



# NAHCO PLC FY'09 and Q1'10

Equity|Nigeria|Airline Services

## Vetiva Research

07 June 2010

### EVENT

Nigerian Aviation Handling Company Plc ("NAHCO" or "the Company") released its FY'09 and Q1'10 results recently. Its FY'09 Turnover of ₦6.07 billion was 11% ahead of our estimate of ₦5.45 billion, whilst it posted a PAT of ₦1.25 billion (YoY growth of 55%). However, its performance moderated in Q1'10, for which it posted a Turnover of ₦1.52 billion (+5% YoY) and PAT of ₦395.99 million (-6% YoY). Following the release of the Company's FY'09 results, the Company declared a final cash dividend of ₦0.45. We note that the Company had in Q2'09 paid an interim dividend of ₦0.25 and a scrip dividend of 1 for 4. The final dividend payment brings its total cash payment to ₦0.70 (representing a 64% payout ratio).

Fair Value Range  
**₦13.19 – ₦14.42**

### Stock Data

Current Price (₦): 11.47  
 Trailing EPS (₦): 0.99  
 Trailing P/E (x): 11.59  
 Sector P/E (x): 12.88

Symbol: NAHCO  
 Industry: Airline Services  
 Share Vs Ind. Group: Accumulate  
 Ind. Group Vs Market: Neutral

Net Assets (₦): 4.12  
 Price/Book (x): 2.78  
 ROAA (%): 19.56  
 ROAE (%): 28.05

Shares Outstanding (mn): 1,230.47  
 Year High (₦): 4.85  
 Year Low (₦): 7.18

### Share Price Performance

30 Days (%): (0.41)  
 90 Days (%): 41.51  
 52 weeks (%): (2.20)

\*Based on Q1'10 Earnings

Results (N'Millions)	FY'09	FY'08	% Change	FY Forecast	Actual FY as a % of FY Forecast
Turnover	6,066	4,430	37%	5,449	111%
PBT	1,897	1,216	56%	2,016	94%
Tax	(650)	(414)	57%	(645)	101%
PAT	1,247	803	55%	1,371	91%

Source: Company Financials; Vetiva Research

Results (N'Millions)	Q1'10	Q1'09	% Change	FY Forecast	Q1 % of FY Forecast
Turnover	1,518	1,448	5%	6,552	23%
PBT	582	617	-6%	1,966	30%
Tax	(186)	(197)	-6%	(629)	30%
PAT	396	420	-6%	1,337	30%

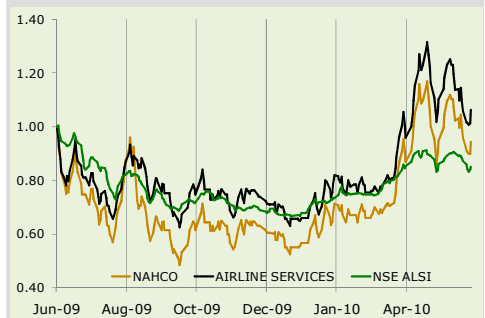
Source: Company Financials; Vetiva Research

### Increasing Contribution from its Cargo Sheds

The Company's Cargo Handling business segment accounted for c.78% of revenue growth in FY'09, as its contribution to Turnover increased from 47% in FY'08 to 56% in FY'09 (ahead of its target of 46%). We note that the Company has invested substantially in the ramping up its cargo handling capacity in the last three years. During the course of the 2009 financial year, it concluded the renovation and expansion of its cargo warehouse in the Port Harcourt International Airport.

### NAHCO Vs AIRLINE SERVICES Vs NSE ALSI (YTD)

Rebased 01/06/09 = 1

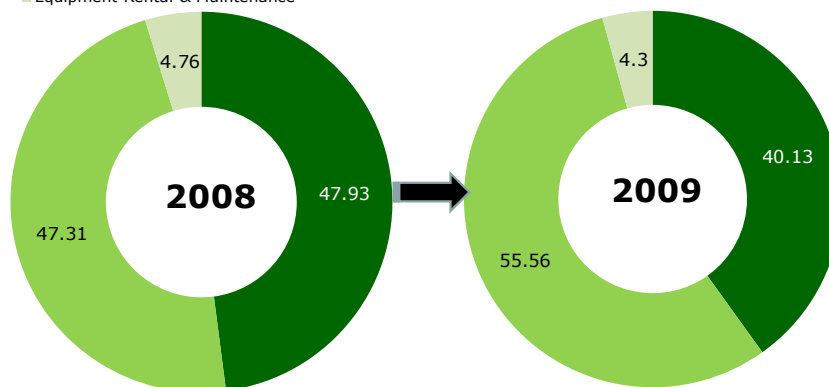


Source: NSE, Vetiva Research

### SEGMENTAL CONTRIBUTION TO TURNOVER (2008 – 2009)

Percent

- Passenger Handling
- Cargo Handling
- Equipment Rental & Maintenance



Source: NSE, Vetiva Research

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## Signs on new contracts with airline operators

The Company continued to expand the range of its contracts to some airline operators, while also taking on some new clients in the 2009 financial year. Specifically, it secured long term handling rights for Ethiopian Airlines, exclusive rights for Aero Contractors and Dana Air in all their stations and additional handling contracts with Delta Airlines and Egypt Air. More recently, NAHCO was selected by the China Southern Airlines to provide a broad range of ground handling services.

Estimates	2007A	2008A	2009A	2010E	2011E
<b>Naira</b>					
EPS	0.79	0.82	1.01	1.09	1.37
EPS Change (YOY)	-45.64%	3.69%	24.28%	7.16%	26.27%
Dividend Payment (DPS)	0.30	0.55	0.70	0.65	0.82
Payout Ratio	38.14%	67.43%	64.12%	60.00%	60.00%
<b>Valuation</b>					
P/E	34.96	14.21	7.08	10.56	8.36
P/Book	12.13	2.71	1.89	2.71	2.40
Dividend Yield	1.09%	4.75%	9.75%	5.68%	7.18%

Source: Company Financials; Vetiva Research

## EARNINGS AND PROFITABILITY UPDATE

Relative to the corresponding quarter of the preceding year, the Company's profitability margins dipped. **PBT** and **PAT Margins** stood at **38.36%** and **26.09%** respectively in **Q1'10**, lower than 42.63% and 28.99% in Q1'09 respectively. However, the profitability margins were higher than 31.27% (PBT) and 20.56% (PAT) respectively in FY'09. NAHCO's **Trailing EPS based on its Q1'10 results stands at ₦0.99** and it currently trades at a **P/E multiple of 11.59x** and a **forward P/E multiple of 10.56x**, relative to Sector and Market Averages of 12.88x and 16.87x respectively.

## FORECAST

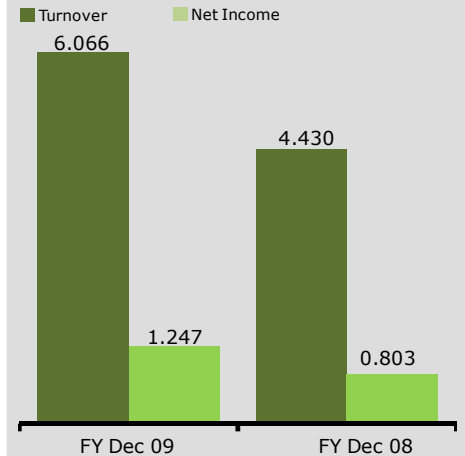
Based on the Company's performance and our outlook, we estimate FY'10 Turnover and PAT of **₦6.55 billion** and **₦1.34 billion** respectively. Our FY'10 forecast translates to an estimated EPS of **₦1.09** and a dividend payout of **₦0.65**. Similarly, we forecast Q2'10 Turnover and PAT of **₦3.2 billion** and **₦726 million**.

Forecast (N'mn)	2007A	2008A	2009E	2010E	2011E
Turnover	3,661	4,430	6,067	6,552	7,535
PBT	786	1,217	1,898	1,966	2,411
Tax	(196)	(414)	(650)	(629)	(723)
PAT	590	803	1,247	1,337	1,688
Retained Earnings	327	262	448	535	675
Absolute Dividend	263	541	800	802	1,013
Earnings Per Share (₦)	0.79	0.82	1.01	1.09	1.37
Dividend Per Share (₦)	0.30	0.55	0.70	0.65	0.82
Net Assets Per Share (₦)	2.27	4.28	3.80	4.24	4.78
P/E (x)	34.96	14.21	7.08	10.56	8.36

Source: Company Financials; Vetiva Research

## TURNOVER AND PAT (FY'09)

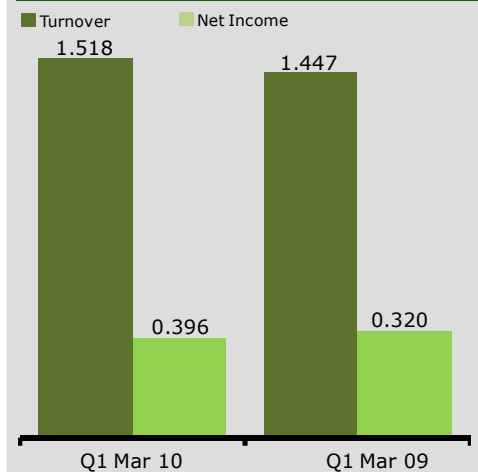
Naira Billions



Source: NSE, Vetiva Research

## TURNOVER AND PAT (Q1'10)

Naira Billions



Source: NSE, Vetiva Research



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Metrics	NAHCO	Airservice
Current Price (₦)	11.47	3.12
Trailing EPS (₦)	0.99	0.22
PE (x)	11.59	14.18
DPS (₦)*	0.70	0.07
DY (%)	6.10%	2.24%
Payout Ratio	64.12%	41.18%
ROAE	28.05%	6.95%
ROAA	19.56%	3.52%
Outstanding Shares (mn)	1230.47	634.00

Source: Company Financials; Vetiva Research

## VALUATION

We used the Discounted Cash Flow Method in valuing Nigerian Aviation Handling Company Plc. The Discount Rate used is the Cost of Equity of 17%, while we assumed a Terminal Growth Rate of 5%. Using sensitivity analysis to vary the Discount Factor and Growth Rate, we derived a Fair Value range of **₦13.19 – ₦14.42**. We expect the stock to trade within these ranges in Normal Market conditions.

NAHCO currently trades at a PE multiple of 11.59x and we applied this to our 5-Year Earnings CAGR of 15.13%, which gives us a Price to Earnings Growth Ratio of 0.77 i.e. (PEG Ratio=0.77).

## RECOMMENDATION

Based on our Fair Value Range for NAHCO of **₦13.19 – ₦14.42**, we place an **"Accumulate"** rating on the stock at its current market price.

## Q1 2010 PROFIT & LOSS, B.SHEET EXTRACTS

### NAIRA MILLIONS

	Q1'10	Q1'09	% Change
TURNOVER	1,518.00	1,447.00	4.91%
PROFIT BEFORE TAXATION	582.35	617.08	-5.63%
TAXATION	(186.35)	(197.47)	-5.63%
PROFIT AFTER TAXATION	396.00	419.61	-5.63%

	Q1'10	FY'09	% Change
FIXED ASSETS	3,926	3,449	13.83%
STOCK	58	35	63.62%
TRADE DEBTORS	1,291	1,083	19.21%
CASH AND BANK BALANCES	1,987	2,194	-9.43%
TRADE CREDITORS	842	925	-8.98%
OTHER CREDIT BALANCES	1,347	1,161	16.02%
WORKING CAPITAL	1,847	1,927	-4.15%
NET ASSETS	5,072	4,676	8.47%

Source : Company Announcement; NSE; Vetiva Research



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<b>Income Statement (N' Million)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
<b>Turnover</b>	3,661	4,430	6,067	6,552	7,535	8,665
Cost of Operations	(2,149)	(2,397)	(2,920)	(3,352)	(3,705)	(4,206)
<b>Gross Profit</b>	1,512	2,033	3,147	3,200	3,830	4,459
Administrative Expenses	(552)	(639)	(791)	(917)	(1,055)	(1,213)
<b>Trading profit</b>	960	1,395	2,355	2,282	2,775	3,246
Other income	146	186	134	151	173	199
<b>EBITDA</b>	1,106	1,581	2,489	2,433	2,948	3,445
Depreciation	(318)	(461)	(514)	(557)	(640)	(737)
<b>EBIT</b>	787	1,119	1,975	1,876	2,308	2,708
Interest Payable & Similar charges	(23)	(187)	(223)	(246)	(270)	(243)
Interest receivable & Similar Income	22	199	146	156	167	179
Exceptional items	-	85	-	-	-	-
<b>Profit before taxation</b>	786	1,217	1,898	1,966	2,411	2,773
Taxation	(196)	(414)	(650)	(629)	(723)	(776)
<b>PAT</b>	590	803	1,247	1,337	1,688	1,996
Proposed dividend	(263)	(541)	(800)	(802)	(1,013)	(1,198)
<b>Retained profit/(loss) for the year</b>	327	262	448	535	675	799
<b>Balance Sheet (N'Million)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
<b>Assets Employed</b>						
Fixed Assets	3,082	3,143	3,450	3,795	4,174	4,801
Investments	-	-	-	-	-	-
<b>Total Non-Current Assets</b>	3,082	3,143	3,450	3,795	4,174	4,801
<b>Current Assets</b>						
Stocks	61	53	35	42	51	61
Debtors & Prepayments	1,143	1,567	1,083	1,192	1,430	1,573
Cash at bank and in hand	643	1,225	2,195	2,371	2,675	2,841
<b>Total Current Assets</b>	1,848	2,845	3,313	3,605	4,156	4,475
<b>TOTAL ASSETS</b>	4,929	5,988	6,763	7,400	8,330	9,275
<b>Current Liabilities</b>						
Bank Overdraft	392	-	-	-	150	165
Creditors and accruals	1,345	1,057	925	990	1,040	1,092
Taxation	132	215	460	345	311	342
	1,868	1,272	1,385	1,335	1,500	1,598
<b>Net Current Assets/(Liabilities)</b>	(21)	1,573	1,928	2,270	2,655	2,876
<b>Total Assets Less Current Liabilities</b>	3,061	4,716	5,378	6,065	6,830	7,677
<b>Non-Current liabilities</b>						
Deferred retirement benefits	(1,033)	-	-	-	-	-
Deferred tax	(328)	(499)	(701)	(771)	(848)	(933)
<b>Total Non-Current Liabilities</b>	(1,361)	(499)	(701)	(771)	(848)	(933)
<b>Net Assets</b>	1,700	4,217	4,677	5,294	5,982	6,744
<b>Capital and Reserves</b>						
Share capital	375	492	615	615	615	615
Share premium	0	1,915	1,915	1,915	1,915	1,915
Dividend reserve	263	541	554	554	554	554
Revenue Reserves	1,062	1,269	1,593	2,128	2,803	3,601
	1,700	4,217	4,677	5,211	5,887	6,685
<b>Total Capital</b>	2,092	4,217	4,677	5,211	6,037	6,850



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<b>FINANCIAL RATIOS</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
<b>GROWTH RATES</b>						
Turnover growth	12.8%	21.0%	36.9%	8.0%	15.0%	15.0%
Growth in Trading profit	31.5%	45.3%	68.9%	-3.1%	21.6%	17.0%
Growth in EBITDA	39.6%	43.0%	57.4%	-2.2%	21.2%	16.8%
Growth in PBT	41.4%	54.8%	55.9%	3.6%	22.7%	15.0%
Growth in PAT	35.9%	36.1%	55.4%	7.2%	26.3%	18.3%
<b>PROFITABILITY</b>						
Return on Equity	40.7%	27.1%	28.0%	27.0%	30.4%	31.8%
Return on Assets	13.3%	14.7%	19.6%	18.9%	21.5%	22.7%
Return on Total Capital	33.9%	25.5%	28.0%	27.0%	30.0%	31.0%
Operating ROE	54.3%	37.8%	44.4%	37.6%	40.9%	42.6%
Operating ROA	17.8%	20.5%	31.0%	26.5%	29.3%	30.8%
<b>MARGINS</b>						
Gross Profit	41.3%	45.9%	51.9%	48.8%	50.8%	51.5%
EBITDA/Sales	30.2%	35.7%	41.0%	37.1%	39.1%	39.8%
EBIT/Sales	21.5%	25.3%	32.6%	28.6%	30.6%	31.3%
Pretax Income/Sales	21.5%	27.5%	31.3%	30.0%	32.0%	32.0%
Net Profit Margin	16.1%	18.1%	20.6%	20.4%	22.4%	23.0%
<b>ASSET UTILIZATION</b>						
Sales to cash (x)	5.7	3.6	2.8	2.8	2.8	3.1
Sales to inventory (x)	60.1	83.5	172.0	154.8	148.3	142.2
Sales to total assets (x)	0.7	0.7	0.9	0.9	0.9	0.9
Fixed Assets (%)	1.2	1.4	1.8	1.7	1.8	1.8
<b>LIQUIDITY RATIOS</b>						
Cash ratio	0.3	1.0	1.6	1.8	1.8	1.8
Quick ratio	1.0	2.2	2.4	2.7	2.7	2.8
Current ratio	1.0	2.2	2.4	2.7	2.8	2.8
Interest coverage (x)	33.9	6.0	8.8	7.6	8.5	11.1
Days in inventory	10.3	8.1	4.4	4.6	5.0	5.3
Days in accounts payable	228.4	161.0	115.7	107.8	102.4	94.7
Days in receivables	114.0	129.1	65.2	66.4	69.3	66.3
Cash Conversion Cycle	(104.1)	(23.8)	(46.1)	(36.8)	(28.2)	(23.2)
<b>CAPITAL STRUCTURE</b>						
Financial leverage (debt to equity)	2.9	1.4	1.4	1.4	1.4	1.4
Interest bearing debt/Total assets	0.1	0.0	0.0	0.0	0.0	0.0
Payout ratio	0.4	0.7	0.6	0.6	0.6	0.6
Total equity/Total assets	0.3	0.7	0.7	0.7	0.7	0.7
Retention ratio	0.6	0.3	0.4	0.4	0.4	0.4
<b>PER SHARE DATA</b>						
EPS	0.79	0.82	1.01	1.09	1.37	1.62
DPS	0.30	0.55	0.65	0.65	0.82	0.97
NAPS	2.27	4.28	3.80	4.24	4.78	5.43
Sales/Share	4.88	4.50	4.93	5.32	6.12	7.04
EBITDA	1.47	1.61	2.02	1.98	2.40	2.80



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Equity | Nigeria | Airline Services

## INVESTMENT RECOMMENDATIONS

Vetiva uses a 5-tier recommendation system for stocks under coverage: Buy, Accumulate, Neutral, Reduce and Sell.

**Buy/Overweight**  $\geq$  +25% expected absolute price performance

**Accumulate** +10% to +25% expected absolute price performance

**Neutral/Hold** +/-10% range expected absolute price performance

**Reduce** -10% to -20% expected absolute price performance

**Sell/Underweight**  $\geq$  -20% expected absolute price performance

### Definition of Ratings

**Buy/Overweight** recommendation refers to stocks that are highly undervalued but with strong fundamentals and where potential return in excess of or equal to **25%** is expected to be realized between the current price and analysts' target price.

**Accumulate** recommendation refers to stocks that are undervalued but with good fundamentals and where potential return of between **10%** and **25%** is expected to be realized between the current price and analysts' target price.

**Neutral/Hold** recommendation refers to stocks that are correctly valued with little upside or downside where potential return of between **+/- 10%** is expected to be realized between current price and analysts' target price.

**Reduce** recommendation refers to stocks that are overvalued but with good or weakening fundamentals and where potential return of between **-10%** and **-20%** is expected to be realized between current price and analysts' target price.

**Sell/Underweight** recommendation refers to stocks that are highly overvalued but with weak fundamentals and where potential return in excess of or equal to **-20%** is expected to be realized between current price and analysts' target price.

### Note<sup>1</sup>

Please note that our recommendations are not solely based on the recommendations criteria stated above. It also takes into consideration qualitative factors, which may affect the company and its valuation as well as its relative pricing compared with its peers and the wider market.

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<sup>1</sup> Please note that all the above ratings are subject to the "Note" section above.



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