NASCON Allied Industries Plc

Diversifiying To Meet Basic Needs

May 24, 2016

Executive Summary

- The latest Q1 2016 result for the period ending March 2016 shows significant improvement over the corresponding period of the previous year
- The company's strategy to push more volumes through product diversification, increase prices and grow market share led to the improvement in revenue
- The drop in the profit margins in FY 2015 and Q1 2016 were as a result of the introduction of new product lines, difficult macroeconomic environment and increased costs associated with higher logistical costs and higher costs of imported materials
- The difficulties in sourcing raw materials for its tomato and vegetable oil plants led to the temporary shutdown of the plants. The company says it is in discussions with other suppliers and hope to resume operations before the end of the year 2016
- We estimate a dividend per share of N0.60 for the FY 2016
- **Our fair value of the shares of NASCON is N11.43**
- **We place a BUY on the shares at the current price of N8.15 per share.**

Table 1	
Rating:	**BUY**
Current Price	N8.15
Fair Value	N11.43
Price Target	N10.20
Horizon	One Year

1.0 Q1 2016 Performance Analysis:

NASCON Allied Industries Plc (NASCON) has significantly improved its top line performance in Q1 2016 over the prior period. The company's strategy to diversify product lines, push more volumes, increase prices and market share led to the huge improvement in revenue. The foreign exchange restriction policy which led to the temporary suspension of operations in its vegetable oil and tomato paste businesses impacted on NASCON's profit margin. The Q1 2016 result for the period ended March 2016 shows that Turnover T/O increased by 55.25% to N4.46bn, compared with N2.87bn in Q1 2015. The company's cost of sales increased by 48.98% to N2.91bn in Q1 2016 from N1.95bn in Q1 2015. Its cost of sales as a percentage of T/O decreased to 65.26% from 68% as at Q1 2015. This means that the company was able to pass on the increase in cost of production to customers and still grow sales. The administrative, selling and distribution expenses increased by 97.05% to N599.90mn. These expenses as a percentage of turnover increased to 13.45% in Q1 2016 from 10.60% in Q1 2015. This increase was due to increase in company costs required to drive volumes especially in its new product line and increased costs associated with the refurbishment of worn-down trucks.

The T/O increased by 55.25% to N4.46bn in Q1 2016.

The other operating income stood at N1.30mn as at Q1 2016, representing a decrease of 98.40%, compared with N80.86mn in Q1 2015. The company recorded a financial income of N2.06mn for the period of Q1 2016 from N0.125mn in Q1 2015. The Profit Before Tax (PBT) grew to N953.26mn in Q1 2016, an increase of 36.98% from N695.91mn in Q1 2015. The company's tax provision also increased by 36.98% to N305.04mn in Q1 2016, from N222.69mn in Q1 2015. The Profit After Tax (PAT) was N648.22mn in Q1 2016, from N473.22mn in Q1 2015, representing an increase of 36.98%.

There was a decline in the company's profit margins in Q1 2016, compared with Q1 2015.

Table 2: Quarterly Result Highlights (N'bn)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Turnover	4.46	5.99	3.59	3.73	2.87
PBT	0.95	0.64	0.86	0.82	0.70
PAT	0.65	0.49	0.59	0.56	0.47

Source: Company Quarterly Results – Q1 2016 and FSDH Research Analysis

The total assets of the company which stood at N16.86bn as at Q1 2016 were financed by a mix of equities and liabilities in the ratio of 54.11% and 45.89% respectively.

Trade payables also increased by 19.55% to N548.28mn from N489.55bn as at FY 2015.

Despite the display of improved performance in Q1 2016 the significant increase of 946% in selling and distribution costs resulted in lower margins compared with the corresponding period of 2015. Gross profit margin improved from 32% in Q1 2015 to 34.74% in Q1 2016. This showed that the company was able to manage its cost of sales more effectively. However the company's EBIT margin dropped from 24.22% in Q1 2015 to 21.32% in Q1 2016. The PBT Margin in Q1 2016 decreased over the Q1 2015. The PBT margin decreased to 21.37% in Q1 2016 from 24.22% as at Q1 2015. The PAT margin currently stands at 14.53% in Q1 2016, down from 16.47% in the corresponding period of 2015.

Table 3: Q1 Profitability Analysis (N'bn)

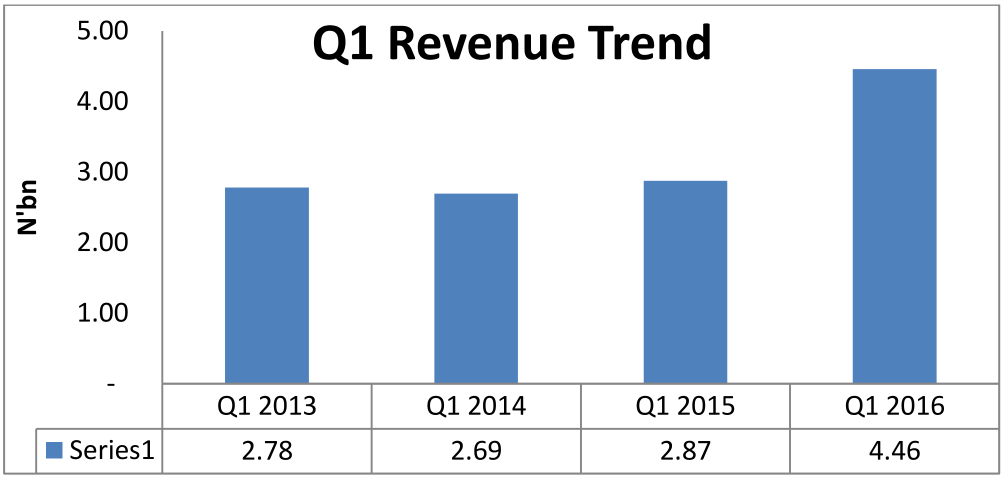
	Q1 2016	Q1 2015	Change
T/O	4.46	2.87	55.25%
GP	1.55	0.92	68.57%
EBIT	0.95	0.70	36.71%
PBT	0.95	0.70	36.98%
PAT	0.65	0.47	36.98%
GP* Margin	34.74%	32.00%	2.75%
EBIT Margin	21.32%	24.22%	-2.89%
PBT Margin	21.37%	24.22%	-2.85%
PAT Margin	14.53%	16.47%	-1.94%

Source: Company Annual Account – 2015 and FSDH Research Analysis

A cursory look at the balance sheet position as at Q1 2016 compared with FY December 2015 shows a decrease in the company's fixed assets. The total fixed assets decreased by 1.20% to N6.83bn in Q1 2016 from N6.91bn in FY 2015. The inventory decreased by 19.40% to N1.56bn in Q1 2016, from N1.93bn in FY 2015. The cash and bank balances decreased by 5.87% from N2.55bn in FY 2015 to N2.40bn in Q1 2016. The company's trade receivables increased in Q1 2016 by 274.81% to N1.78bn, from N475.89mn in FY 2015. Its trade payables also increased by 19.55% to N585.28mn in Q1 2016 from N489.55mn as at FY 2015. The working capital stood at N2.16bn in Q1 2016 from N1.43bn in FY 2015. Net assets also increased by 9.14% to stand at N7.74bn, from N7.09bn as at FY 2015.

The total assets of the company which stood at N16.86bn as at Q1 2016 were financed by a mix of equities and liabilities in the ratio of 54.11% and 45.89% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N7.87bn, accounting for 86.25% of the total liabilities. The short-term liabilities constituted mainly of dues to related parties. The long-term liabilities stood at N1.25bn accounting for 13.76% of the total liabilities. Long-term liabilities constituted mainly of deferred tax liabilities which stood at N916.01mn in Q1 2016.

Our analysis of the cash flow statement in Q1 2016 shows that NASCON generated a net decrease in cash and cash equivalents of N149.49mn.



Our analysis of the cash flow statement in Q1 2016 shows that NASCON generated a net decrease in cash and cash equivalents of N149.49mn. The company lost significant cash in its trade and other receivables, other assets and trade and other payables. Trade and other receivables consist mainly of trade debtors and due from related parties. Other assets were mainly from deposits for imports which stood at N46.34mn from N8.96mn. The decrease in trade and other payables indicates that the company is trying to increase the payment days to its suppliers. The cash profit generated during the period stood at N1.21bn and it is proportionally higher than the cash profit generated in Q1 2015 (N578.28mn). The ratio of the cash profit to turnover increased to 27.12% in Q1 2016 from 20.13% in Q1 2015. This means that more sales translated to higher cash profit in Q1 2016 than in Q1 2015. **The company will need to improve on its cash collection strategy to improve on its cash flow.**

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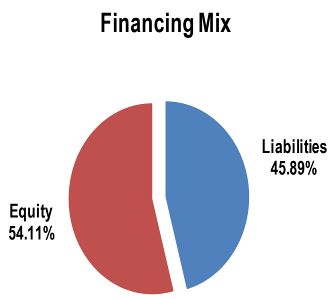
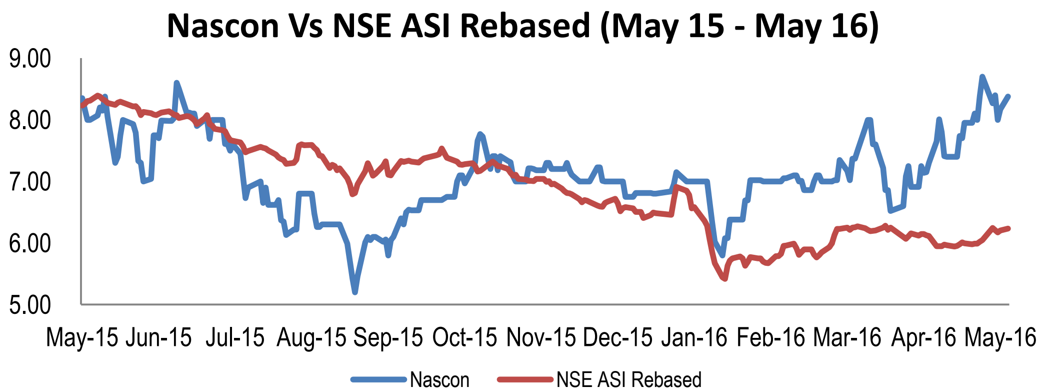




1.1 FY 2015 Performance Analysis:

The FY 2015 result for the period ended December 2015 shows that Turnover T/O increased by 43.80% to N16.18bn, compared with N11.25bn in 2014. The cost of sales increased by 58.33% to N11.82bn in FY 2015 from N7.46bn in FY 2014. The cost of sales as a percentage of T/O increased to 73.06% in FY 2015 from 66.35% as at FY 2014. The administrative, selling and distribution expenses increased by 40.40% to N1.49bn. These expenses as a percentage of turnover decreased to 9.22% in FY 2015 from 9.44% in FY 2014.

The other operating income stood at N161mn as at FY 2015, representing an increase of 56.49%, compared with N102.88mn in FY 2014. The company recorded financial charges of N20.07mn in FY 2015, compared with no charge in the previous period. The Profit Before Tax (PBT) grew to N3.02bn in FY 2015, an increase of 5.64% from N2.86bn in 2014. The tax provision decreased by 7.83% to N911.92mn, from N989.36bn. The Profit After Tax (PAT) was N2.11bn in FY 2015, from N1.87bn in 2014, representing an increase of 12.78%. There was a decline in the company's profit margins in FY 2015, compared with FY 2014. This was a reflection of the macroeconomic challenges within the country prompting the rise in operating costs. **The increase in the company's cost of sales significantly impacted the ability of its revenue to trickle down, as direct material costs grew substantially between 2014 and 2015.**

FY 2015 T/O increased by 43.10% to N16.18bn, compared with N11.25bn.

Gross profit margin declined from 33.65% in 2014 to 26.94% in 2015 and is at a four-year low. This reflects the impact of the devaluation of the currency and the increase in Automotive Gas Oil (AGO) and gas. It also reflects the fact that the new business lines have not been contributing to profit. Also the company's EBIT margin dropped from 25.12% in FY 2014 to 18.72% in FY 2015. The PBT Margin in FY 2015 decreased over the FY 2014. The PBT margin decreased to 18.65% in FY 2015 from 25.39% as at FY 2014. The PAT margin currently stands at 13.02% in FY 2015, down from 16.60% in the corresponding period of 2014.

Table 4: FY Profitability Analysis (N'bn)

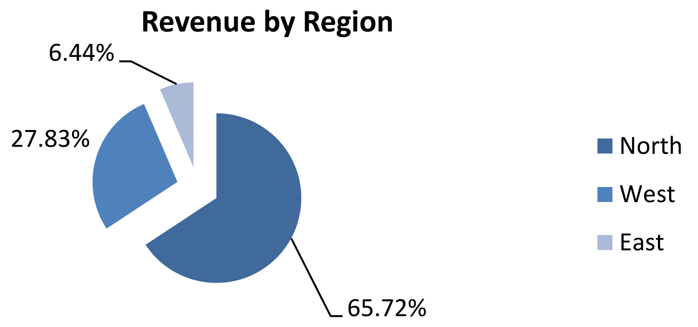
	FY 2015	FY 2014	FY 2013	FY 2012
T/O	16.18	11.25	10.84	13.41
GP	4.36	3.79	4.59	5.09
EBIT	3.03	2.83	4.00	4.04
PBT	3.02	2.86	4.00	4.04
PAT	2.11	1.87	2.66	2.77
GP* Margin	26.94%	33.65%	42.38%	37.95%
EBIT Margin	18.72%	25.12%	36.94%	30.15%
PBT Margin	18.65%	25.39%	36.86%	30.09%
PAT Margin	13.02%	16.60%	24.51%	20.62%

Source: Company Annual Account – 2015 and FSDH Research Analysis
GP- Gross Profit*

The decline in the company's profit margins in FY 2015, compared with FY 2014 reflects the difficult macroeconomic challenges faced within the country.

The company has greatly benefited from its diversification into the allied food segment of the Nigerian economy. An analysis of NASCON's revenues shows that its salt segment contributed 73.63% to the company's revenue in 2015. The company's Freight, Vegetable oil and Tomato segments contributed 12.18%, 9.36% and 3.35% to its revenue respectively. The lowest contributing segment was the seasoning segment which is currently dominated in the market by Nestlé's Maggi and Unilever's Knorr. Its growth in the food segment is supported by the growing food processing sector of the economy. All segments witnessed a gain in revenue of above 20%, highlighting the high demand for allied food products within the Nigerian market. The biggest growth in revenue occurred in the seasoning sector (159.25%), followed by freight segment (41.10%). The salt segment recorded the lowest growth in revenue (22.03%). About 65.72% of its total sales emanated from the northern region of the country.

All segments witnessed a gain in revenue of above 20%, highlighting the high demand for allied food products within the Nigerian market.



With regards to profitability, only the salt and freight segments gained by 18.11% and 1,634.36% respectively with salt contributing the most profit for the company. The seasoning, tomato and vegetable oil segments all reported losses. The company is confident that these segments will break even within a short period and it will reopen its plants.

Table 5: Revenue and Segment Profitability Analysis (N'bn)

Revenue Analysis	FY 2015	Contribution	FY 2014	Contribution	%∆
Salt	11.91	73.63%	9.76	86.77%	22.03%
Seasoning	0.24	1.48%	0.09	0.82%	159.95%
Tomato	0.54	3.35%	0.00	0.00%	-
Vegetable Oil	1.51	9.36%	0.00	0.00%	-
Freight Income	1.97	12.18%	1.40	12.42%	41.10%
Total	16.18	100.00%	11.25	100.00%	43.80%
Segment Profitability Analysis					
Salt	4.49	103.00%	3.80	100.42%	18.11%
Seasoning	(0.08)	(1.92%)	0.002	0.06%	(3,545.77%)
Tomato	(0.23)	(5.27%)	0.00	0.00%	-
Vegetable Oil	(0.10)	(2.26%)	0.00	0.00%	-
Freight Income	0.28	6.44%	(0.02)	(0.48%)	1,634.36%
Total	4.36	100.00%	3.79	100.00%	15.15%

Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 6: Segment Gross Profit Margin (N'bn)

	FY 2015			FY 2014		
	Revenue	Cost of Sales	GP* Margin	Revenue	Cost of Sales	GP* Margin
Salt	11.91	7.42	37.69%	9.76	5.96	38.95%
Seasoning	0.24	0.32	(35.04%)	0.092	0.090	2.64%
Tomato	0.54	0.77	(42.40%)	0.00	0.00	-
Vegetable Oil	1.51	1.61	(6.50%)	0.00	0.00	-
Freight Income	1.97	1.69	14.25%	1.40	1.42	(1.31%)
Total	16.18	11.82	26.94%	11.25	7.46	33.65%

**GP Margin – Gross Profit Margin*
Source: Company Annual Account – 2015 and FSDH Research Analysis

NASCON generated a net increase cash flow of N1.66bn in the year 2015, an increase over the net decrease in cash flow of N305mn it generated in 2014.

1.2 Analysis of Cash Flow Statement:

NASCON generated a net increase cash flow of N1.66bn in the year 2015, an increase over the net decrease in cash flow of N305mn it generated in 2014. The cash flow generated from the company's operations decreased to N4.01bn in 2015 from N4.19bn in 2014. The company's successful implementation of effective working capital management strategies was responsible for the significant boost in its cash flow in 2015. The company's delayed payments to related companies provided the additional liquidity of N2.83bn it required to run its operation. However, acquisition of property, plant and equipment consumed less cash flow in 2015 than in 2014. The ratio of the cash generated from its core operating activities to the revenue decreased to 24.91% in 2015 from 33.68% in 2014. **This means that less of its total revenue translated into cash in 2015 when compared with 2014. The company needs to work to reverse this trend.**

This means that less of its total revenue translated into cash in 2015 when compared with 2014. The company needs to work to reverse this trend.

The net cash from operating activities generated after tax decreased from N4.19bn to N4.01bn in FY 2015. The net cash generated from operations was sufficient to cover both the financing and investment needs of the company. **The company confirmed to us that it will continue to fund its short-to-medium term expansion from internally generated cash**. The reduced dividend payment and investment in the acquisition of property plant and equipment in 2015 were responsible for the increased cash flow during the period.

Table 7: Cash Flow Analysis

N'bn	2015	2014	Change
Cash Profit From Core Activities	4.03	3.79	6.36%
Changes In Working Capital	0.73	1.62	(54.72%)
Cash From Operating Activities	4.76	5.41	(11.94%)
Income Tax Paid	0.76	1.22	(37.78%)
Net Cash From Operating Activities	4.01	4.19	(4.45%)
Net Cash Used In Investing Activities	(1.00)	(2.11)	(52.62%)
Net Cash Generated by/(Used in) Financing Activities	(1.34)	(2.38)	(43.60%)
Cash Generated for the Year	1.66	(0.31)	(644.34%)
Ratio of Cash Flow from Core Operations to Revenue	24.91%	33.68%	(8.77%)
Ratio of Net Cash from Operation to PPE Investment	399.96%	198.32%	201.64%

Source: Company Annual Account – 2015 and FSDH Research Analysis

2.0 Analysis of Return on Equity

We expect the ROE to increase when the other product lines begin to generate profit.

The Return on Equity (ROE) of the company grew marginally from 29.60% in 2014 to 29.71% in 2015. Using the DuPont analysis, we linked the marginal increase in the ROE to the efficient use of its asset base in generation of sales revenue to the company. A significant increase in NASCON's cost of sales, administrative and distribution expenses were principally responsible for the drop in the profit margin. **We expect the ROE to increase when the other product lines begin to generate profit.**

Table 8: Du Pont Analysis (N'bn)

		2015	2014
Profitability	PAT	2.11	1.87
	Turnover	16.18	11.25
	Profit Margin	13.02%	16.60%
Operating Efficiency	Turnover	16.18	11.25
	Total Assets	16.29	12.56
	Asset Turnover	99.28%	89.60%
Financial Leverage	Total Assets	16.29	12.56
	Equity	7.09	6.31
	Equity Multiplier	**2.30**	**1.99**
Return on Equity (ROE)		**29.71%**	**29.60%**

Source: Company Annual Account – 2015 and FSDH Research Analysis

3.0 Drivers of Performance:

The following factors affected the performance of NASCON:

Positive Factors:

- Introduction of new business lines to the business
- Market share gain in the salt industry
- The growth in consumer goods market
- Leveraging on existing transportation networks
- Leveraging on existing packaging company
- Taking advantage of the local substitute policy
- Limited competition in salt industry
- High demand for salt products
- Owns depots in strategic locations
- Relatively inelastic to price.

Negative Factors:

- The weak consumer spending power
- Difficult operating environment
- Higher/ operational and logistics costs
- Security challenges in the North where over 65% of sales occur
- Reduced profit margins.
- AGO and Gas supply challenges
- Suspension of tomato paste and vegetable oil plants till further notice
- Shortage of foreign exchange.

The company's imported materials accounted for 76.53% of total bought-in-materials, while local materials accounted for only 23.47% of total brought-in-materials.

3.1 Strategic Focus:

NASCON's total foreign exchange exposure as a result of imported materials stood at N8.38bn in FY 2015, from N4.46bn in FY 2014. This was almost double that of the previous year, further highlighting the impact of foreign exchange instability on the company's operations. The company's imported materials accounted for 76.53% of total bought-in-materials, while local materials accounted for only 23.47% of total brought-in-materials. The company's did not export any of its products in the year 2015 but plans on exporting to other African markets once local demand has been met.

The company also generates revenue from its freight business.

NASCON managed to take advantage of its leadership position in the production of specialized PDV salt, and expanded into the production of flavoured seasoning and stock cubes under the brand name Dan-Q. This improved its revenue modestly and is expected to increase steadily over the next few years.

However, due to pest problems plaguing tomato farms in the northern part of the country, its plants are currently shut-down until the next tomato season. NASCON intends to purchase tomatoes for its tomato paste from Dansa Tomato Processing Company (Dansa). The company intends to delve into backward integration in the tomatoes industry in the long-term, while in the short term it might focus on purchasing local tomatoes for processing its tomato paste.

NASCON entered the Foods segment (seasoning) with DAN-Q cubes and engages in the sale of Tomato pastes and Vegetable oil segments.

It also intends to reinvest in its support growth strategy with internally generated revenue and gain sufficient market share with its in Dan-Q seasoning which it will aggressively market and promote in the year 2016.

4.0 Business:

NASCON refines and markets salt, seasoning, tomato paste and vegetable oil.

NASCON is engaged in the refining and marketing of salt of different grades; kitchen, table and industrial salt. It also engages in the production and refining of seasoning, tomato paste and vegetable oil. NASCON was incorporated on 30th April, 1973, fully privatized in April, 1982 and became listed on The Nigerian Stock Exchange on October, 1992. In 2013, the Company entered the Foods segment (seasoning) with DAN-Q cubes. **NASCON began to engage in the sale of seasoning, tomato pastes and vegetable oil in 2015 and plans to expand its operations going forward**. The diversification drive of the company into other activities necessitated the change of name back in 2014 to NASCON Allied Industries Plc from National Salt Company of Nigeria Plc.

NASCON entered into the production of tomato paste in response to an identified supply gap within the Nigerian market.

4.1 Salt:

The company has a combined production capacity for salt of 567,000MT from plants located at Oregun (Lagos), Port Harcourt and Apapa (Lagos). However, the capacity utilisation as at 2015 was 65.09% an increase from 57.87% in 2014. It also boasts of 65% Market share in the salt market. The salt products are packaged in 25 and 50kg bags of salt and 250g, 500g and 1kg sachets. The salt production plants are strategically located by their various ports. The company also owns up to seven ware houses in strategic locations in Nigeria such as Lagos, Gombe, Port-harcourt, Sokoto, Makurdi, Obajana and Aba. These can hold 9,000MT of finished goods and 70,000 MT of raw salt.

4.2 Tomatoes:

NASCON entered into the production of tomato paste in response to an identified supply gap within the Nigerian market. The company found that there were instances where local production plus imports were unable to effectively meet local demand. The company grabbed the opportunity to sell tomato paste under the Dangote brand name and benefit from its high brand value. Its plant was commissioned in Q3, 2015. This has been suspended for lack of raw materials to process.

4.3 Seasoning:

The company entered the seasoning market and commissioned its product Dan-Q in Q2 2015 and produces 2 distinct flavours namely Chicken and Beef. The company's product is described as a well-accepted product by consumers based on market research conducted by Nielson Corporation a global marketing research firm. NASCON intends to rebrand and repackage its seasoning product Dan-Q, and launch it with a number of other branded products including Cray Fish, powdered tomatoes and other innovative products. **The company organised a trade show in Kaduna and Enugu which ended in March 2016.**

4.4 Vegetable Oil:

NASCON delved into the vegetable oil market despite the competitive environment. The company stopped refining due to the inaccessibility to raw materials as a result of foreign exchange restrictions for vegetable oil importation. The local production of crude palm oil is of a lower grade and is not sufficient for profitable production of refined vegetable oil. The current production capacity is 6,537MT as at 2015.

4.5 Freight:

The company also generates revenue from its freight business. It engages in the use of its freight fleet to generate income through transportation of NASCON products to and from preassigned destinations. This provides some form of business diversification for the company's operations and contributes sufficient amounts to the company's revenue.

Table 9: Shareholding Structure as at December 31, 2015

Name	Number of Ordinary Shares	% of Shareholding
Dangote Industries Limited	1,687,427,062	63.69%
Others	962,010,938	36.31%
Total Number of Shares	2,649,438,000	100.00%

Table 10: Company Summary

Ticker	NASCON
Sector	Consumer Goods
Sub-sector	Food Products
Date of Incorporation	April 30th 1973
Date of Listing	October 20th 1992
Financial Year End	December
Number of Fully Paid Share	2,649,438,378
Current Capitalization(NGN)	21,990,338,537
NSE Capitalization (NGN)	9,313,358,078,659.38
% of NSE Capitalization	0.24%
52 Week high NGN	8.70
52 Week low NGN	5.20
YTD Return (%)	23.78
52 Weeks Average Volume Traded	812,215
Trailing EPS NGN	0.86
Trailing P/E Ratio (X)	9.65

As at May 20, 2016
Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 11: Directors' Shareholding as at March 11, 2016

Director	Position	Holdings
Mrs Yemisi Ayeni *	Chairman	-
Mr. Paul Farrer	Managing Director	-
Fatima Aliko Dangote**	Executive Director	-
Dr Chris Ogbechie*	Director	-
Mr Olakunle Alake	Director	4,170,000
Halima Aliko Dangote	Director	-
Mr. Knut Ulmvoen	Director	-
Mrs. Fatima Wali Abdurrahman*	Director	-
Alhaji Sada Ladan-Baki	Director	2,758,673
Alhaji Abdu Dantata	Director	12,000,000
Aliko Dangote***	Ex-Chairman	74,004,503
Sani Dangote***	Ex-Director	36,042,062
Suleiman Olarinde***	Ex-Director	-

***Appointed with effect from December 15, 2015 **Appointed March 11, 2016 ***Resigned on December 15, 2015**
Source: Company Annual Account – 2015

5.0 Product Analysis:

NASCON is a leading salt and allied food production company operating within Nigeria. It engages in the refining and sale of edible, refined, bulk and industrial salt, production and sale of seasoning, tomato paste and vegetable oil.

5.1 Salt

NASCON is a leading Salt and allied food production company operating within Nigeria.

NASCON produces salts of different grades based on the needs of its customers:

- Dangote Edible Salt is used as regular table salt in homes providing flavor to cooked meals and snacks and is a key driver for the company's revenue. Competition includes Dicon salt and Royal Salt
- Dangote Butter Salt is used for the production of butter and buttery snacks
- Dangote Refined Salt (sachet) in 250g, 500g, 1kg for daily use key revenue driver
- Dangote Industrial Salt is deployed for large confectionaries companies and companies that require massive volumes of salts to produce their goods like Honeywell and Cadbury. It is also use for cleaning machinery and purifying water
- Dangote Kitchen Salt is usually made available for restaurants and other eateries
- Dangote Pure Dried Vaccum (P.D.V) Salt is used universally throughout the food industry and for other applications where a fine food grade salt is required.

Although salt dominates the revenue it is used by diverse consumers for different purpose. This means that the demand will be stable into the foreseeable future.

5.2 Tomato Paste

The company completed its tomato paste plants and began making sales in 2015.

The company was heavily involved in the importation of tomatoes but is now focusing on sourcing locally from Dansa foods (a related company) following the new foreign exchange restrictions placed on tomatoes. The company completed its tomato paste plants and began making sales in 2015. The Dangote tomato paste is thick and made by cooking high-quality organic tomatoes for several hours to reduce moisture, then straining them to remove the seeds, skin, and then cooking them again to reduce them to a thick, rich concentrate. Competing products include Gino tomato paste, De Rica tomato paste and Vitali Gold tomato paste. Most of these products are imported. Meaning that they will be at a disadvantage to locally made products because of pricing due to the devaluation of the Naira.

5.3 Vegetable Oil

The company is involved in the production of vegetable oil which is a highly competitive market within the Nigerian economy considering that these food items are used every day and consumers have a wide array of different brands to choose from. Other competing products are Grand Pure Groundnut oil, Grand Pure Soya oil, Mamador vegetable oil, Wesson oil and King's vegetable oil.

5.4 Seasoning

NASCON is engages in the production of seasoning branded as Dan-Q. This is a high quality product produced from a variety of rich spices as well as other raw materials. It produces an exquisite taste, aroma and a perfectly blended array of spices. Dan-Q currently comes in 2 distinct flavours namely Dan-Q Chicken and Dan-Q Beef. Other competing branded products include: Maggi cubes, Knorr cubes and Onga cube.

6.0 SWOT Analysis:

6.1 Strengths:	6.2 Weaknesses:
○ Leader in salt Industry ○ Good brand name ○ Diversified customer base ○ Constant production growth ○ Leverage on existing distribution network ○ Efficient low cost production ○ Related party competitive advantage ○ State of the art plant and equipment.	○ High cost of AGO and gas ○ Declining profit margins ○ Only one lucrative business segment (salt business) ○ High sale concentration in single region ○ Suspension of tomato and vegetable oil production.
6.3 Opportunities:	**6.4 Threats:**
○ Positive government policy on food sector ○ Large market size in Nigeria and in the West African market ○ Backward integration ○ High Demand for salt and tomatoes ○ High Barrier to entry.	○ Difficult economic environment ○ Security challenges in the Northern part of the country ○ Poor transport infrastructure ○ Competitive food and seasoning industry ○ Exchange rate risk ○ Rising fuel costs and poor gas supply.

7.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- Large and increasing market size
- Favourable Federal Government Policy
- Leverage on existing distribution network
- Positive brand image
- Relationship with numerous subsidiaries and related companies.
- Increased volume and prices
- Diversification into other products

Negative Factors:

- Security challenges in the North
- The current weak consumer spending power
- Difficult operating environment
- High operational and logistics costs
- Stiff competition in food industry.
- Current suspension of vegetable oil and tomato paste plants

We estimate a dividend per share of N0.60 for the FY 2016.

Looking at the company's medium and long-term outlook we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company. We therefore estimate a Turnover of N21.87bn, N30.22bn, N43.27bn, N59.37bn and N80.85bn for the periods ending December 2016, 2017, 2018, 2019 and 2020. We estimate EBIT of N3.45bn, N5.35bn, N7.92bn, N10.89bn and N14.84bn, and EBITDA of N3.59bn, N5.53bn, N8.15bn, N11.18bn and N15.23bn for the same period using EBIT margins of 15.76%, 17.71%, 18.31%, 18.34% and 18.36% respectively. Our PBT forecasts for the periods are: N3.45bn, N5.35bn, N7.92bn, N10.89bn and N14.84bn. Adjusting for tax, our PAT forecasts are N2.33bn, N3.61bn, N5.35bn, N7.35bn and N10.03bn. PAT Margin for the period are 10.64%, 11.96%, 12.37%, 12.39% and 12.40%. Our forecast final dividend for the FY 2016 is N0.60 per share.

Table 12: Income Forecast (2016-2020)						
Profit and Loss =N='bn	**DecA-15**	**Dec-16**	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**
Turnover (Net Sales)	16.18	21.87	30.22	43.27	59.37	80.85
Cost of Sales	11.82	(16.52)	(22.83)	(32.46)	(44.53)	(60.65)
Gross Profit	4.36	5.35	7.39	10.81	14.83	20.20
Admin, Selling & Distribution Expenses	1.49	(2.11)	(2.32)	(3.30)	(4.51)	(6.13)
Depreciation	0.20	(0.14)	(0.18)	(0.23)	(0.29)	(0.38)
Other Operating Income	0.16	0.21	0.29	0.41	0.57	0.77
EBIT	3.03	3.45	5.35	7.92	10.89	14.84
EBITDA	3.23	3.59	5.53	8.15	11.18	15.23
Net Finance Cost	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
PBT	3.02	3.45	5.35	7.92	10.89	14.84
Taxation	0.91	(1.12)	(1.74)	(2.57)	(3.53)	(4.82)
PAT	2.11	2.33	3.61	5.35	7.35	10.03

Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 13: Earnings Forecast (2016 - 2020)						
	DecA-15	**Dec-16**	**Dec-17**	**Dec-18**	**Dec-19**	**Dec-20**
EBITDA Margin	19.93%	16.39%	18.29%	18.83%	18.83%	18.83%
EBIT Margin	18.72%	15.76%	17.71%	18.31%	18.34%	18.36%
PBT Margin	18.65%	15.76%	17.71%	18.31%	18.34%	18.36%
PAT Margin	13.02%	10.64%	11.96%	12.37%	12.39%	12.40%
EPS(N)	0.69	0.88	1.36	2.02	2.78	3.78
DPS(N)	0.55	0.60	0.93	1.38	1.89	2.58
Dividend Payout	69.20%	68.20%	68.20%	68.20%	68.20%	68.20%
Earnings Yield *	9.65%	7.69%	11.93%	17.67%	24.27%	33.10%
Dividend Yield *	7.69%	5.24%	8.14%	12.05%	16.56%	22.57%
P/E Ratio*	10.36	13.01	8.38	5.66	4.12	3.02
Number of Shares ('bn)	2.65	2.65	2.65	2.65	2.65	2.65
ROCE	36.30%	37.48%	47.04%	54.74%	59.10%	62.48%
ROE	29.71%	29.25%	36.20%	41.57%	44.36%	46.45%
Collection Days	11	10	10	10	10	10
Payment Days	-15	23	23	28	31	33
Inventory Turnover	-6.11	6.73	6.73	6.73	6.73	6.73
Asset Turnover	0.99	1.07	1.14	1.18	1.20	1.21
Current Ratio	1.18	1.21	1.29	1.33	1.35	1.38
Quick Ratio	0.94	0.99	1.06	1.11	1.14	1.16
Debt Ratio (Total Liabilities /Total Assets)	0.57	0.61	0.62	0.64	0.65	0.66
Gearing Ratio (Long Term Debt /Equity)	0.54%	0.48%	0.39%	0.30%	0.23%	0.18%
Interest Cover	150.93	429.47	666.91	987.29	1356.60	1849.61

****At Our Fair Value of N11.43***
Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 14: Statement of Financial Position Forecast (2015 - 2020) (N'bn)

	Dec-15A	Dec-16	Dec-17	Dec-18	Dec-19	
Property, Plant and Equipment	6.76	6.68	6.90	7.16	7.46	7.81
LT Other Assets	0.15	0.15	0.15	0.15	0.15	0.15
Long Term Assets	**6.91**	**6.83**	**7.05**	**7.31**	**7.61**	**7.96**
Stock (inventory)	1.93	2.46	3.39	4.82	6.62	9.01
Trade Receivables	0.48	0.59	0.82	1.17	1.61	2.19
Other Receivables & Prepayment	4.43	-	0.71	2.66	5.47	9.33
Due from Related Companies	-	5.89	8.14	11.66	16.00	21.79
Cash and Bank Balances	2.55	4.68	6.36	9.15	12.26	16.43
Current Assets	**9.39**	**13.62**	**19.43**	**29.46**	**41.96**	**58.75**
Total Assets	**16.29**	**20.45**	**26.49**	**36.77**	**49.57**	**66.71**
Bank Overdraft	0.01	0.01	0.01	0.01	0.01	0.01
Trade Payables	0.49	1.05	1.45	2.51	3.81	5.52
Other Payables & Accurals	6.93	8.52	11.77	16.86	23.12	31.49
Other Liabilities	-	0.56	-	-	-	-
Current Tax Payable	0.53	1.12	1.74	2.57	3.53	4.82
Current Liabilities	**7.95**	**11.26**	**14.97**	**21.94**	**30.47**	**41.83**
Working Capital/ Net Current Asset	**1.43**	**2.37**	**4.47**	**7.52**	**11.49**	**16.92**
Capital Employed	**8.34**	**9.20**	**11.52**	**14.83**	**19.10**	**24.88**
Deferred Taxation	0.92	0.92	0.92	0.92	0.92	0.92
Staff gratuity & long service awards	0.30	0.28	0.44	0.65	0.89	1.22
Long Term Debt	0.04	0.04	0.04	0.04	0.04	0.04
Long Term Liabilities	**1.26**	**1.24**	**1.39**	**1.60**	**1.85**	**2.17**
Total Liabilities	**9.21**	**12.50**	**16.36**	**23.55**	**32.32**	**44.01**
Total Net Assets	**7.09**	**7.96**	**10.13**	**13.23**	**17.25**	**22.71**
Paid Up Share Capital	1.32	1.32	1.32	1.32	1.32	1.32
Share Premium	0.43	0.43	0.43	0.43	0.43	0.43
Retained Earnings	5.33	6.20	8.37	11.47	15.49	20.95
Total Reserves	**5.76**	**6.63**	**8.80**	**11.90**	**15.93**	**21.38**
Total Equity	**7.09**	**7.96**	**10.13**	**13.23**	**17.25**	**22.71**
Total Equity & Liability	**16.29**	**20.45**	**26.49**	**36.77**	**49.57**	**66.71**

8.0 Valuation:

In arriving at a fair value for the ordinary shares of the company, we used the Discounted Free Cash Flow (DCF) model. We applied a terminal growth rate of 2.79%. We used a beta value of **0.80x** based on the 5-year daily historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used the yield of **11.97%** as our risk free rate, and market premium of **11.15%**. Applying the foregoing parameters on the Capital Asset Pricing Model (**CAPM**), the cost of equity generates **20.87%.** Using 2.65bn shares in issue the DCF model generated **N11.43** per share, which is our fair value.

The fair value for NASCON Allied Industries Plc is N11.43.

The current market value of NASCON share is N8.15, the highest and the lowest closing prices in the last 52 weeks are N8.70 and N5.20 respectively. The forward earnings yield and dividend yield of the company at our fair value are 7.69% and 5.24% respectively. The capital appreciation for the stock of NASCON Allied Industries Plc shows an upward potential of 40.29%. This is clearly higher than our minimum equity return benchmark of 16.65%. **We therefore place a BUY rating on the shares of NASCON Allied Industries Plc at the price of N8.15 as of May 23, 2016. Our target price for the shares of NASCON in the next one year is N10.20.**

8.1 Risks to Price Target:

The following risks may affect the attainment of our target price:

- Increase in the yield on fixed income securities
- Drop in market liquidity
- Issuance of new equity
- Reduction in dividend payment
- Drastic movement in Oil Prices

Table 15: Comparable Analysis (N'bn) -2015		
Company	**NASCON**	**DangSugar**
Turnover (Net Sales)	16.18	101.06
Gross Profit (GP)	4.36	20.73
EBIT	3.03	15.85
PBT	3.02	16.55
PAT	2.11	11.54
GP Margin	26.94%	20.51%
EBIT Margin	18.72%	15.69%
PBT Margin	18.65%	16.38%
PAT Margin	13.02%	11.41%
ROE	29.71%	19.84%
Net Assets	7.09	58.15
Net Assets Per Share (N)	2.68	4.85
PE Ratio	10.36x	8.10x
Earnings Yield*	9.65%	12.35%

**As at December 31, 2015*
Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 16 : Analyst Rating	
Rating	**Criteria**
BUY	Fair value of the stock is ≥ 16.65%* compared with the current market price.
HOLD	Fair value of the stock ranges between -10% and 16.65% of the current market price.
SELL	Fair value of the stock is > 10% below the current market price.

16.65% is our estimated minimum equity return. It is the combination of our risk free rate and risk premium. Our risk free rate is the average yield on a five-year FGN Bond. We adopted a 5% risk premium and set the risk free rate every quarter.

Fair Value: This is the value of the ordinary shares of the company using the valuation method appropriate for the company. It is the intrinsic or true value of the stock based on the fundamentals of the company. The market price may either trade at a premium or discount to the intrinsic value.

Price Target: This is the price that we believe the shares of the company will trade within our time horizon. Other risk factors may affect the attainment of this price. This price may or not be different from the intrinsic value.

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