# National Salt Company of Nig. Plc - Q3'09

**Equity|Nigeria|Food and Beverage**

## Vetiva Research

**31 December 2009**

Fair Value Range

**₦6.59 – ₦7.56**

## EVENT

National Salt Company of Nigeria Plc ("NASCON" or "The Company") recently released its Q3'09 results showing Turnover and Profit After Tax of **₦6.50 billion** (+**14.07%** YoY) and **₦1.36 billion** (+**26.23%** YoY). The Company's Turnover and Profit After Tax slightly exceeded our forecast of ₦6.27 billion (+3.73%) and ₦1.20 billion (+13.50%).

| Results (N'Millions) | Q3 '09 | Q3 '08 | % Change | FY Forecast | Q3% of FY Forecast |
|---|---|---|---|---|---|
| Turnover | 6,504 | 5,702 | 14.07% | 9,071 | 72% |
| PBT | 2,004 | 1,349 | 48.55% | 2,087 | 96% |
| Tax | (642) | (271) | 137.19% | (764) | 84% |
| PAT | 1,362 | 1,079 | 26.23% | 1,783 | 76% |

*Source: Vetiva Research & NSE*

The Company's performance further highlights the resilience of the firm, as we had stated in our analysis of its Q2'09 results. We had earlier expressed our confidence in the firm's ability to improve its earnings and to exceed our forecast. Nascon's remarkable performance is coming on the heels of aggressive market penetration (volume growth) and stringent cost management measures. Furthermore, the Company's ability to leverage on economies of scale, being the largest player in the industry (by capacity and volume produced), provides a competitive advantage against fringe players such as Royal Salt and Union Dicon Salt. The Company exceeded our expectations for Top and Bottom line by 3.73% and 13.50% respectively. In addition, we note the company's increased operational efficiency following the improvement in the management of its supply chain cost.

In recent years, Nascon intensified expansion (into both Nigerian and West African markets) of salt production, via the introduction of smaller packaging of salt in 500g, 250g and 1g sachets in a bid to meet the supply shortfall and increase penetration within the country. Previously, the bulk of iodized standardized salt consumed in the country was imported, (though importation currently contributes less to supply) indicating a local supply deficit. The Nigerian economy's part dependency on importation can be adduced to the shortage of salt refiners and inadequate refining capacity within the country. In our opinion, the operating challenges of the real sector in the 2008/9 financial year and the ability of the firm to operate relatively smoothly through the period, further shows its resilience as a firm. Although, Nascon imports and refines salt crystal (its major input), the Company appears to have remained insulated from the implications of the volatility in the Exchange rate that plagued most of the manufacturers within the country. The Company currently has an installed capacity of 400,000 tonnes per annum for 25-50 kg bags of salt and 100,000 tonnes per annum for smaller sachets.

Even though, the company is faced with competition from substandard and imported salt, we expect steady growth in company's sales and profitability over the years especially as Government continually puts in place regulations to curb importation of basic commodities in order to encourage the development of indigenous firms within the country.

### Stock Data

| | |
|---|---|
| Current Price (₦): | 4.35 |
| Trailing EPS (₦): | 0.60 |
| Trailing P/E (x): | 7.29 |
| Symbol: | NASCON |
| Industry: | Food & Beverage |
| Share Vs Ind. Group: | Overweight |
| Ind. Group Vs Market: | Overweight |
| Net Assets (₦): | 5.25 |
| Price/Book (x): | 0.79 |
| ROAA (%): | 38.56 |
| ROAE (%): | 21.10 |
| Shares Outstanding (mn): | 2,649 |
| Year High (₦): | 6.80 |
| Year Low (₦): | 2.82 |
| Share Price Performance | |
| 30 Days (%): | 3.75 |
| 90 Days (%): | 18.91 |
| 52 weeks (%): | (34.13) |

**NASCON VS F & B SECTOR VS NSE ALSI (YTD)**

Rebased 02/01/09 = 1


***Source:** NSE; Vetiva Research*

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## EARNINGS AND PROFITABILITY UPDATE

Nascon's PBT and PAT margin increased to 30.81% and 20.94% from 23.64% and 18.92%, relative to the corresponding period in Q3'08. The Company is currently trading at a **PE multiple of 7.29x and a forward P/E multiple of 6.47x**, relative to a sector and market average of 9.50x and 14.34x.

## FORECAST

Our FY'09 forecast for Turnover and PAT stands at **₦9.07 billion and ₦1.78 billion** respectively. Our FY'09 EPS forecast stands at ₦0.67 while a total Dividend Per Share of ₦0.47 is estimated.

## RECOMMENDATION

We retain our **"Overweight"** rating on the stock and recommend a **"Buy"** at its current market price.

## OUTLOOK

Premised mainly on the supply-demand deficit within the country, we expect NASCON to gradually gain dominance in the Nigerian market and neighboring markets. We believe immense potential exists in this sector, especially as Government's efforts are directed towards promoting the development of indigenous companies and sectors. We are optimistic about the performance of NASCON going forward and believe the Company will continue as a steady performer in the near to medium term.

| **Estimates** | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| **Naira** | | | | | |
| EPS | 0.57 | 0.49 | 0.67 | 0.61 | 0.66 |
| EPS Change (YOY) | -76.42% | -14.17% | 37.37% | -8.97% | 8.00% |
| Dividend Payment (DPS) | 0.40 | 0.40 | 0.47 | 0.40 | 0.43 |
| Payout Ratio | 70% | 82% | 70% | 65% | 65% |

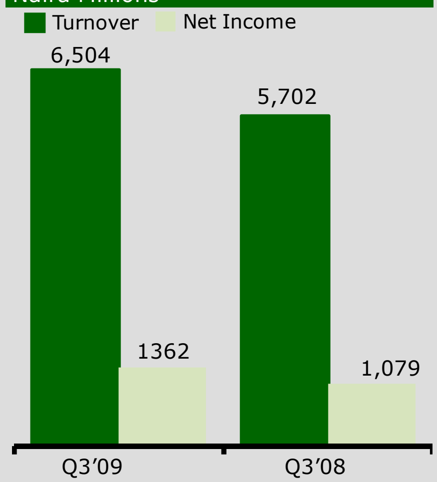
| **Valuation** | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| P/E | 8.73 | 12.25 | 6.47 | 6.19 | 5.73 |
| P/Book | 3.17 | 4.32 | 2.41 | 2.13 | 2.17 |
| Dividend Yield | 8.03% | 6.67% | 10.03% | -10.50% | -11.34% |

*Source: Vetiva Rsearch & NSE*

| **Metrics** | **7-Up** | **DSR** | **NASCON** | **FMN** | **Nestle** |
|---|---|---|---|---|---|
| Current Price | 29.40 | 15.10 | 4.35 | 36.00 | 239.50 |
| Trailing EPS | 3.09 | 1.27 | 0.6 | 3.68 | 15.23 |
| PE | 9.51 | 11.89 | 7.25 | 9.78 | 15.73 |
| DPS | 1.30 | 1.20 | 0.40 | 0.50 | 12.55 |
| DY (%) | 4.42% | 7.95% | 9.20% | 1.39% | 5.24% |
| Payout Ratio | 50.27% | 65.84% | 81.67% | 21.95% | 99.49% |
| ROE | 22.70% | 80.91% | 38.56% | 13.19% | 109.15% |
| ROA | 7.05% | 40.39% | 21.10% | 3.88% | 33.05% |
| Outstanding Shares(mn) | 512 | 12,000 | 1,309 | 1,708 | 661 |

*Source: Vetiva Research & NSE*

**TURNOVER AND NET INCOME**
Naira Millions




*Source: Vetiva Research & NSE*

| Forecast (N'mn) | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| Turnover | 6,253 | 7,888 | 9,071 | 10,432 | 11,997 |
| PBT | 1,752 | 1,897 | 2,087 | 2,254 | 2,434 |
| Tax | (492) | (599) | (764) | (631) | (681) |
| PAT | 1,260 | 1,298 | 1,783 | 1,623 | 1,752 |
| Absolute Dividend | 883 | 1,060 | 1,248 | 1,055 | 1,139 |
| Earnings per share (₦) | 0.57 | 0.49 | 0.67 | 0.61 | 0.66 |
| Dividend per share (₦) | 0.40 | 0.40 | 0.40 | 0.40 | 0.43 |
| Net Assets per share (₦) | 1.57 | 1.39 | 1.81 | 1.78 | 1.75 |
| P/E (x) | 7.27 | 8.47 | 6.17 | 6.78 | 6.27 |

*Source: Vetiva Research & NSE*

## VALUATION

In valuing NASCON, we applied the Discounted Cash Flow Method; we have assumed a Cost of Equity of 17.64% which is composed of a risk free rate of 14.39%, a risk premium of 6%, Beta of 0.70 (NASCON is 100% financed by equity) and a Terminal Growth Rate of 3.5%. Using Sensitivity Analysis to vary the Discount Factor and Growth Rate, we derived a Fair Value range of ₦6.59 – ₦7.56.

We expect the stock to trade within this range in Normal Market conditions.

**Q3 2009 PROFIT & LOSS, B.SHEET EXTRACTS**

| NAIRA BILLIONS | 2009 | 2008 | %Change |
|---|---|---|---|
| TURNOVER | 6.504 | 5.702 | 14.07% |
| PROFIT BEFORE TAXATION | 2.004 | 1.349 | 48.55% |
| TAXATION | (0.642) | (0.271) | 137.19% |
| PROFIT AFTER TAXATION | 1.362 | 1.079 | 26.23% |
| | | | |
| FIXED ASSETS | 2.719 | 1.937 | 40.37% |
| STOCK | 0.890 | 0.728 | 22.19% |
| TRADE DEBTORS | 1.220 | 1.220 | 0.00% |
| CASH AND BANK BALANCES | 0.451 | 0.556 | -18.89% |
| OTHER DEBIT BALANCES | 2.925 | 3.041 | -3.81% |
| TRADE CREDITS | 0.332 | 1.414 | -76.49% |
| SHORT TERM BORROWINGS | 0.005 | 0.029 | -82.16% |
| OTHER CREDIT BALANCES | 2.618 | 1.805 | 45.04% |
| WORKING CAPITAL | 3.043 | 2.248 | 35.36% |
| NET ASSETS | 5.249 | 3.887 | 35.04% |

*Source: Nigerian Stock Exchange*

## INVESTMENT RECOMMENDATIONS

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

**Buy/Overweight** ≥ +20% expected absolute price performance

**Accumulate** +10% to +20% expected absolute price performance

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

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

**Sell/Underweight** ≥ -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 **20%** 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 **20%** 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.,

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