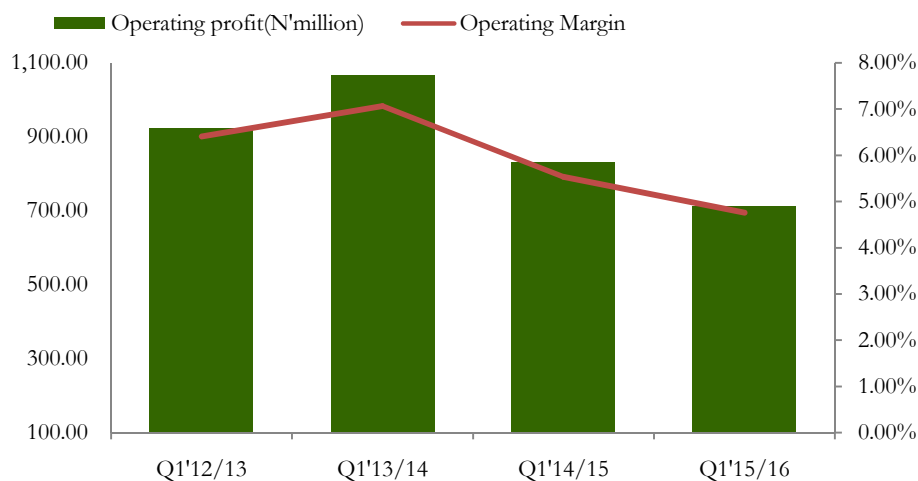
Fig 3: OPEX/Sales



Sources: NSE, Planet Capital Research

- Income realised from the company's non-core business activities (other income) increased 118.61% y/y to N72.07million within the review period; though QoQ , other income grew 803.47% from N7.97million in Q4, 2014/15.
- Total operating profit for PZ Cussons came in at N711.39 million, down 14.45% from N831.52million for the corresponding period of 2014 which depressed operating margin to 4.76% from 5.54% in Q1, 2014/15.

Fig 4: Operating Profit & Operating Margin

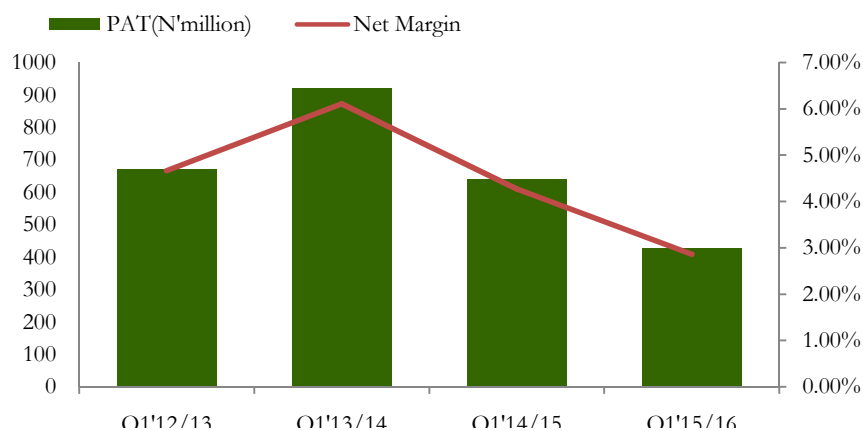


Source: NSE, Planet Capital Research

High Net finance charge weakens earnings further...

- Although no debt was reported on the company’s balance sheet, net finance expense was N164.60million in Q1,2015/2016, a 71.11% QoQ increase from N96.2million in Q4,2014/15.
- The group’s after tax profit declined 33.33% y/y to N 427.85million from N641.69million, pressured by increased operation cost. As a result, net margin contracted to 2.86% from 4.27% in Q1, 2014/15. However, PAT decreased at a much fast rate by 76.01% QoQ from N1.78billion in Q4, 2014/15.

Fig 5: PAT & Net Margin



Source: Company Financials, Planet Capital Research

ANALYSIS OF FY 2014/15 RESULTS

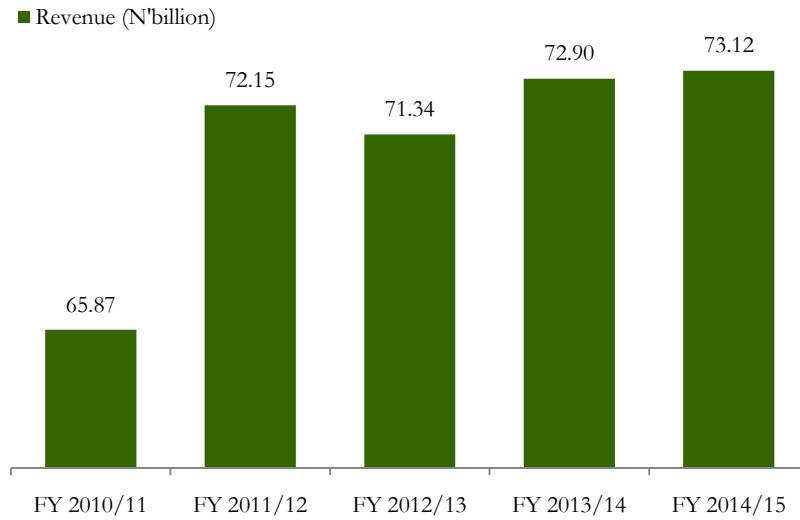
Rising OPEX and increased finance charges choke earnings.....

- PZ Cussons Nig. Plc's full year 2014/15 result showed a 0.30% y/y increase in revenue to N73.12billion with 5-year revenue CAGR of 2.64% (2011-2015) and full year after tax profit of N4.57billion, a 10.07% y/y decline. The slump in the company's bottom line was due to an uptick in both operating expense and finance costs. Earnings per share therefore declined 12.07% y/y to N1.02 from N1.16 for FY2014.
- Slower growth in revenue can be linked to weak consumer spending, competition from imported products as well as security challenges in the north-eastern parts of the country. For Q4, 2014/15 alone, the company reported turnover of N20.36billion, a decline of 4.68% q/q from N21.22billion in Q3, 2014/15 and 0.37% y/y dip from N20.23billion in Q4, 2013/14.
- The company's product Nutricima experienced growth during the year driven by the success of its two key brands NuNu and Olympic. The business is now fully owned and consolidated following PZ Cussons's buy-out of the joint venture partner during the year.
- The palm oil joint venture with Wilmar (Asian leading agric business group) performed very well also with improved growth achieved in the consumer brands - Mamador and Devon Kings. Revenue of the joint venture reached ₦225m for the year.
- The electrical business had a strong year, driven by the continued success of Nigeria's number one brand haier thermocool.

	FY 2014/15	FY 2013/14	y/y
Revenue (N'm)	73,126.07	72,905.67	0.30%
Operating Profit (N'm)	6,651.02	6,301.62	5.54%
PAT (N'm)	4,570.78	5,082.74	(10.07%)

- In the personal and home care segments, whilst margins were affected by commodity products trading in an extremely competitive environment, growth was achieved by an overhaul of key brands such as the premier, Nigeria's number one bar soap which was launched into small but growing shower gel category.

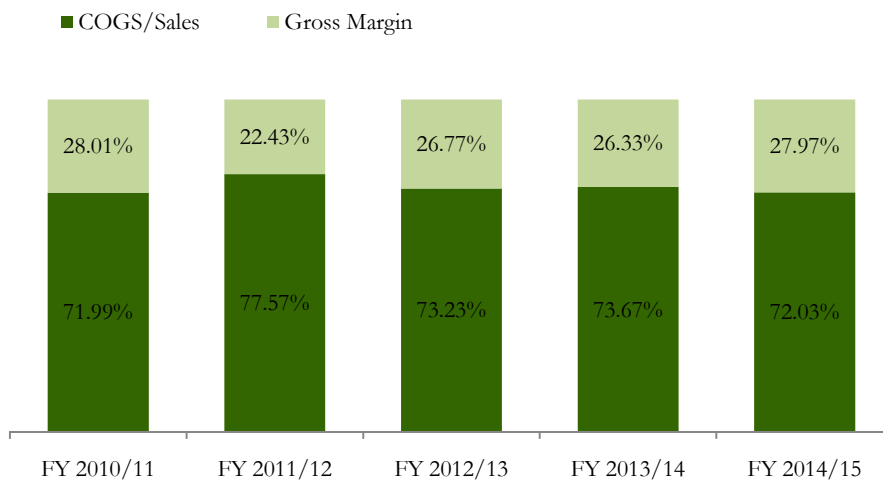
Fig 6: Revenue



Source: Company Financials, Planet Capital Research

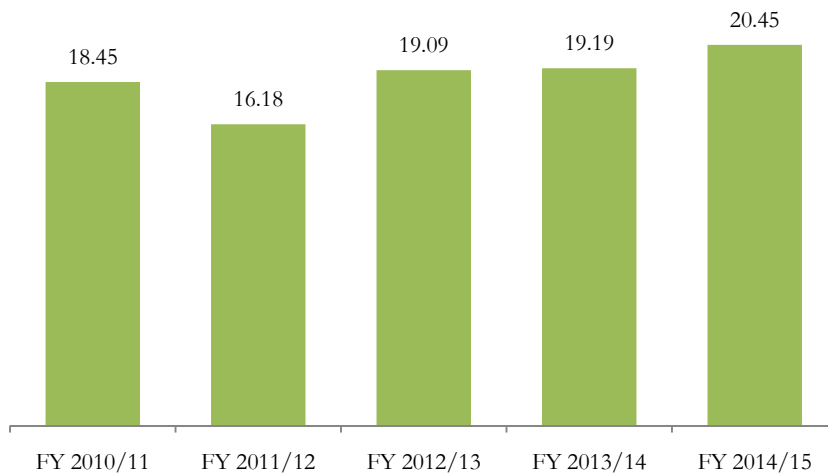
- PZ Cusson’s cost of goods sold declined 1.93% to N52.67 billion from N53.71 billion for FY 2013/2014, a positive impact on COGS/revenue ratio to 72.03% compared with 73.67% previously. Hence, gross profit margin grew to 27.97% from 26.33%, and gross profit improved by 6.56% y/y to N20.59 from N19.19 billion in FY 2013/14.

Fig 7: Yearly COGS/Sales ratio & Gross Margin



Source: Company Financials, Planet Capital Research

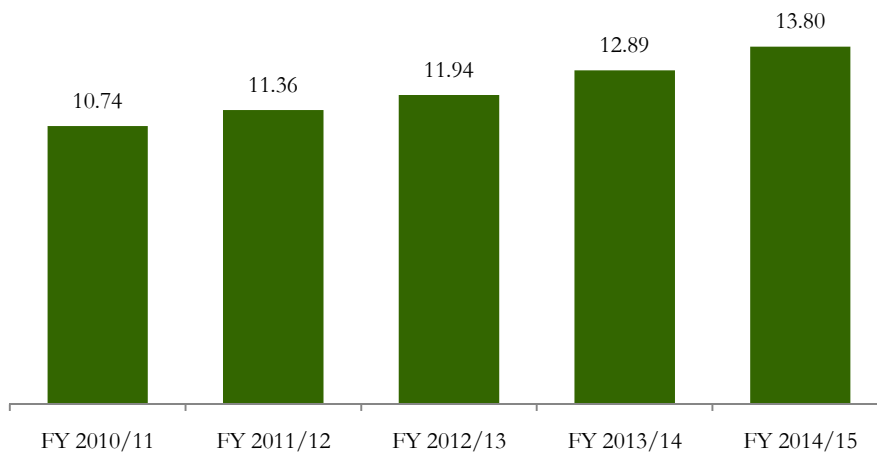
Fig 8: Gross Profit



Source: Company Financials, Planet Capital Research

- In FY 2014/15, the group posted operating expenses of N13.80billion, up 7.06% y/y compared with N12.89billion in the corresponding period of the previous year. Hence, operating expense/revenue ratio grew 1.2% y/y to 18.88% in FY 2014/15 from 17.68% in FY2013/14. Rising operating expense in the company is of major concern as it is increasing at a faster rate than revenue growth rate, stifling overall performance. Increasing operating expense can be attributed to an uptick in selling, distribution and personnel costs.

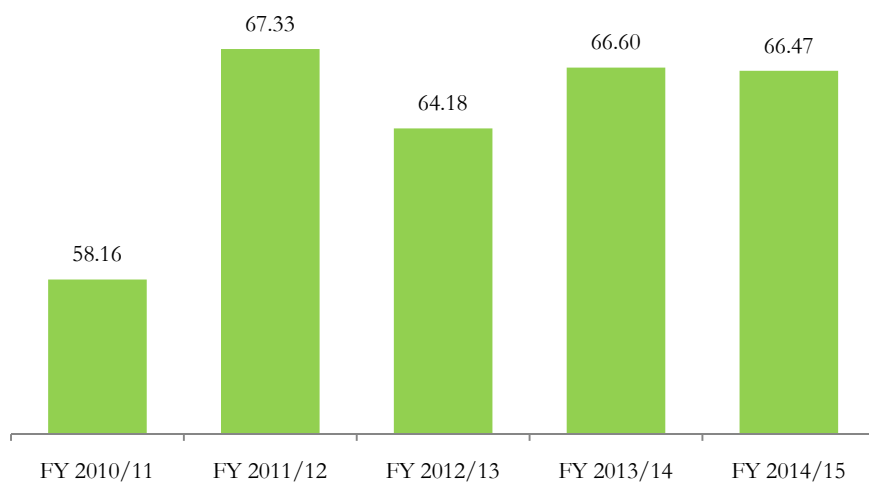
Fig 9: Operating Expense (N'billion)



Source: Company Financials, Planet Capital Research

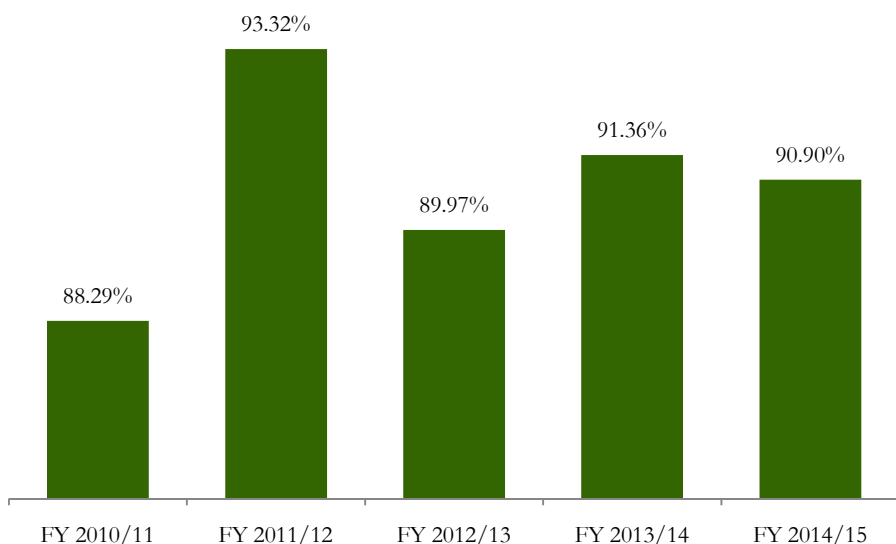
- Total costs declined marginally by 0.19% to N66.47billion from N66.60billion in FY1013/14. Consequently, total cost /revenue ratio stood at 90.90% in FY2014/15 down from 91.36% in FY2013/14. This implies that 90.90% and 9.10% of sales revenue translates to cost and profitability respectively.

Fig 10: Total Cost



Source: Company Financials, Planet Capital Research

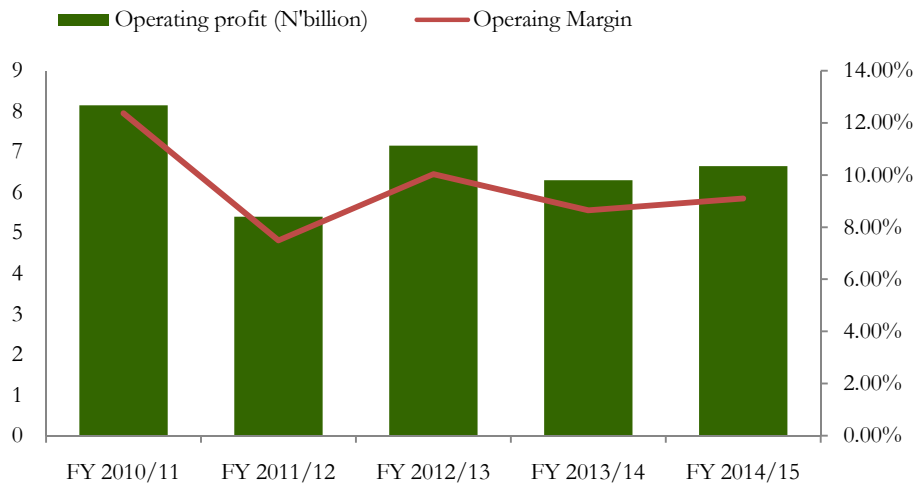
Fig 11: Total Cost/Sales Ratio



Source: Company Financials, Planet Capital Research

- Operating profit increased 5.54% y/y to N6.65billion in FY2014/15 from N6.30billion in FY2013/14, growing operating margin to 9.10% from 8.64% in FY2013/14. Income realized from non-core business activities (other income) declined 56.64% y/y to N121.86million from N281.03million in the prior year.

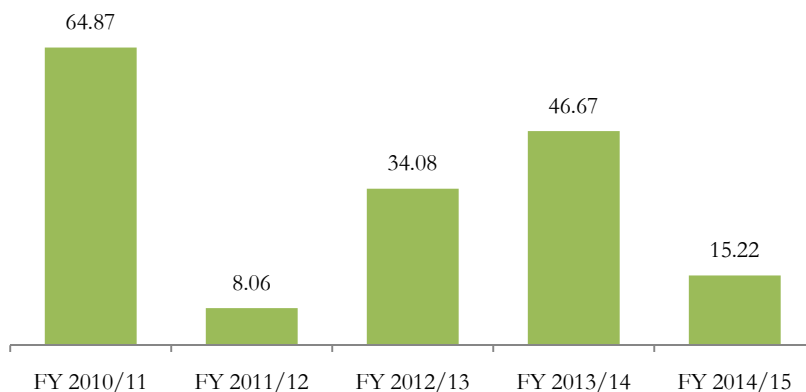
Fig 12: Operating Profit & Operating Margin



Source: Company Financials, Planet Capital Research

- Though PZ Cussons reported no borrowings on its balance sheet, the company reported finance cost increase of 215.39% y/y to N444.86million from N141.05million in FY2013/14 with a decline in interest coverage ratio to 15.22x from 46.67x in FY2013/14.

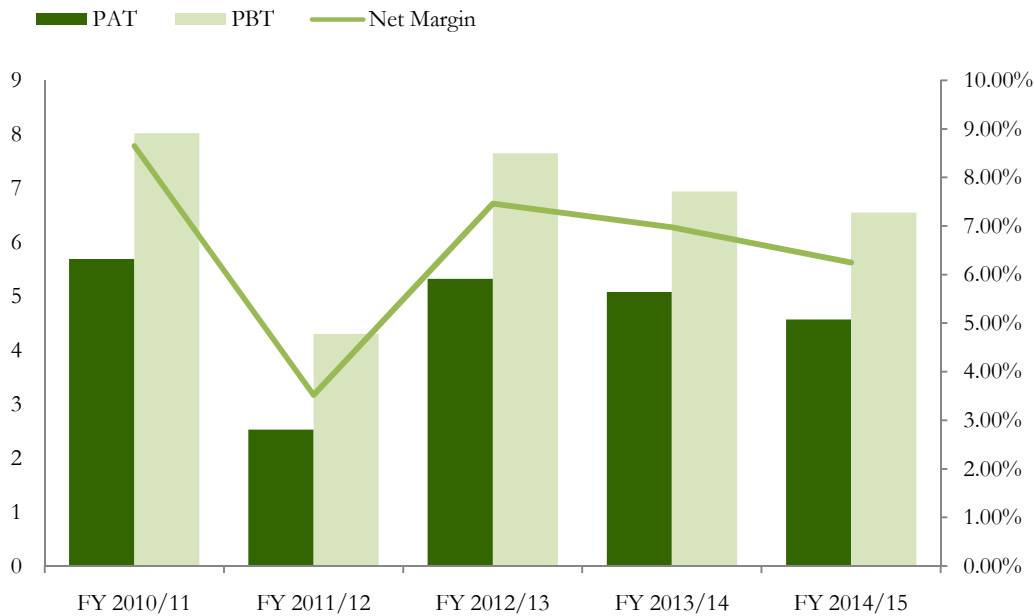
Fig 13: Interest Coverage



Source: Company Financials, Planet Capital Research

- Profit before tax declined 5.66% to N6.55billion from N6.94billion reported in FY2013/14. And profit after tax decreased 10.07% to N4.57billion from N5.08billion in FY2013/14. Hence, net margins reported a slight decline of 0.72% to 6.25% from 6.97% in FY2013/14.

Fig 14: PAT, PBT & Margin

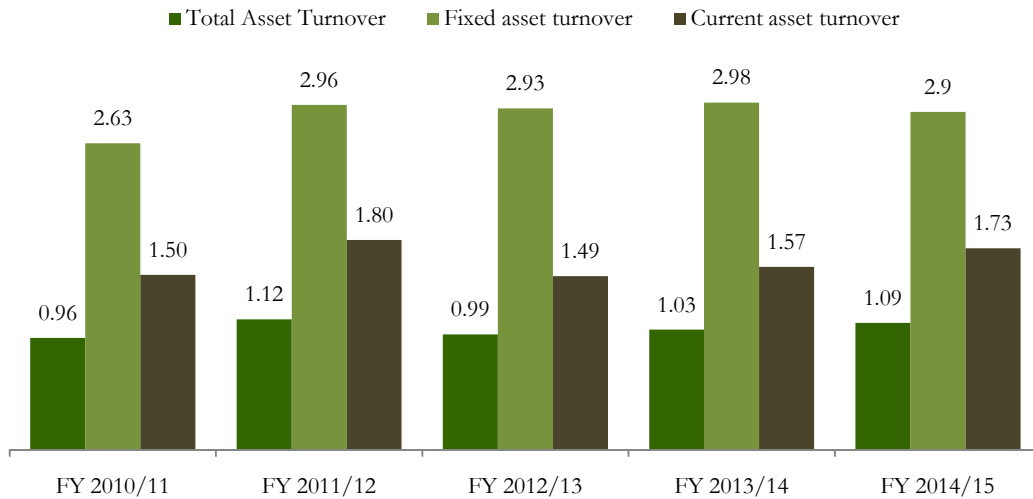


Source: Company Financials, Planet Capital Research

Balance Sheet Analysis

- PZ Cussons's statement of full year financial position as at May, 2015 revealed an increase of 2.99% in non-current assets to N25.21billion from N24.48billion in FY2013/14. However, current assets declined 9.27% y/y to N42.17billion from N46.48billion in FY2013/14. Hence, total asset also declined 5.04% y/y to N67.38billion from N70.96billion in prior financial year.
- Whilst fixed asset turnover reduced to 2.90x from 2.98x in FY 2013/14, current asset turnover increased to 1.73x in FY2014/15 from 1.57x in FY2013/14. Overall, total asset turnover declined to 2.90x from 2.98x in the previous period. Deteriorating asset turnover implies that asset utilization is less efficient compared to the previous year.

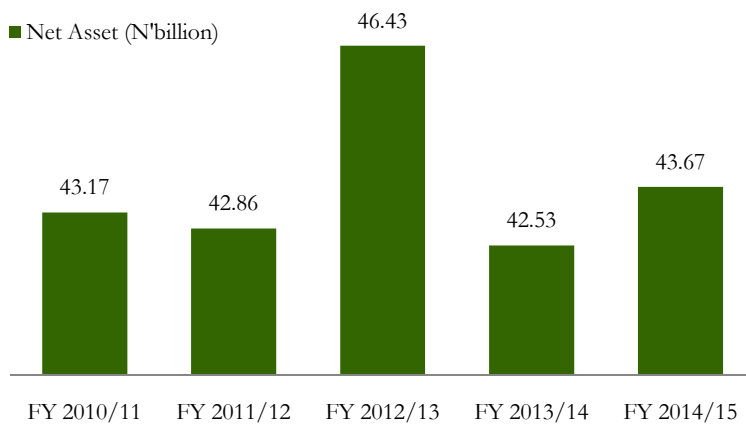
Fig 15: Asset Turnover; Fixed asset Turnover, Current asset Turnover



Source: Company Financials, Planet Capital Research

- Cash and cash equivalents declined 48.00% to N2.32billion in FY 2014/15 from N4.47billion in FY2013/14. Trade receivables also came in lower by 13.38%/y/y, while inventories grew 3.50% in FY2014/15 to N21.01billion in the prior year.
- Total Liabilities declined 16.57% y/y to N23.71billion from N28.47billion in FY2013/14 of which Non-current liabilities fell by 7.21% y/y to N4.15billion from N4.47billion in FY2013/14 and current liabilities declined 18.32% y/y to N19.56billion from N23.95billion in the previous year. Consequently, net assets increased marginally by 2.67% to N43.67billion from N42.53billion in FY2013/14.

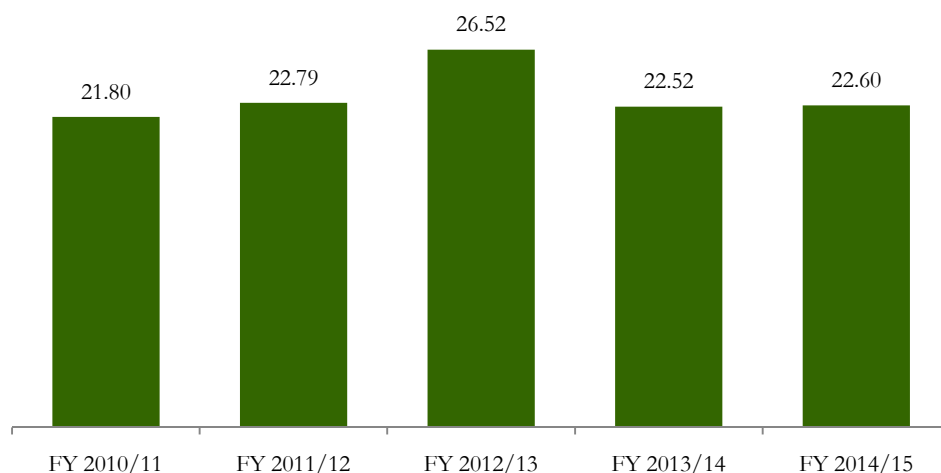
Fig 16: Net Asset (N'billion)



Source: Company Financials, Planet Capital Research

- PZ Cussons working capital increased 0.35% y/y to N22.60billion from N22.52billion in FY2013/14. Positive working capital shows that the company's operating activities are not dependent on short term borrowed funds. Also, current ratio increased to 2.16x from 1.94x in FY 2104/15 compared to the industry peer average of 1.21x.

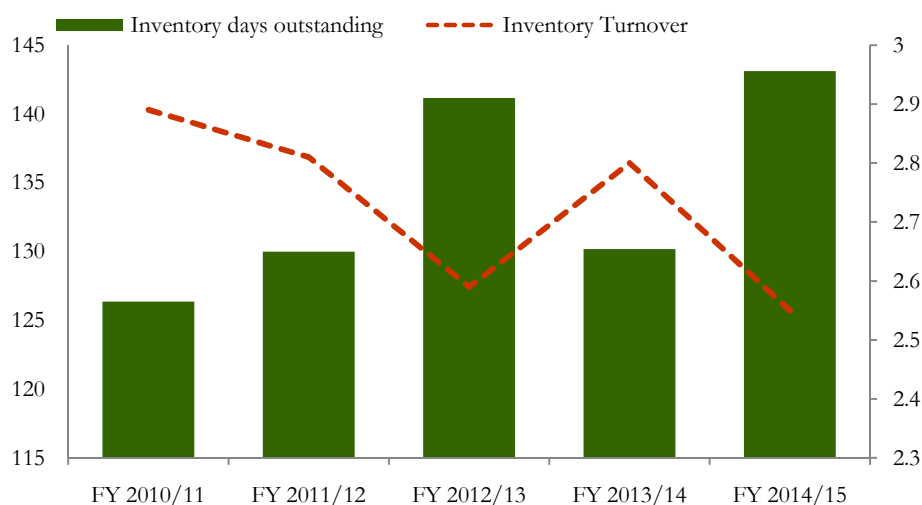
Fig 17: Working Capital (N'billion)



Source: Company Financials, Planet Capital Research

- Inventory turnover declined to 2.55x from 2.80x in the previous financial year, indicating an increase in inventory build-up while days inventory outstanding increased to 143.12 days from 130.18 days in FY2013/14.

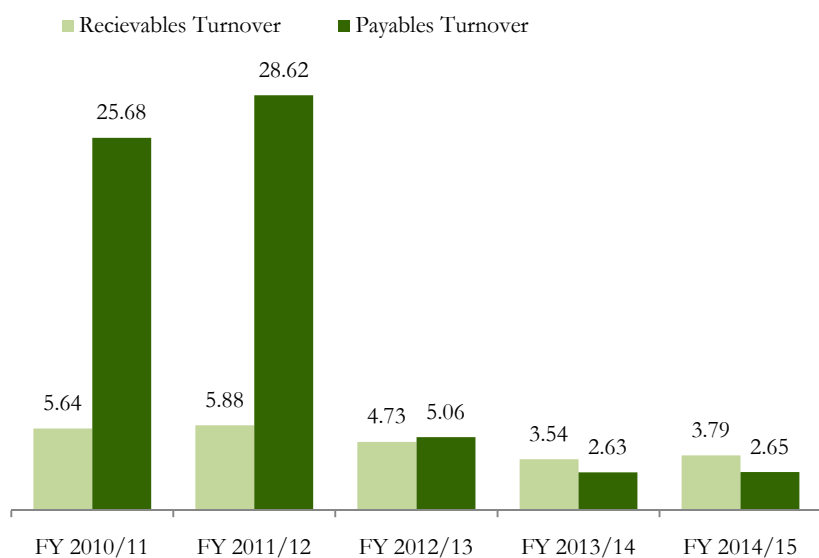
Fig 18: Inventory Turnover & Days Inventory Outstanding



Source: Company Financials, Planet Capital Research

- Receivables turnover ratio increased to 3.79x from 3.54x in FY2013/14, trade payables turnover grew marginally to 2.65x from 2.63x in FY2013/14, which implies that the company's extension of credit and collection of account receivables improved in FY2014/15. Days receivables outstanding (DRO) declined to 96.31days from 103.07days in FY2013/14 while days payable decreased slightly to 137.67days from 138.60days in FY2013/14.

Fig 19: Receivables & Payables Turnover



Source: Company Financials, Planet Capital Research

VALUATION

- Our valuation puts the target price of PZ Cussons Nigeria Plc at N23.16. We employed a combination of absolute and relative valuation methodologies; for our absolute valuation, we employed the DDM and residual income model, while our relative valuation model was based on price multiples. At the current market price of N25.18, this shows the stock is trading at an 8.72% premium. We therefore place a SELL recommendation on the counter.
- Our valuation considered the following factors; the challenging operating environment in Nigeria, insecurity challenges in the northern part of the country, demographic factor, consumer spending power and market competition.

OUTLOOK

In the 52-week period to October 2015, the company's share price recorded a total return of -9.23% relative to a -21.80% return posted by the All Share Index. Year-to date (YTD) returns however stand at 5.79% against a return of -12.50% posted by the broad market in the same period.

Nigeria remains the group's largest market; whilst the naira has been relatively stable, there remains a risk of further currency devaluation in the near term and drive up input costs. Relative pricing and weaker consumer purchasing power is likely to also impact on the company's overall performance going forward.

A major concern for PZ is the current challenges facing the electrical goods business segment, where PZ had reported double digit growths in prior periods but has since slowed and presently has a negative impact on revenue. Whilst low commodity prices help tapered the effect of currency weakness, the uptrend in opex and borrowing costs will lead to a tepid earnings outlook. The group is working on optimising supply chain and overall overheads to ensure a flexible and competitive cost structure.

Profit & Loss (N'Mn)

	2011/12	2012/13	2013/14	2014/15	2015/16(E)
Revenue	72,154.60	71,343.08	72,905.67	73,126.07	75,418.45
Changes (%)	9.53	(1.12)	2.19	0.30	3.13
Cost of Sales	55,973.33	52,246.08	53,710.99	52,672.13	54,320.77
Changes (%)	18.02	(6.66)	2.80	(1.93)	3.13
Gross Profit	16,181.26	19,097.00	19,194.68	20,453.93	21,097.68
Changes (%)	(12.31)	18.02	0.51	6.56	3.15
Operating Expense	11,362.73	11,940.71	12,893.06	13,802.91	14,234.94
Changes (%)	5.79	5.09	7.98	7.06	3.13
Investment Income	0.00	447.26	508.37	228.79	235.95
Changes (%)	0.00	0.00	13.66	(54.99)	3.13
Other income	585.26	264.44	281.03	121.86	125.67
Changes (%)	33.14	0.00	6.28	(56.64)	3.13
Operating Profit	5,403.80	7,156.29	6,301.62	6,651.02	6,862.73
Changes (%)	(33.70)	32.43	(11.94)	5.54	3.18
Finance Cost	670.21	217.73	141.05	444.86	458.78
Changes (%)	433.40	(67.51)	(35.22)	215.39	3.13
PBT	4,306.86	7,650.26	6,949.98	6,556.81	6,765.58
Changes (%)	(46.33)	77.63	(9.15)	(5.66)	3.18
Tax	1,768.01	2,329.07	1,867.23	1,986.02	2,048.18
PAT	2,538.84	5,321.18	5,082.74	4,570.78	4,717.39
Changes (%)	(55.44)	109.59	(4.48)	(10.07)	3.21
EPS	0.61	1.23	1.16	1.02	1.19

Statement of Financial Position

	2011/12	2012/13	2013/14	2014/15	2015/16(E)
Assets (N'mn)					
Cash and Cash Equivalent	2,522.81	8,871.72	4,477.54	2,328.47	2,389.24
Inventories	22,390.76	18,021.34	20,292.55	21,012.63	21,670.32
Account Receivables	9,680.74	20,494.41	20,679.99	17,912.32	18,477.52
Total CA	40,046.45	47,925.97	46,480.59	42,170.06	43,477.65
Total NCA	24,360.34	24,370.44	24,485.13	25,217.84	26,008.38
Total Assets	64,406.79	72,296.42	70,965.73	67,387.91	69,486.04

Liabilities & Equity

	2011/12	2012/13	2013/14	2014/15	2015/16(E)
Account Payable	1,739.84	18,892.97	21,897.87	17,834.53	18,393.01
Total Current Liabilities	17,252.95	21,397.08	23,952.04	19,562.98	20,122.18
Total NCL	4,285.80	4,462.47	4,475.10	4,152.48	3,745.64
Total Equity	42,868.04	46,436.85	42,538.58	43,672.44	45,618.21
Total Lia. & Equity	64,406.79	72,296.42	70,965.73	67,387.91	69,486.04

Activity Ratios

	2011/12	2012/13	2013/14	2014/15	2015/16(E)
Inventory turnover (x)	2.81	2.59	2.80	2.55	2.51
Receivables turnover(x)	5.88	4.73	3.54	3.79	4.15
Payables turnover(x)	28.62	5.06	2.63	2.65	3.00
Days inventory outstanding	130.00	141.16	130.18	143.12	145.61
Days Sales Outstanding	62.05	77.19	103.07	96.31	88.06
Days Payables Outstanding	12.75	72.07	138.60	137.67	121.71

Leverage and Solvency Ratios

	2011/12	2012/13	2013/14	2014/15	2015/16(E)
Equity Multiplier(x)	1.68	1.54	1.71	1.67	1.52
Quick Ratio (x)	1.02	1.40	1.09	1.08	1.08
Current Ratio (x)	2.32	2.24	1.94	2.15	2.16
Total asset-to-Liability(x)	2.99	2.80	2.50	2.84	2.91
Interest coverage (x)	8.06	34.08	46.67	15.22	15.23

Efficiency Ratios

	2011/12	2012/13	2013/14	2014/15	2015/16(E)
Fixed assets turnover(x)	2.96	2.93	2.98	2.90	2.90
Current assets turnover(x)	1.80	1.49	1.57	1.73	1.74
Total assets turnover(x)	1.12	0.99	1.03	1.09	1.08
Equity turnover(x)	1.68	1.54	1.71	1.67	1.65

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