



CORONATION

MERCHANT BANK

Power to the price point

2019 Nigeria Consumer Report



Nigerian Consumer Industry

Power to the Price Point

More consumers, so where is the sales growth?

Nigeria's urban population is expanding at 4.6% per annum. A growing number of Nigerians participate in the cash economy and have become consumers. We might expect listed food and home & personal care (HPC) companies (below) to enjoy steadily rising sales. But they aren't. Two years after the end of Nigeria's recession we took to the streets to find out why.

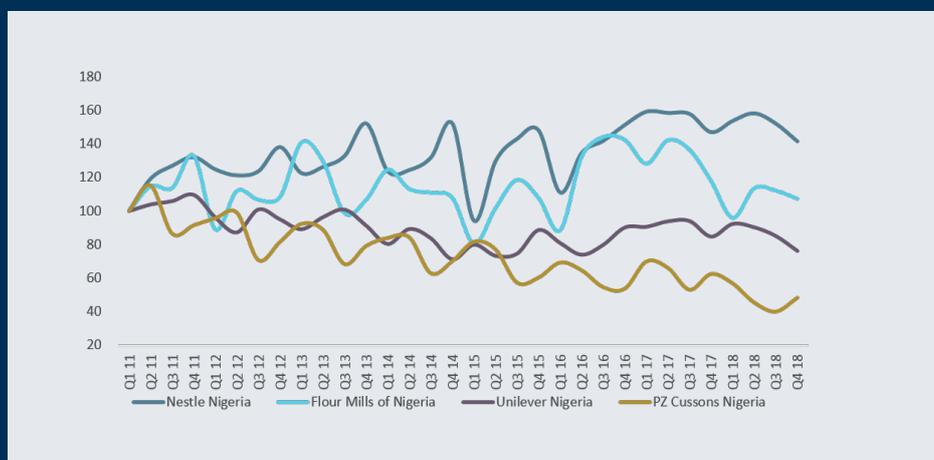
Lessons from the street markets

Two of our researchers set up a model household on a modest income, and went shopping in outer Lagos. On their budget – typical of tens of millions of Nigerians – they became acutely price-sensitive. The contents of their shopping basket surprised us. Most of their branded purchases came from unlisted companies: Boulos, Daraju, Limex, Olam*, Sankin, and Tolaram. The listed companies, covered here, did not feature as strongly.

Consumers under pressure, price points are key

Our macro-economic research suggests that upper middle-class earnings are falling in real terms and that there is downward pressure on private sector wages generally. Price is the key battle ground and companies with the lowest price points are prospering.

Inflation-adjusted quarterly sales^{**}, rebased 2011=100



Source: Companies, National Bureau of Statistics (NBS), Bloomberg, Coronation Research. ^{**}Quarterly sales of FMN (March year-end) & PZ Cussons (May year-end) adjusted to fit calendar quarters. See individual company charts for details. ^{*}Olam is listed in Singapore.

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Executive Summary

Executive summary

Growth Trends

Many years ago a number of international funds bought significant positions in listed food and HPC companies in Nigeria. Their aim was to profit from the rise of the Nigerian consumer, the biggest single sub-set of the African consumer.

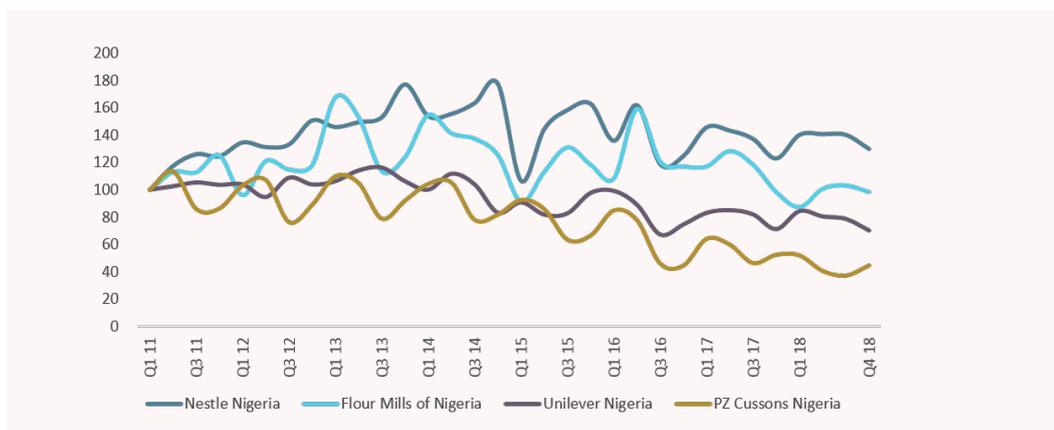
By and large, the funds lost money and are much smaller now than they were seven or eight years ago. The listed food and HPC companies featured in this report, with the possible exception of Nestle Nigeria (Nestle), did not grow at the rates once forecast.

One early confusion was to equate nominal growth rates with US dollar growth rates. The key to sorting out this confusion is to adjust reported sales for inflation. Over the long term the Naira/US dollar exchange rate tends to adjust for inflation differentials, so an inflation-adjusted sales record gives a reasonable reflection of equivalent US dollar sales. In inflation-adjusted terms, again with the exception of Nestle, there has not been much growth. In fact, most companies have seen inflation-adjusted sales fall.

Where the middle class went

The above conclusion would have seemed illogical, if not impossible, eight years ago. The African middle class was rising, particularly in populous Nigeria, and would supply the consumption for these companies to take off.

We do not deny that Nigeria's population is growing. As important, urbanisation has swelled the cities creating consumer concentration. But, as we will show, the masses are not getting richer and unemployment has risen. There is a mass market but, critically, its price points have shifted downwards.



Quarterly* sales translated into US dollars**, rebased 2011=100

Source: : Companies, Coronation Research. *Quarterly sales, sales of FMN (March year-end) and PZ Cussons (May year-end) have been adjusted to fit calendar quarters. See individual company charts for details. **Translated at the average NGN/USD interbank rate for each quarter

Meet the Ajayi's - a working couple's monthly budget



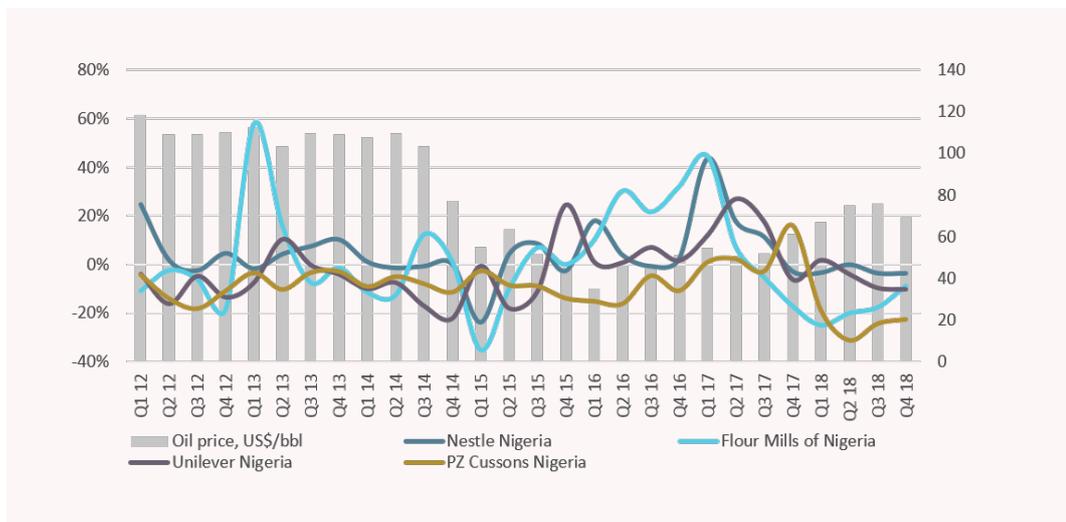
What do Nigerian consumers buy, and where? To answer this question we conducted primary research. Mr. and Mrs. Ajayi are a young couple earning salaries which we frequently see advertised in Lagos. They spend 40% of their disposable income on transport and 10% on rent. This leaves less than N30,000 (US\$83) per month for groceries. They eat well but are picky when they shop. They do not visit supermarkets but buy exclusively from market vendors. What they bring home (via our office) includes just a few products from the listed companies featured in this report.

Competition price points and market share

What we found in the Ajayis' shopping basket surprised us. Most of the branded goods (only 30% of their shopping basket by value are branded goods) are made by unlisted Nigerian manufacturers whose products are highly competitive on quality and price. Some of these goods are made by long-established companies like Boulos, Olam and Tolaram, none of them listed in Nigeria. But some of the goods are made by companies founded in Nigeria within the last 20 years, like Limex and Daraju.

Add to the above list products in their shopping basket made by another unlisted company, Royal Salt, and there is a lot of competition for the established listed companies. The Ajayis did bring back some products from Nestle Nigeria, Flour Mills of Nigeria, Unilever Nigeria and PZ Cussons Nigeria, but not many.

The energy and momentum in the food and HPC industry appears to have shifted away from the large listed players towards a number of low-cost, low-price point competitors and entrants. One of these unlisted groups reported nominal sales growth of 30% in 2018 – far higher than any of the listed companies featured here – and guides to 16% growth for 2019. It is only logical to conclude that established market shares of the principal listed companies are being eroded.



Growth in inflation-adjusted sales*, y/y (lhs), and oil prices (Brent), US\$/bbl (rhs)

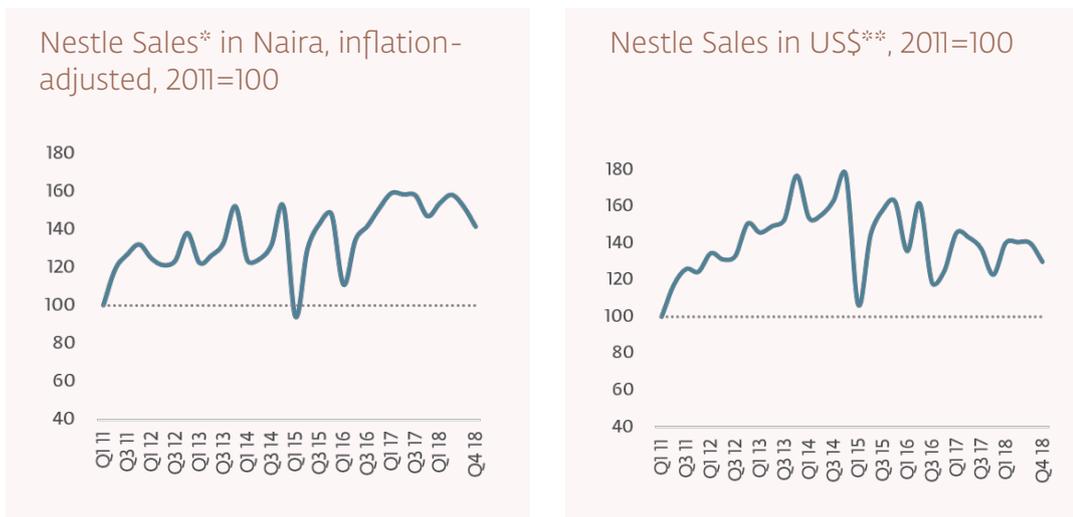
Source: Company, Coronation Research. *Quarterly sales, sales of FMN (March year-end) and PZ Cussons (May year-end) have been adjusted to fit calendar quarters. See individual company charts for details

Long-term Sales Trends

Long-term Sales trends

Nestle Nigeria, 2011-18

Nestle Nigeria (Nestle) is an integrated food producer with products at many different price points. Products include the Maggi range of seasoning cubes, dairy products, beverages, chocolates, cereals, coffee, baby food and water. The food segment (which includes culinary, chocolate, confectionary and baby food) contributes 63% of revenues, while sales from the beverage segment, featuring Milo chocolate, Nido milk and Nescafe, account for the rest.



Source: Company, Coronation Research. *Quarterly sales (31 Dec year-end). **At the inter-bank FX rate quoted on Bloomberg for each quarter

Nestle has achieved an inflation-adjusted sales compound annual growth rate (CAGR) of 6.3% over the period, starting with calendar Q1 2011. CAGRs are strongly influenced by their starting points, but if we take the four CAGR series (one each quarter) beginning in 2011, their average inflation-adjusted CAGR through to 2018 was 3.5%. This makes it not only the best-performing listed company in this report, but arguably the only listed company with worthwhile inflation-adjusted growth.

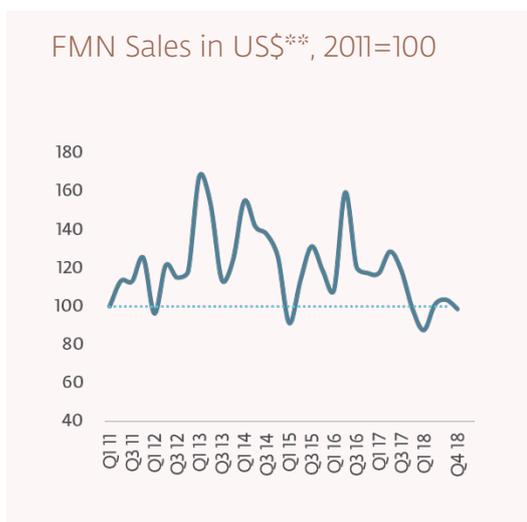
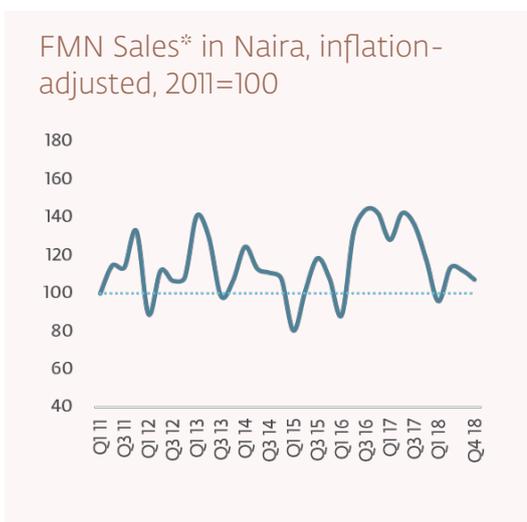
When we translate Nestle's nominal sales into US dollars, we find much the same pattern. (In many ways, and as we argue in Coronation Research: Naira Exchange Rate Outlook, 5 November 2018, long-term NGN/US\$ inflation differentials and long-term NGN/US\$ exchange rates amount to much the same thing.) The US\$ sales CAGR (using all four quarters) 2011-18 is 2.4%.

In common with its peers, Nestle has been through many shocks during the studied period. Taking the period as a whole, Nigeria has shifted from being a high-growth, consumption-led market benefitting from high oil prices (above US\$100.00/bbl 2011-14) to a low-growth economy with oil prices generally under US\$75.00/bbl. What is striking about this pattern is that the CAGRs get better towards the end of the period. In other words, Nestle is growing better in an environment of low economic growth and low oil prices than it did during the boom years of GDP.

Flour Mills of Nigeria, 2011-18

Flour Mills of Nigeria (FMN) is a producer of flour and several integrated lines of food. Its food business accounts for approximately 80% of the company's revenues and includes the following food brands: Golden Penny Pasta, Golden Penny Instant Noodles, Golden Penny Semovita and Golden Penny and Goldenvita.

Historically FMN was principally a flour milling company but in the early part of this decade expanded into several business streams simultaneously. FMN today has four operating segments: flour milling; agro-allied; logistics & support services; sugar value chain.



Source: Company, Coronation Research. *Quarterly sales adjusted for FMN's March year-end, e.g. reported Q4 2012 is presented as calendar Q1 2012 here. **At the inter-bank FX rate quoted on Bloomberg.

FMN has experienced an inflation-adjusted sales CAGR of negative 0.6% over the period 2011-18, starting with calendar Q1 2011. When we take the four CAGR series (one each quarter) beginning in calendar 2011, their average inflation-adjusted CAGR (using the average of all quarters) through to 2018 was negative 1.0%. To the nearest approximation, therefore, it makes sense to talk of FMN's inflation-adjusted sales as being essentially flat, or flat-to-negative, 2011-18.

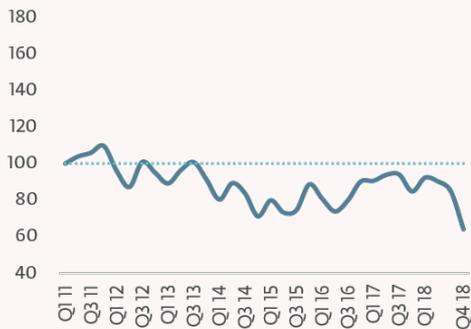
However, it is important when considering CAGRs to think about what one year's data can mean because, in this case, the influence of 2018 is very strong. If we had done the same exercise last year, and taken the data set for 2011-17, the inflation-adjusted sales CAGR would have been 4.2%, beginning in calendar Q1 2011, and the average CAGR (using the average of all quarters) would have been 2.2%, 2011-17, a much better result which is comparable with Nestle.

When we translate FMN's nominal sales into US dollars, we also find a flat-to-negative trend over the period 2011-18. Beginning in calendar Q1 2011 the CAGR 2011-18 is negative 1.9% and using the average of all calendar quarters in 2011, the average CAGR 2011-18 is negative 2.0%.

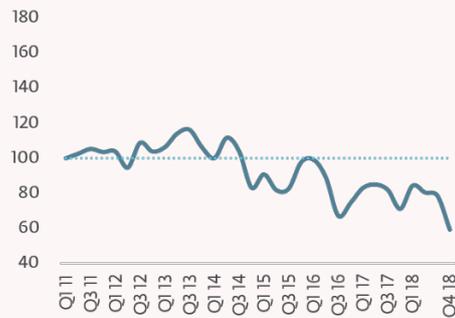
Unilever Nigeria, 2011-18

Unilever Nigeria (Unilever) is an integrated food and home and personal care (HPC) manufacturer in Nigeria with sales split approximately 48%/52% between food and HPC. Its leading food brands include Knorr seasoning cubes and its HPC brands include Pears soap, Vaseline and one of the biggest toothpaste brands Close Up, as well as Pepsodent toothpaste.

Unilever Sales* in Naira, inflation-adjusted, 2011=100



Unilever Nigeria Sales in US\$**, 2011=100



Source: Company, Coronation Research. *Quarterly sales (31 Dec year-end) **At the inter-bank FX rate quoted on Bloomberg for each quarter

Unilever's inflation-adjusted sales have undergone a negative CAGR of 1.1% over the period 2011-18, starting with calendar Q1 2011. Again, we need to caution that CAGRs are strongly influenced by their starting points, and so we also calculate the average of the four quarters (in 2011) through to their respective quarters in 2018. This method yields an average negative CAGR of 3.4%.

Translating Unilever's sales into US dollars, we find a similar pattern. The US\$ sales CAGR (using all four quarters) 2011-18 is negative 4.4%. However, the early period, 2011-14, was one of growing sales in US dollar terms. Later growth went into reverse, no doubt influenced first by the oil price shock of Q1 2015 and the recession that followed in 2016. A rights issue took place in 2017 to de-lever the balance sheet. A sudden spurt of growth took place in Q3 2017, but overall sales performance in 2017 and 2018 was poor.

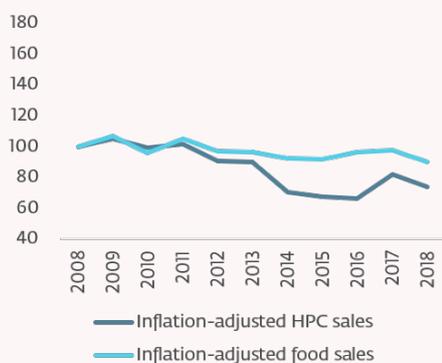
The obvious question to ask about Unilever's data is whether its food or its HPC business has brought it long-term negative inflation-adjusted sales development, or both. Figuring out the answer is made a little difficult by the fact that we do not have quarterly sales data for the period 2011-18 broken down into the two business streams.

Unilever Nigeria, segment trends 2008-18 and 2014-18

However, we do have *annual* sales data by business stream for the period 2008-18 which can be adjusted for inflation. This data shows that the food business contracted by a 10-year inflation-adjusted CAGR of 1.0% while the HPC business contracted by a 10-year inflation-adjusted negative CAGR of 3.0%.

We also have *quarterly* sales data for both segments from 2014 onwards, definitely not a very long sample period but useful for corroborating, or adjusting, the impression generated by the longer annual data series. When inflation-adjusted, this shows that the HPC businesses grew slightly (when using the average CAGRs from all four quarters of the first and last years in the study), while the food business got slightly smaller. The four-year inflation-adjusted CAGR for the HPC business was 1.4% while for the food business it was negative 0.6%.

Unilever Nigeria, food and HPC segment annual sales, inflation-adjusted 2008-18, 2008=100



Unilever Nigeria, food and HPC segment quarterly sales*, inflation-adjusted 2014-18, 2014=100



Source: Company, Coronation Research. *Quarterly sales (31 Dec year-end)

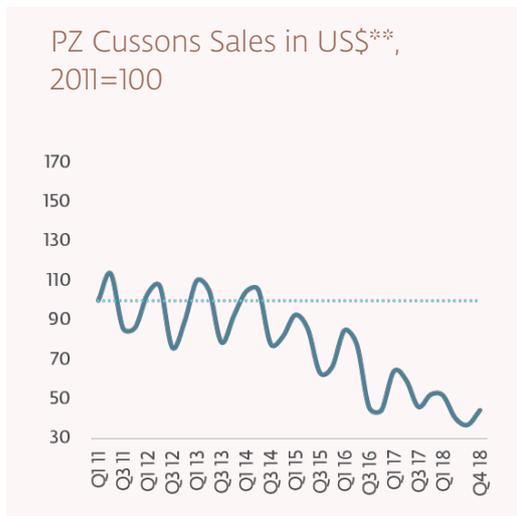
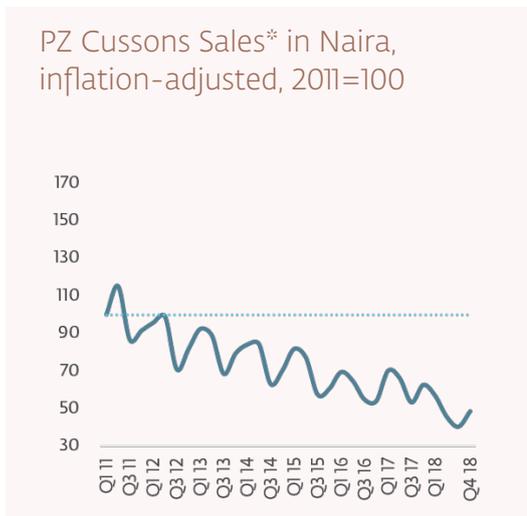
This recent (2014-18) pattern fits in with what we have seen elsewhere, namely that the recent years have been kinder to consumer-facing industrial companies than the earlier years (2011-14).

However, as we shall see later, 2018 was a tough year when taken in isolation, and the first calendar quarter of 2019, for Nestle and Unilever was no better.

PZ Cussons Nigeria, 2011-18

PZ Cussons Nigeria (PZ Cussons) is a manufacturer of home and personal care (HPC) products and seller of electrical products under the Haier Thermocool brand. Sales of HPC represent approximately 73% of sales (at calendar 2018) while electrical products account for the balance of 27%.

PZ Cussons' HPC's brands include Imperial Leather soap, Carex hand wash, Joy soap and Venus shampoo, among many others. Under the Haier Thermocool brand it sells air conditioning units, refrigerators and freezers, among other products.



Source: Company, Coronation Research. *Quarterly sales adjusted for PZ Cussons' May year-end and advanced by one month to fit quarter, e.g. reported Q3 2012, ending 29 Feb 2012, is presented as calendar Q1 2012 here. **At the inter-bank FX rate quoted on Bloomberg.

PZ Cussons' inflation-adjusted sales have undergone a negative CAGR of 7.8% over the period 2011-18, starting with calendar Q1 2011. When we take the four CAGR series beginning in calendar 2011, their average inflation-adjusted CAGR through to 2018 was negative 9.8%. Again, we need to caution that CAGRs are strongly influenced by their starting points. But, taking a look at PZ Cussons' inflation-adjusted sales data, there has been a significant decline in the inflation-adjusted revenues of the business over time.

Translating PZ Cussons' sales into US dollars, we find a similar pattern. Beginning in calendar Q1 2011, the CAGR 2011-18 is negative 9.0% and using the average of all the calendar quarters in 2011, the average CAGR 2011-18 is negative 10.8%.

The reason behind this steep decline in sales may be attributed to the poor performance in the home and personal care (HPC) business over time. This has also been highlighted in the case of Unilever Nigeria's HPC business that had negative inflation-adjusted sales data over 2011-18 (using annual data).

Meet the Ajayis

Meet the Ajayis

To understand what working Nigerians buy we have modelled a small Nigerian household – the Ajayis – based on research by two members of the Coronation Research team. Our analysts (a man and a woman) set themselves the task of living off a modest budget which includes accommodating themselves in Lagos and travelling to and from work every day. For food and HPC they ply the street markets of outer Lagos. They have no brand preferences: what interests them is quality and price. What ends up in their shopping basket is the focus of this report.

Mrs. Ajayi is a waitress on a monthly gross salary of N33,000 (US\$92) with a further N20,000 (US\$56) in tips while her husband Mr. Ajayi is a porter employed in Lagos on a monthly gross salary of N37,000 (US\$103). We frequently see such salaries advertised in Lagos and we know what tips bar staff and waitresses receive monthly. After tax, their combined monthly disposable income is N84,300 (US\$234).



Description	Details	Budget (₦)
Age	Mr. Ajayi 28	
	Mrs. Ajayi 23	
Occupation	Mr. Ajayi Porter	
	Mrs. Ajayi Waitress	
Work Location	Mr. Ajayi Lagos Island	
	Mrs. Ajayi Ikeja	
Monthly Income	Mr. Ajayi	37,000
	Mrs. Ajayi	33,000
Combined tax		(5,700)
Post-tax monthly income	Couple	64,300
Additional monthly income	Tips for Mrs. Ajayi	20,000
Disposable monthly income		84,300
Transport (to work and back)	Mrs. Ajayi	(20,000)
	Mrs. Ajayi	(10,000)
Monthly Rent	Self contained apartment* at Orile Iganmu	(8,000)
Monthly Bills	Cleaning	(200)
	Security Fee	(500)
	Bathroom Water	(500)
	Electricity	(300)
Mobile Telephone bill	Combined	(3,000)
Kerosene	3 liters	(1,000)
Monthly groceries budget		(25,950)
Miscellaneous spend**		(4,215)
Monthly outings		(73,665)
Monthly balance		10,635

The Ajayis' monthly budget

Source: Coronation Research. *Self-contained apartment: one bedroom, small kitchen, with small bathroom/ toilet, occasional electricity. ** Includes services/maintenance costs e.g. hair salon, electrical services

In common with many people in Lagos the Ajayis spend almost 40% of their disposable income on transport and fuel. Mr. Ajayi takes a bus and motor tricycle (keke maruwa) to work on Lagos Island and back each day; Mrs. Ajayi works fairly close to the family home and spends half what her husband does on transport. Their combined monthly transport bill comes to N30,000 (US\$83), 36% of their combined disposable income.

The Ajayis have no children and live in a self-contained apartment in Orile, Lagos which consists of one bedroom, a small kitchen and a parlour with a small bathroom/toilet. This costs them N8,000 (US\$22) per month, 9% of their disposable income.

After paying for kerosene (for cooking), mobile phone charges (pre-pay), and a few other items, they have approximately N26,000 (US\$72) per month to spend on food and home & personal care (HPC).

s/n	Item	Unit	Cost (₦)
1	Tissue paper	1	250
2	Toothpaste	1	150
3	Sanitary pads	1	320
4	Bath soap	3	450
5	Wash soap	3	450
6	Body Lotion	1	400
7	Shaving Stick/Blade	0.2	120
8	Cooking oil	2.0	1,300
9	Salt	0.5	80
10	Seasoning cube/powder	0.5	210
11	Drinking water	12	1,440
12	Sugar	1	300
13	Milk	1	700
14	Tomato puree	2	500
15	Pepper	1	500
16	Onions	3	600
17	Tomato	2	1,500
18	Beans	2	1,600
19	Garri	2	800
20	Vegetables (Efo)	4	800
21	Rice	3	1,950
22	Egusi	1	250
23	Yam	2	1,400
24	Carrot	2	400
25	Plantain	2	1,000

Monthly food and HPC purchases, for two, on N26,000 per month budget

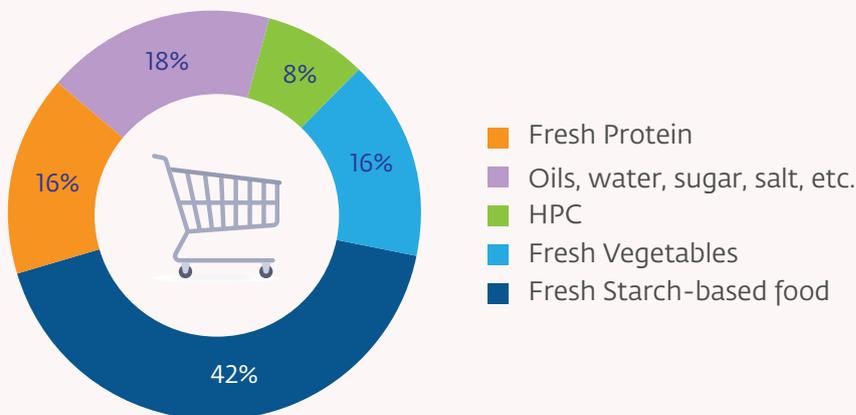
s/n	Item	Unit	Cost (₦)
26	Noodles	16	960
27	Spaghetti	2	320
28	Eggs	1.0	1,000
29	Fish	1	600
30	Beef	1	2,000
31	Palm Oil	1.0	800
32	Pap	2	400
33	Bread	24	2,400
Total			25,950

Source: Coronation Research. See Appendices III and IV for the Ajayis' diet.

What is in the shopping basket

From the Ajayis' food and HPC purchases several things stand out. First, 70% of the Ajayis' shopping basket by value is unbranded. Rice, beans, plantain and sugar are unpackaged and are sold by weight.

The largest portion of their food and HPC budget goes on fresh starch, at 42%. Fresh protein-based food accounts for 16%. A group of items including oils, drinking water, puree, sugar and salt make up 18%. Fresh vegetables account for 16%. HPC only makes up 8% of their shopping basket by value.



Household items composition

Source: Coronation Research.

Already there is bad news for the listed manufacturers of branded food and HPC featured in this report as their products appear infrequently in the basket.

Nestle appears with Maggi Star seasoning cubes. Mr. and Mrs. Ajayi found that Maggi's price point worked out at N1.05/gram, which compared favourably with Onga (from Promasidor, not listed) at N1.30/gram, Unilever's Knorr at N1.66/gram and Winstar's (not listed) Alubadiya at N2.5/gram.

FMN very likely appears in the unbranded flour used in bread and in the unbranded sugar the Ajayis purchased. Branded FMN pasta and noodles do not appear, and instead the Ajayis bought Indomie Noodles made by its competitor Dufil Prima (an unlisted company trading on the NASD and part of the Tolaram Group). They also bought branded spaghetti from Dangote Industries.

Unilever features in the shopping list with Pears Petroleum Jelly. However, the Ajayis bought My My toothpaste from Daraju (unlisted) rather than Unilever's Close Up or Pepsodent. They bought Miss Bimbo wash soap from Limex Global Industries (unlisted) rather than Unilever's Omo or Sunlight.

PZ Cussons features in the shopping basket with Canoe Soap, and with its Mamador vegetable oil. However, the Ajayis preferred Miss Bimbo wash soap (above) to Zip from PZ Cussons. When the Ajayis bought Dano milk from TG Arla (unlisted, which in Nigeria is a joint venture with the Tolaram Group) they shunned PZ Cussons' Olympic, Coast and Nunu brands as well as Nestle Nigeria's Nido brand. Note that Mamador (PZ Wilmar) and the Olympic, Coast and Nunu (Nutricima) brands sit outside the PZ Cussons Nigeria plc structure.

Sources of items of N26,000 per month budget – market sourced

Item	Brand	Manufacturers	Volume	Cost per Item (₦)
Tissue paper	Softwave Tissue	Boulos	1 pack of 6 rolls	250
Toothpaste	My My	Daraju	1 pack of 145 grams	150
Sanitary pads	Lady care	Sankin Nigeria	1 pack with 10 pads	320
Bath soap	Canoe Soap	PZ Cussons	1 stick weighing 120 grams	60
Wash soap	Miss Bimbo	Limex Global Industries	1 pack of 900 grams	320
Body Lotion	Pears Petroleum jelly	Unilever Nigeria	1 pack of 300 grams	400
Shaving Stick/Blade	Bic	Bic World	1 pack with 10 pieces	600
Cooking oil	Mamador	PZ Cussons*	1 pack of 900ml	650
Salt	Mr Chef	Royal Salt Limited	1 pack of 1kg	160
Seasoning cube/powder	Maggi star	Nestle	1 pack of 50 cubes	420
Drinking water	Sachet water	a variety	1 bag of 20	120
Sugar	Sachet sugar	a variety**	1 cup of 800 grams	300
Milk	Brandless Dano	Dano (TG Arla)	1 cup of 500 grams	700
Tomato puree	Tasty Tom	Olam	6 sachets of 70 grams	200
Pepper	Unbranded	n/a	1 cup / 800 grams de rica tin	500
Onions	Unbranded	n/a	1 small paint bucket (1kg)	200
Tomato	Unbranded	n/a	1 small paint bucket (1.8kg)	750
Beans	Unbranded	n/a	1 de rica tin (2,200 grams) (6cups)	800
Garri	Unbranded	n/a	1 small paint bucket (2.2kg)	400
Vegetables (Efo)	Unbranded	n/a	1 bunch	200
Rice	Unbranded	n/a	1 de rica tin (2200 grams) (6cups)	650
Egusi	Unbranded	n/a	1 de rica tin (800 grams)	250
Yam	Unbranded	n/a	1 tuber	700
Carrot	Unbranded	n/a	2 small bunches	200
Plantain	Unbranded	n/a	1 bunch	500
Noodles	Indomie	Dufil Prima Foods	1 pack of 120 grams	70
Spaghetti	Dangote	Dangote Industries	1 pack of 500 grams	160
Eggs	Unbranded	n/a	1 crate (24)	1,000
Fish	Unbranded	n/a	Smoked Titus, 3 pieces	600
Beef	Unbranded	n/a	1.5 kg	2,000
Palm Oil	Unbranded	n/a	one big eva bottle (1.5 liters)	800
Pap	Unbranded	n/a	1 small cup	200
Bread	Agege (type)	a variety ***	1 loaf	100

Source: Coronation Research. *Mamador products sit outside the structure of PZ Cussons Nigeria plc. **sourced from either FMN, Dangote Sugar or BUA Group. *** with flour from FMN or Dangote Flour or Honeywell Flour or Olam.

Price points and competition

Price points and competition

The unlisted manufacturers of branded goods, and their products, in the shopping basket are of great interest to us. They hit the price points suitable to a large number of ordinary Nigerians.

Dano milk is made by TG Arla which in Nigeria operates as a joint venture with the Tolaram Group (unlisted). Dano Milk comes in small sachets and different forms, namely liquid, concentrate and powdered. It is also sold in bulk for onward (unbranded) resale. Our researchers formed the strong impression that the Dano Milk brand dominates the markets they visited. Yet Dano Milk, though it has a long history in Nigeria, was re-launched in Nigeria 2015, just when the consumer was under considerable pressure (during the oil price crash of that year).

Indomie noodles are made by Dufil Prima Foods, which is part of the Tolaram Group (unlisted - see above).

Softwave tissue paper is made by Belimpex, part of Boulos Enterprises Limited (unlisted), a Lebanese-owned manufacturer with a long history in Nigeria. Under the Belimpex brand there is also Belle, Rose Carla, Rose Plus and Rose Family tissue paper.

My My toothpaste is made by Daraju (unlisted), a Nigerian HPC manufacturer founded by Peeyush Garg, an entrepreneur with Kenyan and Indian roots who established Daraju in Nigeria in 2008. In addition to My My toothpaste other Daraju products include: detergent (under the Rana, My My, Soft 'n' Clean and Green Antibacterial brands); handwash (under the Liby brand); soap (under the Fressia and Farha brands); and skin care (under the Fressia brand). Our researchers found these products, especially the Rana, My My, Fressia and Liby brands, common in the market.

Lady Care sanitary towels are made by Sankin Nigeria (unlisted). The product was launched in Nigeria in 2001.

Miss Bimbo detergent is made by Limex Global (unlisted), a Nigerian manufacturer founded in 2002.

Tasty Tom tomato paste - is made by the Olam Group (unlisted). Olam has been present in Nigeria since 1989 and it is part of the large (with some 35,000 employees in 50 countries around the world) Singapore-listed Olam Group. In Nigeria Olam employs some 3,000 people and is involved in farming, production of animal feeds, milling, production of biscuits, noodles and dairy products.

Mr Chef salt is made by Royal Salt (unlisted) which produces a range of sachet-packed seasoning products tailored to the West African market, including flavours branded as Goat Meat, Pepper Soup, Jollof Rice and Crayfish.

Although the Ajayis chose Maggi Star seasoning cubes from Nestle, it was noticeable that market traders made a point of offering them Alubadiya seasoning powder which is made by Winstar Food Holdings (unlisted), a Chinese company. As stated above, Alubadiya seasoning powder does not win on price alone but is attractive because it performs two jobs at once. It flavours rice and colours it red, making it appear like traditional West African jollof rice without the expense of adding tomato paste. At the time of their visit our researchers state that it is very common in the markets where it is sold in a small sachet size in order to reach a low price point.

Price comparisons between purchased items and covered companies' alternatives*

s/n	Item	Brand	Manufacturer	Quantity	Price (₦)	Covered companies' brands (alternatives)	Manufacturer	Quantity	Price (₦)
1	Toothpaste	My My	Daraju	1 pack of 145 grams	150	Close-up	Unilever	1 pack of 150 grams	250
						Pepsodent	Unilever	1 pack of 150 grams	350
2	Detergent	Miss Bimbo	Limex Global Industries	1 pack of 900 grams	320	OMO	Unilever	1 Pack of 900g	750
						Sunlight	Unilever	2 Pack of 900g	550
						ZIP	PZ Cussons		
3	Seasoning cube/powder	Maggi star	Nestle	1 pack of 50 cubes	420	Knorr	Unilever	1 pack of 40 cubes	550
						Marvina	Nestle	12 sachets of 10 grams	300
						Royco	Unilever		
4	Drinking water	Sachet water	a variety	1 bag of 20	120	Pure life	Nestle	1 pack of 20 bottles (12 liters)	1,400
5	Sugar	Sachet sugar	Dangote Industries	1 cup of 800 grams	300	Golden Penny Sugar**	Flour Mills of Nigeria	1 pack of 500 grams	360
6	Milk	Brandless from Dano	Dano (Arla/Tolaram)	1 cup of 500 grams	700	Olympic	PZ Cussons	1 pack of 350 grams	330
						Coast	PZ Cussons	1 pack of 400 grams	1,089
						Nunu	PZ Cussons	1 pack of 400 grams	740
						Nido*** Ideal Milk****	Nestle Nestle		
7	Rice	Unbranded	n/a	1 de rica tin (2200 grams) (6cups)	650	Golden Penny Rice****	Flour Mills of Nigeria		
8	Noodles	Indomie	Dufil Prima Foods	1 pack of 120 grams	70	Golden Penny Noodles	Flour Mills of Nigeria	1 pack of 120 grams	75
9	Spaghetti	Dangote	Dangote Industries	1 pack of 500 grams	160	Golden Penny Pasta	Flour Mills of Nigeria	1 pack of 500 grams	200
10	Garri	Unbranded	n/a	1 small paint bucket (2.2kg)	400	Golden Penny Garri	Flour Mills of Nigeria	1 pack of 1 kg	570

Source: Coronation Research. *On one day, 21 February 2019 at street markets in Lagos. **Note that unbranded sugar could come from FMN, Dangote Sugar or BUA Group ***Not found on street markets on the day. ****Withdrawn from the market at the time of going to press. Unbranded rice can come from a variety of different producers, including FMN.

Toothpaste - We purchased My My toothpaste (145 grams) produced by Daraju on 21 February 2018 for N150. At the time, Unilever's toothpaste brand Close-up (150 grams) cost N250. Pepsodent (150 grams), also a Unilever brand, retailed for N350 at the time. My My toothpaste was chosen because it is a cheaper alternative and also a new but fast-moving item in the open-street markets. It is worth noting that this product was scarce in supermarkets.

Wash Soap - The Miss Bimbo detergent brand (900 grams), produced by Limex Global Industries, was a popular find in the market and a bargain at N300 compared with our covered alternatives. Unilever's OMO (900 grams) was rare in the open-street market and it retailed for N750 on the day. Unilever's Sunlight (900 grams) retailed for N550.

Seasoning Cube/Powder - Nestle's Maggi was chosen. Maggi retailed for N420 and Unilever's Knorr for N550.

Drinking water - A bag of 20 sachets of water (50cl each), popularly known as 'pure water' was purchased for N120. Compared with our covered alternatives, there is a notable price difference. Nestle's Pure Life water retails for N60 (60cl each) and a pack of 20 bottles for N1,400.

Sugar - We opted to purchase brand-less granulated sugar (800 grams) from the open-street markets for N300. This sugar is produced by Dangote Sugar Refinery, a subsidiary of Dangote Industries, displayed in sacks and measured in small cups. Branded sugar cubes like FMN's Golden Penny sugar cubes (500 grams) retailed for N360 on the day, and were not selected. However, FMN also makes brand-less sugar.

Milk - We purchased brand-less milk (500 grams) for N700 which, like the brand-less sugar, were displayed in sacks and measured in small cups. The brand-less milk is produced by Arla (and sold out of its large Dano sacks), which in Nigeria is joint venture with the Tolaram Group (unlisted). Nutricima's (Nutricima is part of PZ Cussons sitting outside PZ Cussons Nigeria plc) Olympic milk (350 grams) retails for N330, Coast milk (400 grams) retails for N1,089 and its NuNu milk (400 grams) retails for N740. Nestle's Nido and Ideal milk were unavailable in the open-street market and at nearby supermarkets on the day.

Rice - Rice sold in the market is usually unbranded, displayed in basins and measured in empty canned tomato puree tins. We purchased 2,200 grams of rice for N650.

Noodles - Indomie noodles (120 grams) was purchased for N70 on the day. This compares very closely with FMN's Golden Penny noodles (120 grams) which retails for N75. Golden Penny noodles were not as common in open-street markets as in supermarkets, compared with Indomie noodles which were available in both outlets.

Spaghetti - Dangote pasta (500 grams), which we purchased for N165, was chosen over FMN's Golden Penny Pasta (500 grams), which retails for N200.

Garri - Like rice, garri purchased in open-street markets is typically unbranded, except when purchased in large quantities (25kg or 50kg). We purchased garri (2.2kg) which was on open display from a stall for N400. In the course of our search, we did not come across FMN's Golden Penny Garri (1.0kg) which retails for N570 though it appears in supermarkets.

Caveat – this is not market research

This section of our report deals with a model household which we believe is representative of millions of households in Lagos State and across the country. The research was conducted at a market in urban (rather than central) Lagos.

This is, emphatically, not market research, but research designed to gain an impression of what a working couple can buy on a regular basis in Lagos. Products were purchased and prices recorded on 21 February 2019. We compared these prices with prices available in three nearby supermarkets.

However, we did not conduct a comprehensive survey of street market prices versus those in local supermarkets, only the prices of items purchased. While we formed the overall impression that street market prices are cheaper than those in nearby supermarkets, we understood that this is not true of all items purchased. Some items at some supermarkets, and at some points in time, are priced more keenly than what is available in street markets.

In addition, we only looked at a street market, and nearby supermarkets, in one district of urban Lagos which we understand to be where the working couple in our study can afford to live. We did not compare prices at different street markets in Lagos. This is important because, given the complicated geography of Lagos and the high transport component in market traders' costs, prices vary from district to district. However, the district we selected is one where many working households are located.

Therefore, we do not claim that the prices given for products in the above tables are prices that are replicated throughout Lagos, or at other sites in Lagos, nor that the prices we paid will be consistent over time in the same place. Seasonality affects prices of most unbranded food products and some branded ones. Such inconsistency is inevitable in Lagos and we would expect this to be true across the country as a whole.

Further, we do not guarantee that we paid the cheapest price, per unit, for each item purchased. Different package sizes, different measures, and differences in quality make exact comparisons very difficult, added to which is the persuasiveness and influence on our purchases of store holders themselves.

In addition, although some manufacturers print a recommended retail price (RRP) on their packages, these are seldom adhered to, in our view, so that the prices we paid were generally not RRP.

A note on company sources

While on the subject of data, it is also important to comment on the data which listed food and HPC companies in Nigeria supply. What they publish does not include information on volumes, nor like-for-like sales. For all the segmental reporting which we have (e.g. for Unilever and FMN), we do not know volumes of products sold. Disclosure, and therefore our knowledge, are limited.

Therefore, we cannot tell whether a change in sales reflects an adjustment in volumes or in prices, or some combination of the two. On the other hand, sharp changes in sales (for example, those observed in 2016 and 2017) are much more likely to be price-related than volume-related as rates of consumption and production tend not be very volatile.



Where the middle class went

Where the middle class went

More people, not more money

From the above, it seems clear to us that there are numerous unlisted Nigerian food and home & personal care (HPC) companies that supply the Nigerian mass market with products at low price points. What, then, happened to the Nigerian middle class, the people who were going to buy relatively expensive branded products from the listed companies in this report?

It is not an easy question to answer, but there is evidence pointing to the erosion of salary earners' incomes over the past few years. Rather than attempt to settle the tricky question of what constitutes the middle class we give a profile of various categories of salary earners, which we believe is instructive as to the fortunes of the food and HPC sector.

Profession	Annual Gross salaries (₦)	Annual Gross salaries (US\$)
Porter	500,000	1,389
Driver	1,000,000	2,778
Manufacturer	2,000,000 - 3,000,000	5,556 - 8,333
Mid-level Administrative Staff	4,000,000 - 5,000,000	11,111 - 13,889
Banker	6,000,000 - 8,000,000	16,667 - 22,222

Typical Annual Gross Salaries

Source: Coronation Research.

We do not know how many people to put into each category. Because we live and work in Lagos State, which is the richest state in the federation, whatever numerical values we put on categories for Lagos State will not apply to other states. Even outside of Lagos State, the south-west and the so-called south-south regions are much richer than the middle belt which in turn is richer than the north-west and north-east.

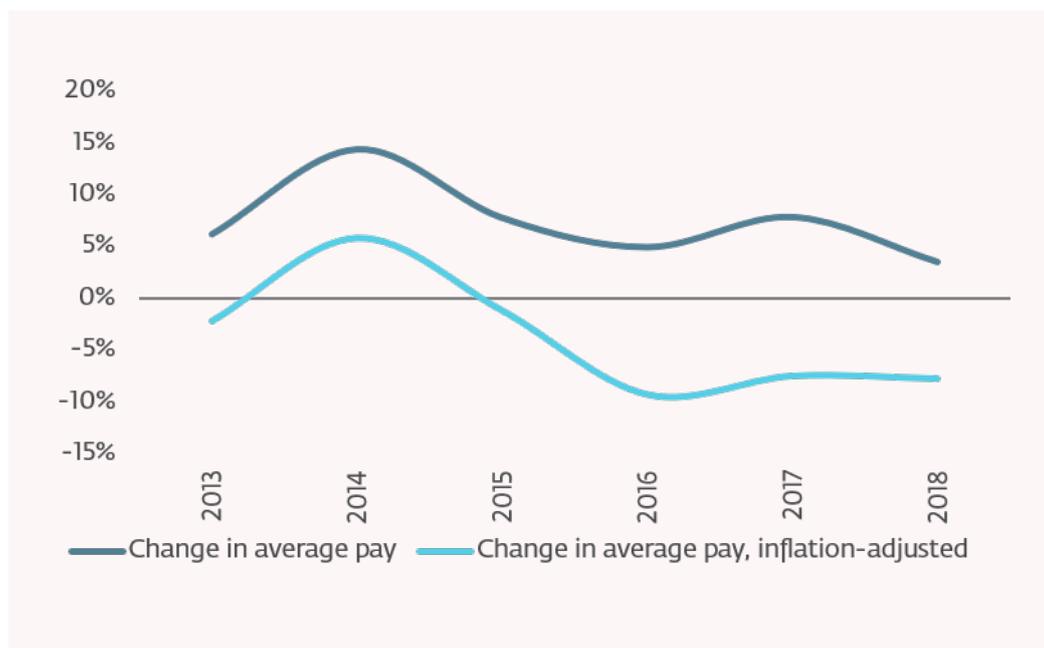
However, Mr. and Mrs. Ajayi, with a combined gross annual income of N1,080,000 (US\$3,000) per annum (pa), are probably a good place to start. As individual salary earners they likely represent a large and central slice of the distribution of salary earners in Lagos and in the relatively wealthy states of the south-west and the south-south; therefore, tens of millions of Nigerians. They are likely wealthier than most people living in the middle belt, the north-west and the north-east. People move to Lagos State for a reason.

Note that the combined incomes of the Ajayis are equivalent to a single salary in our next bracket, represented by a driver in Lagos. It is likely that this bracket represents at least several million Nigerians. This level, people earning N1,000,000 pa (US\$2,778 pa), is where we observe a degree of saving and capital formation.

This is also true of the next level up, workers in manufacturing (at least in Lagos), with N2.0m-3.0m pa, and of the next level, administrative grade workers with salaries of N4.0m-N5.0m. The next level up, workers in professional service industries, have salaries of N6.0m-N8.0m pa. This is, in all likelihood, a small group, though their earnings make them powerful consumers. Fortunately we have a proprietary database of the salaries of approximately 50,000 of these employees.

Tough times for high earners

Unfortunately for them, our proprietary database of 50,000 employees in the professional services sector shows their fortunes waning over the past few years.

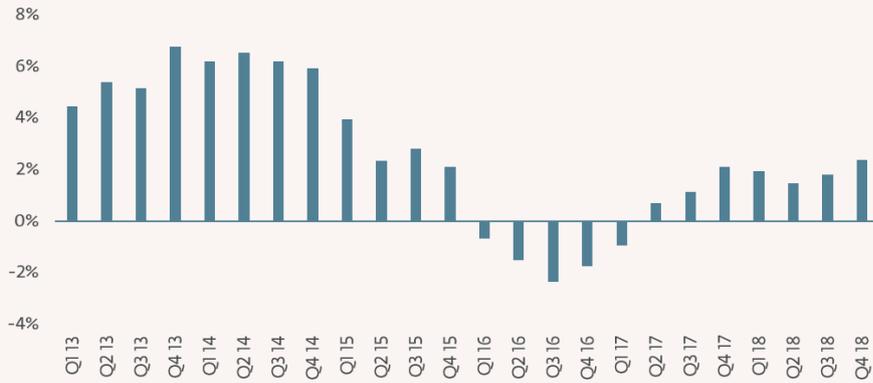


Changes in salary for professional service sector employees with salaries in the range of N6.0m-N8.0m per annum

Source: Companies, Coronation Research.

The last time these employees, in aggregate, received an inflation-adjusted pay increase was in 2014 when inflation-adjusted pay rose by 5.8% y/y. In 2015 it fell by 1.2%. During the recession year of 2016 it fell by 9.3%. But even after the recession (from Q2 2017 onwards) it continued to fall: by 7.5% in 2017 and by 7.8% in 2018.

GDP growth y/y



Source: National Bureau of Statistics (NBS), Coronation Research

And, probably, tough times for other groups of earners

What was true of the employees in the professional service sector was, in all probability, true of the lower tiers of salary earners. The combined effects of: a) the oil price shock of 2015 (see the dip in the long-term sales charts in the first section of this report); b) the currency devaluations of 2016 and 2017; and c) the recession of 2016/2017 were to erode both company and public finances and lead to salary falls in real terms, in our view.

Naira/US dollar exchange rates, 2015 - present



Source: CBN, Bloomberg, Aboki FX, Coronation Research.

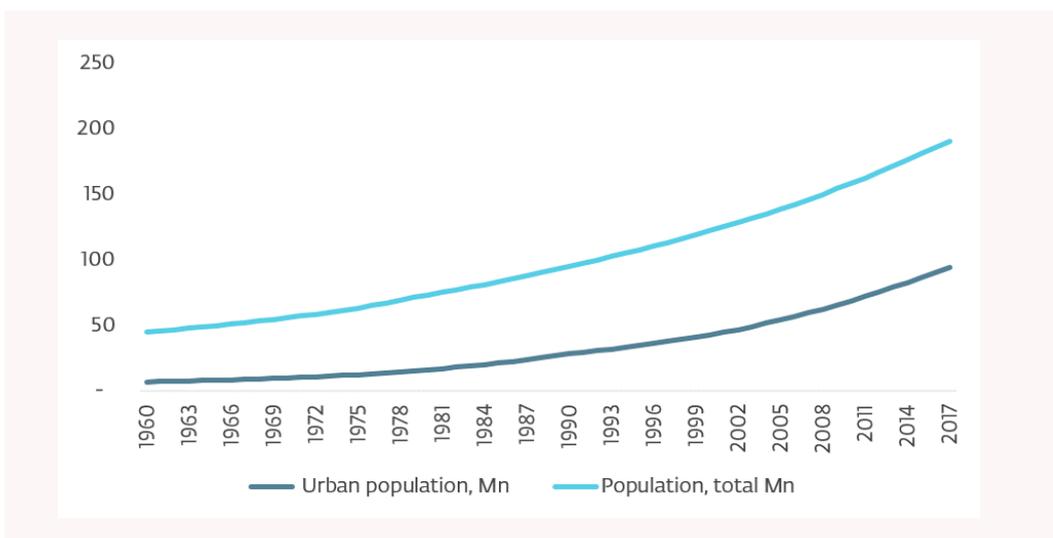
Needless to say, inflation rose when the Naira devalued and has proved difficult to bring under control. Unemployment also rose.



Source: NBS, Coronation Research

Yet the candidates for the middle class keep on expanding

However, while earnings in all probability have not been rising in real terms, the population has been rising. And, more significantly, the urban population has been growing more quickly than the overall population. So there is a growing number of people entering the cash economy who, like Mr. and Mrs. Ajayi, require food and HPC.



Nigeria's population and urbanisation

Source: World Bank, Coronation Research

Although the above chart clearly involves a degree of extrapolation and application of trend growth rates (hence its smooth, progressive lines), various studies have confirmed that the population of Nigeria is growing at some 2.6% per annum and that the population today is around 197 million.

Conclusion

Nigeria is generating more people, more households and more consumers. On the other hand, it does not look like they are getting any richer. The last recession almost certainly left many people poorer than before. And the current economic recovery is so slow that we doubt that incomes, in inflation-adjusted terms, are rebounding, although the upcoming implementation of the N30,000 per month (US\$83) minimum wage at the national level is likely to have a positive effect.

Therefore, the best growth is being experienced by food and HPC manufacturers that are able to supply goods to the most people at the lowest price points. By contrast, the prospects are poor for a manufacturer whose business plan requires the population to migrate upward through the income strata.

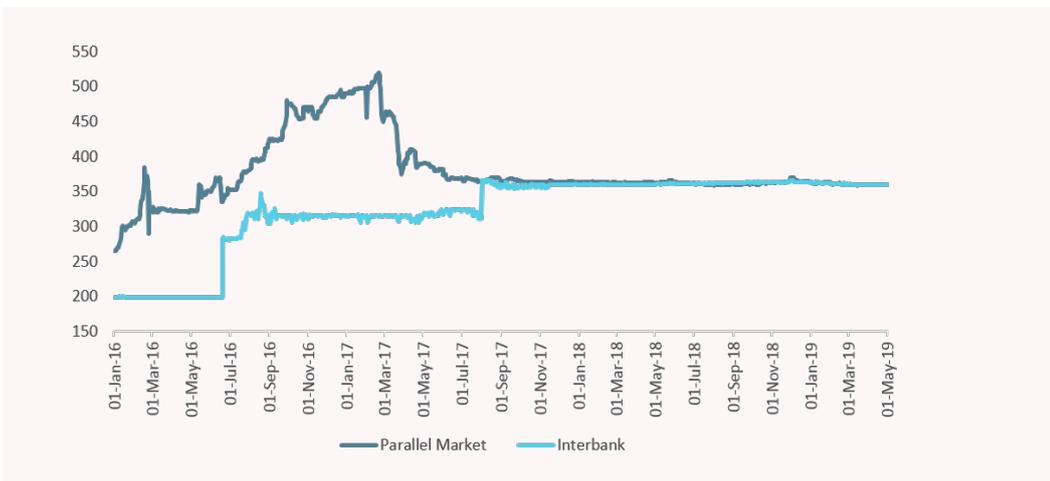
This, perhaps, is the best explanation for the relatively poor fortunes of the listed food and home & personal care companies featured in this report and the prominence of the unlisted ones in the shopping basket of a working couple.

Company Financing

Company Financing

Financing through the currency dislocation of 2016-17

The listed companies featured in this report suffered extreme stress during the currency devaluations and dislocations of 2016 and 2017. In 2016 the Naira/US dollar exchange rate fell from N199.21/US\$1 to N315.33/US\$1, and again in 2017 fell to N359.99/US\$1. Yet these figures are merely for the interbank foreign exchange rate, which for long periods was unavailable to many participants. The dislocation, therefore, forced many businesses to access foreign exchange from the parallel market in order to import essential materials.



Naira / US dollar on interbank and parallel market exchanges

Source: Aboki FX, Bloomberg, Coronation Research.

The principal problems faced by manufacturing companies during this period were: build-up of receivables; build-up of inventories; shortage of foreign exchange; and curtailment of letters of credit in foreign exchange (hence the emergence of cash-backed letters of credit). The result was that businesses were faced with a combination of rising gearing as working capital expanded and a desperate need to borrow in foreign currency.

Having a deep-pocketed foreign parent - the fortunate situation of Unilever Nigeria, for example - helped some companies in this position. A company without a deep-pocketed foreign parent - like Flour Mills of Nigeria - might still borrow but then end up with an unsustainable level of debt. Both Unilever Nigeria (Unilever) and Flour Mills of Nigeria (FMN) subsequently held rights issues in order to pay down debt.

This arrangement had the significant advantage of supplying liquidity to Unilever and FMN when their competitors were, for the most part, short of it. They continued to trade without some of the difficulties imposed by currency dislocation. By contrast, PZ Cussons Nigeria (PZ Cussons), which traditionally eschews high gearing and does not have, in our view, a deep-pocketed parent in PZ Cussons plc of the UK, traded under stressed conditions during the crisis. This is one explanation, in our view, why FMN's and Unilever's trend growth did not suffer more during the period 2016-17.

Nestle Nigeria

Nestle Nigeria (Nestle) achieved the remarkable feat of increasing its cash generation during the early phase of currency dislocation, with operating cash flow rising 54% in 2016. Cash generation fell in 2017 but remained positive (pre-capex) which helped keep the lid on its net debt/equity ratio. This rose from a negative 2% position at the end of 2016 to a modest 20% at the end of 2017. It can be argued that Nestle's high level of domestic sourcing played a critical role in its performance during this period.

Flour Mills of Nigeria

The net debt/equity ratio of FMN rose to 192% by the end of its financial year 2017 (March 2017) with negative free cash flow (operational cash flow minus capex) that year and a doubling of net working capital. In November 2017 it held a rights issue at N27.0/share to raise N39.9bn (US\$110.0m at the time), and net debt/equity fell to 90% by March 2018.

Rights issues and dilution

	Rights issue	Share issued (millions)	Equity Dilution	Price ₦/ Share	Amount raised (₦ millions)	Maximum net debt/ equity 2016- 17
Nestle Nigeria	No	n/a	n/a	n/a	n/a	20.2%
Flour Mills of Nigeria	Yes - Q4 2017	1,476.14	36%	27	39,855.85	191.7%
Unilever Nigeria	Yes - Q3 2017	1,961.71	34%	30	58,851.28	72.2%
PZ Cussons Nigeria	No	n/a	n/a	n/a	n/a	-17.8%

Source: Companies, Coronation Research.

Long-term portfolio investors in FMN might recall that in December 2011 the company held a rights issue to raise N27.9bn (US\$172.2m at the time) at a price of N61.0/share.

Unilever Nigeria

Unilever signed an intercompany loan with Unilever Finance International AG for US\$59.7m in 2016 of which approximately US\$49.0m was drawn down. The picture for Unilever was complicated by the fact that it was in the middle of restructuring a very high debt position that had emerged by FY 2015 which had earlier resulted from significant working capital expansion.

Unilever was able to trade very successfully in early 2017 as a result of its improved liquidity position. It was in the process of restoring its financial ratios. It nevertheless held a rights issue in Q3 2017 to raise N58.9bn (US\$163.6m at the time) at a share price of N30.0/share.

Conclusion – navigating the storm of 2016-17

The four companies steered their way through the period of currency dislocation in very different ways. Nestle was able to continue trading without the need for significant extra borrowing. FMN borrowed from banks and later held a rights issue to reduce debt. Unilever borrowed from its parent and later held a rights issue to reduce debt. PZ Cussons was careful not to borrow excessively during the crisis but likely suffered a competitive disadvantage as a result.

Recent Results

Nestle Nigeria (Nestle)

Nestle's FY 2018 sales were up 9.1% in nominal terms versus average inflation at 12.2% y/y, thus contracting by 2.7% year-on-year when adjusted for inflation.

Nestle Nigeria full-year 2018 results

₦ Millions	FY 17	FY 18	Y/Y %
Revenue	244,151	266,275	9.1%
Cost of Sales	-143,280	-152,354	6.3%
Gross Profit	100,871	113,921	12.9%
Selling and Distribution expenses	-35,157	-43,490	23.7%
Administrative expenses	-10,016	-9,790	-2.3%
Operating Income	55,698	60,641	8.9%
Foreign Exchange gain / (losses)	-11,169	-96	-99.1%
Net Finance cost	2,299	-794	-134.5%
Profit before tax	46,828	59,751	27.6%
Tax	-13,105	-16,743	27.8%
Net Profits	33,724	43,008	27.5%

Source: Company, Coronation Research. NB Nestle Nigeria has a December year-end.

In the first quarter of 2019 Nestle Nigeria grew its revenues by 5.2% y/y in nominal terms but on an inflation-adjusted year-on-year basis, this meant a decline in revenues by 5.6% when accounting for average inflation in Q1 2019 at 11.3% y/y.

Nestle Nigeria Q1 2019 results

₦ Millions	Q1 18	Q1 19	Y/Y %
Revenue	67,464	70,967	5.2%
Cost of Sales	-41,706	-39,498	-5.3%
Gross Profit	25,758	31,469	22.2%
Selling and Distribution expenses	-9,030	-10,371	14.9%
Administrative expenses	-2,209	-2,011	-9.0%
Operating Income	14,519	19,087	31.5%
Foreign Exchange gain / (losses)	-639	19	103.0%
Net Finance cost	-240	16	106.7%
Profit before tax	13,640	19,121	40.2%
Tax	-5,035	-6,275	24.6%
Net Profits	8,605	12,846	49.3%

Source: Company, Coronation Research. NB Nestle Nigeria has a December year-end.

Flour Mills of Nigeria (FMN)

FMN's total revenues in the period 9M 2019, which measures nine months to December 2018, were down 6.3% y/y in nominal terms versus average inflation during the period of 11.4% y/y. Thus, in inflation-adjusted terms, the decline in sales was 15.9% y/y.

Flour Mills of Nigeria
9M 2019 financial year
results
(March year-end).

₦ Millions	9M 18	9M 19	Y/Y %
Revenue	427,509	400,642	-6.3%
Cost of Sales	-371,473	-354,047	-4.7%
Gross Profit	56,036	46,595	-16.8%
Selling and Distribution expenses	-4,037	-5,933	46.9%
Administrative expenses	-13,311	-14,937	12.2%
Net operating gains /(losses)	2,707	2,378	-12.2%
Operating Income	41,394	28,103	-32.1%
Foreign Exchange gains/ (losses)	2,800	-810	-128.9%
Net finance cost	-24,692	-16,014	-35.1%
Profit before tax	19,502	11,278	-42.2%
Tax	-6,255	-3,383	-45.9%
Net Profits	13,247	7,896	-40.4%

Source: Company, Coronation Research. NB Flour Mills of Nigeria has a March year-end.

Unilever Nigeria (Unilever)

Unilever's FY 2018 sales were up 9.0% in nominal terms versus average inflation at 12.15%, thus contracting by 2.8% year-on-year in inflation-adjusted terms.

Unilever Nigeria full-
year 2018 results

₦ Millions	FY 17	FY 18	Y/Y %
Revenue	85,193	92,900	9.0%
Cost of Sales	-57,679	-64,675	12.1%
Gross Profit	27,514	28,225	2.6%
Selling and Distribution expenses	-3,791	-4,239	11.8%
Administrative expenses	-11,476	-14,713	28.2%
(Impairment loss)/ writeback	1	-311	n/a
Operating Income	12,248	8,962	-26.8%
Other Income	-17	236	1495.9%
Net Finance cost	-1,635	3,424	309.4%
Profit before tax	10,596	12,622	19.1%
Tax	-3,526	-3,490	-1.0%
Net Profits	7,070	9,132	29.2%

Source: Company, Coronation Research. NB Nestle Nigeria has a December year-end.

On the other hand, Unilever's Q1 2019 revenues contracted by 20.8% y/y in nominal terms and on an inflation-adjusted basis there was shrinkage in Unilever's sales - by 28.9% y/y.

Unilever Nigeria Q1 2019 results

₦ Millions	Q1 18	Q1 19	Y/Y %
Revenue	24,298	19,236	-20.8%
Cost of Sales	-17,573	-15,367	-12.6%
Gross Profit	6,725	3,869	-42.5%
Selling and Distribution expenses	-1,090	-859	-21.1%
Administrative expenses	-2,307	-1,518	-34.2%
Operating Income	3,328	1,292	-61.2%
Net Finance cost	372	70	90.6%
Profit before tax	3,700	2,027	-45.2%
Tax	-964	-507	-47.4%
Net Profits	2,737	1,521	-44.4%

Source: Company, Coronation Research. NB Unilever Nigeria has a December year-end.

PZ Cussons Nigeria (PZ Cussons)

PZ Cussons' 9M 2019 (9M to calendar February 2019) revenues from its reporting segments were down 12.9% y/y in nominal terms versus average inflation during the period of 11.28% y/y. Thus in inflation-adjusted terms, the decline in sales was 21.7% y/y.

PZ Cussons 9M 2019 results

₦ Millions	9M 18	9M 19	Y/Y %
Revenue	63,260	55,070	-12.90%
Cost of Sales	-45,024	-42,433	-5.80%
Gross Profit	18,236	12,637	-30.70%
Selling and Distribution expenses	-6,931	-7,959	14.80%
Administrative expenses	-5,575	-3,357	-39.80%
Operating Profit	5,730	1,322	-76.90%
Other income	82	91	11.40%
Foreign Exchange gains/ (losses)	-3,278	-492	-85.00%
Net Finance costs	-567	16	-102.70%
Profit before tax	1,967	936	-52.40%
Tax	-629	-129	-79.50%
Net Profits	1,337	807	-39.60%

Source: Company, Coronation Research. NB PZ Cussons Nigeria has a May year-end.

Valuation and Recommendations

Valuation and Recommendations

Three-pronged approach to valuation

As readers thus far will understand, owning most of the listed companies featured in this report has not been a happy experience for portfolio investors over the past eight years, particularly not for US dollar-based investors. Expectations of high growth have not been met and consequently the growth ratings attached to these stocks have, for the most part (Nestle is the exception), been discarded.

Moreover, it is not only in Nigeria that growth projections for consumer-facing manufacturers of food and HPC have fallen short. In India, for example, the same problem has been encountered. The problem of putting valuations on companies whose growth has failed to match expectations is widespread.

All the more reason, therefore, to adopt three different methods to value the listed companies in this report, as a means of cross-checking the valuations implied by each one. We use the following methods and use an average of the target prices reached:

- Valuation histories, for series of one-year forward EV/EBITDA and PE ratings;
- Spot multiple comparisons with the EV/EBITDA, EV/Sales and PE ratings of international peer group companies;
- Discounted Cash Flow valuations.

Having arrived at an average of the potential price targets reached by each valuation method, we then discount each one for the risk that future sales will not match the trend in inflation-adjusted sales seen over the period 2011-18. None of the companies achieved inflation-adjusted growth in sales during 2018 and without applying steep discounts we fear falling prey to value traps. While we are confident that a company like Nestle, for example, will return to its long-term trend growth, we still discount our price targets to reflect the risk that this may not happen.

Summary of valuations and recommendations

Price targets (₦/share) reached by:	Nestle Nigeria	Flour Mills of Nigeria	Unilever Nigeria	PZ Cussons Nigeria
Valuation History	1,345.00	28.90	50.90	12.41
Spot multiple comparison	811.70	68.80	60.70	35.50
Discounted Cash Flow	1,477.21	42.61	38.84	17.16
Weighted Average*	1,277.78	45.73	47.32	20.56
Discount for future growth**	5%	60%	40%	60%
Target price	1,213.89	18.29	28.39	8.22
Current price	1,520.00	16.00	31.00	9.00
Potential upside/downside	-20%	14%	-8%	-9%
Recommendation	Hold	Hold	Hold	Hold

Source: Companies, Coronation Research. Priced at close of business 15 May 2019 *Weighted average based on 50% allocation to Discounted Cash Flow and 25% allocation to Valuation History and 25% to Spot Multiple comparison **additional risk factor in the light of long-term growth trends, calendar 2018 FY results and other recent results (e.g. calendar Q1 2019 results)

Mean reversion - we still need growth

To use a valuation history is to believe that the spot multiple valuation of a share will return to the average at which the market has rated it over time. This is a basic method of value investing. It has many things to recommend it (for example, plenty of market-related data) but many pitfalls.

One pitfall is that it does not work well with high-growth stocks (spot-multiples tend not to work at all when valuing growth, anyway). On the other hand, listed Nigerian consumer-facing industrial stocks cannot be called high-growth, so this does not present a problem.

Another pitfall is that valuation histories do not work well when a company's business is experiencing medium-term or long-term decline. The stock may appear cheap relative to its valuation history, but it will only get cheaper as investors shy away from a business which is getting smaller. Essentially this describes a value trap. We have attempted to avoid this by applying steep discounts to target prices in our summary valuations.

This is why we have covered the ground, in the Long-term growth trends section, on inflation-adjusted sales development. The valuations of shares of companies which in the long term are growing moderately, such as Nestle Nigeria (Nestle) and, arguably, Flour Mills of Nigeria (FMN) and Unilever Nigeria (Unilever), are susceptible to mean reversion, in our view. The potential for mean reversion in the valuation of the shares of PZ Cussons Nigeria (PZ Cussons), on the other hand, is open to question given its negative long-term inflation-adjusted sales trend.

Therefore, we have one strong candidate for the mean reversion method, Nestle Nigeria, and arguably another two: Flour Mills of Nigeria and Unilever Nigeria, depending on how we interpret their recent sales development. The valuation history method suggests the following potential target prices: Nestle Nigeria: N1,345/s; Flour Mills of Nigeria: N28.90/s; Unilever Nigeria: N50.90/s and PZ Cussons, albeit a weak candidate for this method, N12.41/s.

Nestle Nigeria

The market rating of Nestle shares has increased since 2016. (We use the period 2016-18 rather than 2014-18 as the EBITDA and net profits for 2015 were weak, resulting in very high ratings for that year.) It has been possible to buy Nestle Nigeria shares at quite high ratings (for example, a forward PE of 20.0x) and still make money as: a) earnings growth came through; and b) the forward PE rating went up.

Nestle Nigeria, Forward EV/EBITDA



Nestle Nigeria, Forward P/E



Source: Company, Coronation Research, Bloomberg (for share prices).

Long-term growth is key to this investment narrative and, as we describe in the *Long-term growth trends* section, Nestle has demonstrated long-term positive inflation-adjusted sales growth. This assertion needs to be qualified in several ways:

- A long-term inflation-adjusted track record of positive growth in sales, 2011-18, is not necessarily a guide to the future;
- Indeed, 2018 itself was not a good year, with full-year sales rising 9.1% in nominal terms against average inflation of 12.15%;
- Competition in the seasoning market is tough. Unilever's Knorr, Promasidor's Onga and Winstar's Alubadiya all feature prominently in street markets.

However, Nestle’s Maggi product remains competitive in terms of price in the view of our analysts (posing as Mr. and Mrs. Ajayi) and Nestle has broadened the Maggi range with different products to suit different tastes. In other words, Nestle appears to be reacting positively to the competitive challenge. And its long-term track record in inflation-adjusted sales is good.

For these reasons we give credence to the idea that shares in Nestle tend to return to their long-term average spot multiple valuations.

It is unfortunate, therefore, that at the moment Nestle shares are trading well above the average of their forward EV/EBITDA multiples over time, and above the average of their forward PE multiples over time. Over the history which we have examined Nestle has traded in a range of 6.2x – 17.6x forward EV/EBITDA and 10.5x – 28.7x forward PE. The middle of this range is 12.4x forward EV/EBITDA and 20.5x forward PE. At these levels Nestle shares would be priced at N1,320/share (mid-range forward EV/EBITDA) and N1,370/share (mid-range forward PE). The average of these two potential price targets is N1,345/share.

Flour Mills of Nigeria (FMN)

The shares of FMN have de-rated since 2014. Investors once valued the shares as worth 9.0x forward EV/EBITDA and 18.0x forward PE, rather like a consumer growth stock. Today FMN shares are rated 3.1x forward EV/EBITDA and 4.9x forward PE.

FMN, Forward EV/EBITDA



FMN, Forward P/E



Source: Company, Coronation Research, Bloomberg (for share prices).

This kind of investor behaviour normally describes a situation in which the underlying business of the company is in medium-term or long-term decline. Yet FMN's business, as we have described in the Long-term growth trends section, has been essentially flat, or flat-to-slightly-declining, in inflation-adjusted terms over the period 2011-18. It was also growing at an inflation-adjusted CAGR of 2.2% 2011-17, which is respectable in our opinion.

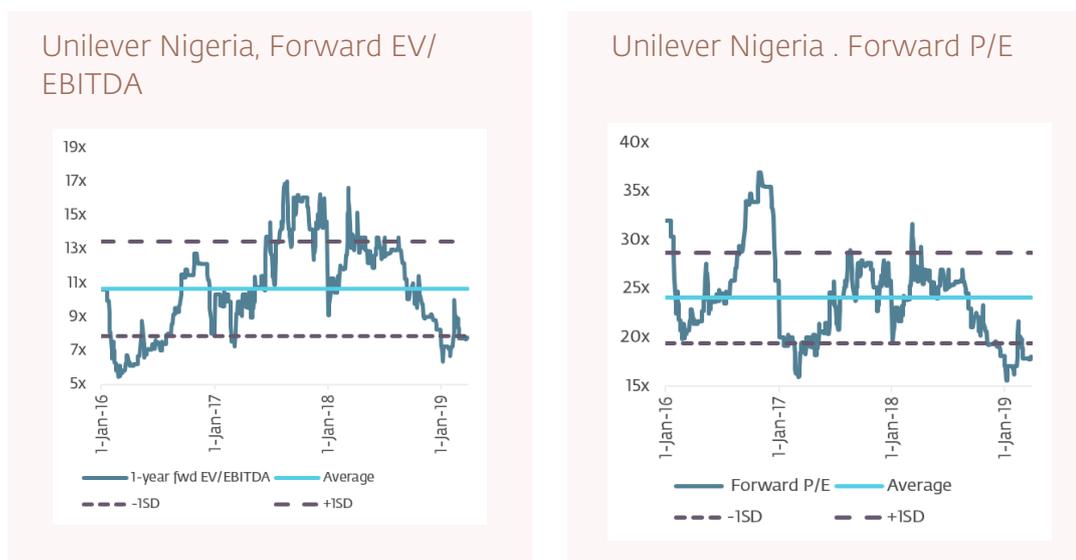
So, if we look at the long-term growth trend, rather than the calendar year 2018's poor results, then we would call FMN a stable business rather than a declining business. And we would look for specific reasons why things did not go well in the calendar year 2018.

One reason could be the situation in the pasta market in 2018 which was characterised, in our view, by unusually strong competition from Dangote Flour (not covered). The sales of the three main listed flour businesses in Nigeria: Dangote Flour; Honeywell Flour; and FMN, all showed unusual volatility during the calendar year 2018, in our view. By contrast, the recently-announced sale of Dangote Flour to Olam International may herald a period of calm in the pasta market, we believe, although there is a risk that Olam may prove a formidable competitor.

In setting a spot multiple valuation range for FMN we believe a range of 3.0x – 9.1x forward EV/EBITDA and 2.7x – 18.2x forward PE is consistent with recent valuation history and therefore realistic. The middle of this range is 4.8x forward EV/EBITDA and 7.9x forward PE. At these levels FMN shares would be priced at N34.1/share (mid-range forward EV/EBITDA) and N23.7/share (mid-range forward PE). The average of these two potential price targets is N28.90/share..

Unilever Nigeria

The shares of Unilever have de-rated since 2015. As with FMN, investors once valued the shares as a high-growth stock, with a forward EV/EBITDA of close to 20.0x and a forward PE of over 50.0x. Now Unilever shares are rated at a forward EV/EBITDA of 6.4x and a forward PE of 15.1x.



Source: Company, Coronation Research, Bloomberg (for share prices).

This kind of investor behaviour is consistent with a shrinking business. Indeed, the outline evidence we present in the Long-term growth trends section suggests that a long-term inflation-adjusted sales decline was taking place at Unilever over the period 2011-18. When we looked at the annual data broken down by division (Unilever’s are roughly 50/50 food and HPC) 2008-18 we found that the food business grew at an inflation-adjusted 0.4% CAGR while its HPC business shrank by an inflation-adjusted 2.7% CAGR over the same period.

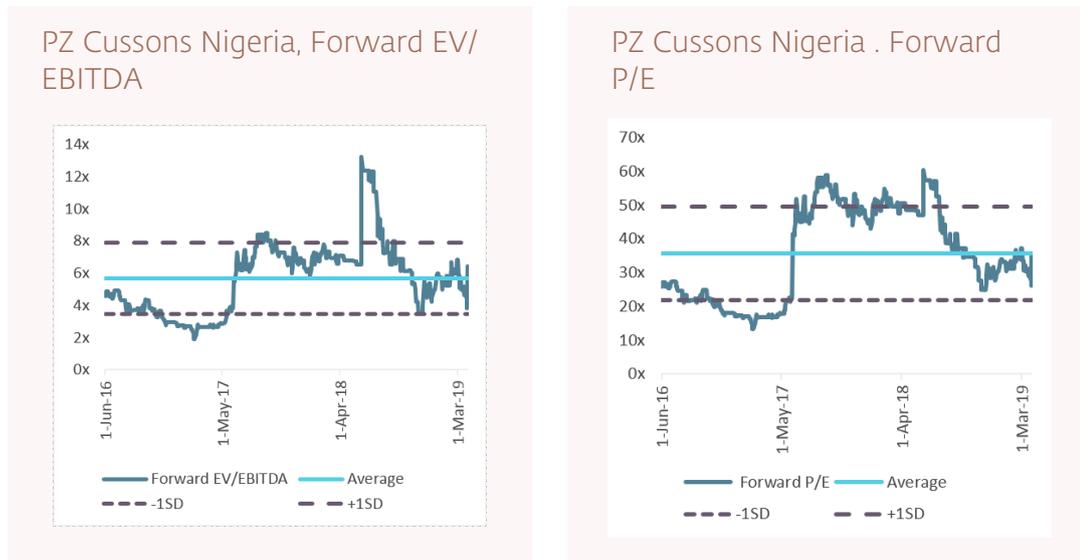
However, recent medium-term data, for 2014-18, is more encouraging than this. The quarterly sales data broken down by product group 2014-18, when adjusted for inflation, shows that both the food and HPC businesses have been growing, by CAGRs of 3.4% and 2.2% respectively. Albeit on a short timescale, and including the period of significant currency devaluation in 2016 and 2017, it seems that Unilever has been able to return to growth.

Against this, it must be recognised that inflation-adjusted sales in Q1 2019 were extremely weak (by Unilever’s own standards) and raises a question mark over its medium-term recovery. On balance, we believe a return to medium-term (2014-18) trend is possible.

The question is: which historic valuation norms should be used, given that including the very high market ratings of 2015 would be unrealistic? We have taken the average for the period 2016-18 and calculated a range of 5.4x – 16.8x forward EV/EBITDA and 15.6x – 37.0x forward PE. The middle of this range is 10.7x forward EV/EBITDA and 24.1x forward PE. At these levels Unilever shares would be priced at N49.7/share (mid-range forward EV/EBITDA) and N52.1/share (mid-range forward PE). The average of these two potential price targets is N50.9/share.

PZ Cussons Nigeria

The shares of PZ Cussons have de-rated in recent years. As with FMN and Unilever, investors once valued the shares as a high-growth stock. In PZ Cussons' case this meant a forward EV/EBITDA of close to 15.0x and a forward PE of over 60.0x. Now PZ Cussons shares are rated at a forward EV/EBITDA of 3.1x and a forward PE of 22.0x.



Source: Company, Coronation Research, Bloomberg (for share prices).

Such investor behaviour is consistent with a shrinking business. The evidence which we present in the Long-term growth trends section suggests a long-term inflation-adjusted sales decline 2011-18. Investors are having trouble putting a value on a business when there is a question mark over its size. Until the decline in inflation-adjusted sales is arrested, in our view, it will be difficult to assess PZ Cussons' fair value. PZ Cussons' recent financial reports are not reassuring in this regard.

There are some reasons to think that PZ Cussons will be able to turn the corner. It is currently overhauling its route-to-market (RTM) strategy which may well enhance its products' visibility. During our analysts' market visits it was noticeable that PZ Cussons' products such as Zip detergent, Venus lotion, Joy lotion, Coast milk and Olympic powdered milk were not prominent in street markets, nor in the nearby supermarkets which they visited. Therefore, implementation of the new RTM strategy could dramatically improve the situation.

In order to arrive at potential values for PZ Cussons we have taken the average spot multiples for the period 2016-18 and calculated a range of 2.0x – 13.2x forward EV/EBITDA and 13.2x – 60.3x forward PE. The middle of this range is 5.6x forward EV/EBITDA and 35.6x forward PE. At these levels PZ Cussons shares would be priced at 11.90/share (mid-range forward EV/EBITDA) and N12.92/share (mid-range forward PE). The average of these two potential price targets is N12.41/share.

The cross-border comparison approach

In this part of the valuation discussion we compare three spot valuation multiples - EV/EBITDA, EV/Sales and PE - with those of peer group companies in other emerging markets. We use a simple average of peer group valuations as benchmarks for the valuations of the companies under study. Using 2017 and 2018 spot multiple valuations we arrive at three blended potential price targets, and take the simple average of these as a final blended potential price target for each stock.

The logic behind such cross-border peer group comparisons is that international investors will, over time, accord similar valuations to similar companies regardless of location. While this is true to some degree (there are plenty of international investors who employ such comparisons) there are obvious drawbacks.

For example, no account is taken of different growth rates, unless we take projected spot multiple ratios far into forecast periods. And local market valuations can often be out of proportion with each other, which is a function of local investment conditions (e.g. interest rates) and local investor behaviour.

Another problem is that the companies do not necessarily have similar industry profiles. So, for example, comparing the EV/Sales of Flour Mills of Nigeria with that of a company with much higher operating margins is, in some ways, misleading. On the other hand, by employing three measures in each case and taking averages, such anomalies can be reduced while still encompassing a lot of data.

Price targets (N/share) reached by:	Nestle Nigeria	Flour Mills of Nigeria	Unilever Nigeria	PZ Cussons Nigeria
EV/EBITDA	903.70	64.70	64.30	39.90
EV/Sales	644.30	107.30	64.40	14.70
PE	887.10	34.10	53.40	51.90
Simple average	811.70	68.80	60.70	35.50

Summary of spot multiples target prices

Source: Companies, Coronation Research

Peers	FY 2017 EV/EBITDA	FY 2018 EV/EBITDA
Nestle Nigeria	19.98x	16.25x
Nestle Pakistan	21.72x	16.85x
Oman Flour Mills	8.92x	6.84x
Agthia Group Dubai	9.58x	9.26x
Tongaat Hulett Ltd South Africa	8.00x	5.09x
Emerging markets peer average (ex- Nestle Nigeria)	12.06x	9.51x
Nestle EBITDA, Nm	62,184	71,995
Enterprise value	749,704	684,608
- Net debt, Nm ¹	9,053	-7,420
- Pension Provisions	-	-
- Minority Interest	-	-
Equity Value, Nm	740,650	692,028
No. of shares, millions	792.7	792.7
Price target N/s	934	873
2-year blended target price, N/s		903.7

Nestle Nigeria relative valuation (at year-end prices)

Peers	FY 2017 EV/SALES	FY 2018 EV/SALES
Nestle Nigeria	5.09x	4.39x
Nestle Pakistan	4.57x	3.05x
Oman Flour Mills	2.00x	1.19x
Agthia Group Dubai	1.47x	1.46x
Tongaat Hulett Ltd South Africa	1.54x	0.89x
Emerging markets peer average (ex- Nestle Nigeria)	2.39x	1.65x
Nestle Sales, Nm	244,151	266,275
Enterprise value	584,555	438,546
- Net debt, Nm	9,053	-7,420
- Pension Provisions	-	-
- Minority Interest	-	-
Equity Value, Nm	575,501	445,967
No. of shares, millions	792.7	792.7
Price target N/s	726	563
2-year blended target price, N/s		644.3

Source: Bloomberg, Coronation Research.

Peers	FY 2017 P/E	FY 2018 P/E
Nestle Nigeria	36.57x	27.37x
Nestle Pakistan	36.71x	30.98x
Oman Flour Mills	11.54x	8.56x
Agthia Group Dubai	15.09x	14.16x
Tongaat Hulett Ltd South Africa	22.18x	10.02x
Emerging markets peer average (ex- Nestle Nigeria)	21.38x	15.93x
Nestle Nigeria EPS	42.55	54.26
Price target N/s	910	864
2-year blended target price, N/s		887.1
Spot multiples blended average price, ₦/s		811.7

Source: Bloomberg, Coronation Research.

Peers	FY 2017 EV/EBITDA	FY 2018 EV/EBITDA
FMN	4.16x	3.22x
Dangote Sugar Refinery	4.09x	4.30x
Astral Foods	9.62x	2.35x
Oman Flour Mills	8.92x	6.84x
Nitto Fuji Flour Mills Japan	6.20x	6.83x
Emerging markets peer average (ex- FMN)	7.21x	5.08x
FMN EBITDA, Nm	57,243	66,038
Enterprise value	412,629	335,341
- Net debt, Nm'	196,587	130,988
- Pension Provisions	-	-
- Minority Interest	4,080	5,358
Equity Value, Nm	211,962	198,995
- No. of shares, millions	2,624.30	4,100.40
- Price target N/s	81	49
2-year blended target price, N/s		64.7

Flour Mills of Nigeria (FMN) relative valuation (at year-end prices)

Peers	FY 2017 EV/SALES	FY 2018 EV/SALES
FMN	0.45x	0.39x
Dangote Sugar Refinery	0.98x	1.08x
Astral Foods	0.96x	0.38x
Oman Flour Mills	2.00x	1.19x
Nitto Fuji Flour Mills Japan	0.44x	0.55x
Emerging markets peer average (ex- FMN)	1.09x	0.80x
FMN Sales, Nm	524,464	542,670
Enterprise value	573,144	434,632
- Net debt, Nm	196,587	130,988
- Pension Provisions	-	-
- Minority Interest	4,080	5,358
Equity Value, Nm	372,477	298,286
No. of shares, millions	2,624.30	4,100.40
Price target N/s	142	73
2-year blended target price, N/s		107.3

Peers	FY 2017 P/E	FY 2018 P/E
FMN	4.69x	6.01x
Dangote Sugar Refinery	6.05x	8.25x
Astral Foods	16.48x	3.95x
Oman Flour Mills	11.54x	8.56x
Nitto Fuji Flour Mills Japan	15.35x	11.66x
Emerging markets peer average (ex- FMN)	12.36x	8.11x
FMN EPS	3.37	3.32
Price target N/s	42	27
2-year blended target price, N/s		34
Spot multiples blended average price, ₦/s		68.8

Source: Bloomberg, Coronation Research.

Peers	FY 2017 EV/EBITDA	FY 2018 EV/EBITDA
Unilever Nigeria	11.21x	12.42x
Unilever India	44.99x	26.14x
PZ Cussons Nigeria	4.75x	3.10x
Cosmax Incorporated South Korea	31.62x	22.77x
Tiger Brands South Africa	22.30x	12.76x
Emerging markets peer average (ex - Unilever Nigeria)	25.91x	16.19x
Unilever Nigeria EBITDA, Nm	16,564	12,415
Enterprise value	429,210	201,055
- Net debt, Nm	-49,819	-58,316
- Pension Provisions	-	-
- Minority Interest	-	-
Equity Value, Nm	479,030	259,371
No. of shares, millions	5,745.00	5,745.00
Price target N/s	83	45
2-year blended target price, N/s		64.3

Unilever Nigeria relative valuation (at year-end prices)

Peers	FY 2017 EV/SALES	FY 2018 EV/SALES
Unilever Nigeria	2.18x	1.66x
Unilever India	11.09x	8.17x
PZ Cussons Nigeria	0.94x	0.42x
Cosmax Incorporated South Korea	1.98x	1.40x
Tiger Brands South Africa	3.20x	1.41x
Emerging markets peer average (ex - Unilever Nigeria)	4.30x	2.85x
Unilever Nigeria Sales, Nm	85,193	92,900
Enterprise value	366,696	264,718
- Net debt, Nm	-49,819	-58,316
- Pension Provisions	-	-
- Minority Interest	-	-
Equity Value, Nm	416,516	323,035
No. of shares, millions	5,745.00	5,745.00
Price target N/s	73	56
2-year blended target price, N/s		64.4

Peers	FY 2017 P/E	FY 2018 P/E
Unilever Nigeria	33.32x	23.28x
Unilever India	64.78x	37.46x
PZ Cussons Nigeria	24.61x	26.04x
Cosmax Incorporated South Korea	70.65x	39.52x
Tiger Brands South Africa	32.29x	16.95x
Emerging markets peer average (ex - Unilever Nigeria)	48.08x	29.99x
Unilever Nigeria EPS	1.23	1.59
Price target N/s	59.17	47.68
2-year blended target price, N/s		53.4
Spot multiples blended average price, N/s		60.7

Source: Bloomberg, Coronation Research.

Peers	FY 2017 EV/EBITDA	FY 2018 EV/EBITDA
PZ Cussons Nigeria	4.69x	3.12x
Unilever Nigeria	11.19x	11.57x
Cosmax Incorporated South Korea	31.62x	22.77x
Tiger Brands South Africa	22.30x	12.76x
Emerging markets peer average (ex- PZ Cussons Nigeria)	21.70x	15.70x
PZ Cussons EBITDA, Nm	15,738	10,914
Enterprise value	341,514	171,350
- Net debt, Nm ¹	-8,022	-14,025
- Pension Provisions		
- Minority Interest	109,080	108,687
Equity Value, Nm	240,456	76,689
No. of shares, millions	3,970.50	3,970.50
Price target N/s	61	19
2-year blended target price, N/s		39.9

PZ Cussons Nigeria relative valuation (at year-end prices)

Peers	FY 2017 EV/SALES	FY 2018 EV/SALES
PZ Cussons Nigeria	0.94x	0.42x
Unilever Nigeria	2.18x	1.68x
Cosmax Incorporated South Korea	1.98x	1.40x
Tiger Brands South Africa	3.20x	1.41x
Emerging markets peer average (ex- PZ Cussons Nigeria)	2.45x	1.50x
PZ Cussons Sales, Nm	78,216	80,553
Enterprise value	191,951	120,548
- Net debt, Nm ¹	(8,022)	-14,025
- Pension Provisions	-	-
- Minority Interest	109,080	108,687
Equity Value, Nm	90,893	25,887
No. of shares, millions	3,970.50	3,970.50
Price target N/s	23	7
2-year blended target price, N/s		14.7

Peers	FY 2017 P/E	FY 2018 P/E
PZ Cussons Nigeria	24.61x	26.04x
Unilever Nigeria	31.62x	20.95x
Cosmax Incorporated South Korea	70.65x	39.52x
Tiger Brands South Africa	32.29x	16.95x
Emerging markets peer average (ex- PZ Cussons Nigeria)	44.85x	25.81x
Unilever Nigeria EPS	1.3	1.77
Price target N/s	58.17	45.59
2-year blended target price, N/s		51.9
Spot multiples blended average price, N/s		35.5

Source: Bloomberg, Coronation Research.

Long bond rates versus company growth rates

As well as using valuations histories and spot multiple valuations we also value our covered companies using Discounted Cash Flow (DCF) calculations. We use a long-term Naira risk-free rate of 14.50%, being the current yield of a Federal Government of Nigeria (FGN) 10-year bond. We use an equity risk premium of 6.00%.

Our forecasts of financial performance of covered companies has been prepared in nominal Naira (which compares with historic financial statements) and assumes a long-term inflation rate of 8.00%. We have modeled explicit forecasts (profit & loss, balance sheet and cashflow) for four forecast years, followed by semi-explicit forecasts for a further five years, followed by a model based on terminal growth rates, which we vary from company to company.

Nestle Nigeria (Nestle)

We value Nestle Nigeria by the discounted cash flow method by forecasting and discounting future free cash flows, and incorporating a three-stage model: the explicit forecast stage (2019f-22f), the semi-explicit stage (2023f-28f) and perpetuity.

Summary Discounted Cash Flow (DCF) valuation for Nestle Nigeria

Peers	
Risk-free rate (10-yr)	14.5%
Post-tax cost of debt	9.4%
WACC-1	19.2%
WACC-2	17.2%
WACC-3	15.2%
Terminal growth rate	10.5%
DCF 2019e-22e	193,927
DCF 2023e-28e	221,127
DCF Terminal	748,443
Net debt 2018	7,420
Equity value, Nm	1,170,918
No. of shares, m	793
Equity value per share	1,477.21

Source: Company, Coronation Research.

Flour Mills of Nigeria (FMN)

We value Flour Mills of Nigeria by the discounted cash flow method by forecasting and discounting future free cash flows, and incorporating a three-stage model: the explicit forecast stage (2019f-22f), the semi-explicit stage (2023f-29f) and perpetuity.

Summary Discounted Cash Flow (DCF) valuation for Flour Mills of Nigeria

Peers	
Risk-free rate (10-yr)	14.50%
Post-tax cost of debt	15.60%
WACC-1	17.30%
WACC-2	16.30%
WACC-3	15.30%
Terminal growth rate	5.00%
DCF 2019e-22e	180,867
DCF 2023e-29e	66,570
DCF Terminal	60,162
Net debt 2018	-130,988
Investments	3,516
Minority Interest	-5,358
Equity value, Nm	174,729
No. of shares, m	4,100
Equity value per share	42.61

Source: Company, Coronation Research.

Unilever Nigeria (Unilever)

We value Unilever Nigeria by the discounted cash flow method using our forecast of free cash flows to the firm and incorporating a three-stage model: the explicit forecast stage (2019f-22f), the semi-explicit stage (2023f-31f) and perpetuity.

Peers	
Risk-free rate (10-yr)	14.50%
Post-tax cost of debt	10.50%
WACC-1	19.90%
WACC-2	17.90%
WACC-3	15.90%
Terminal growth rate	6.50%
DCF 2019e-22e	33,048
DCF 2023e-2031e	86,678
DCF Terminal	48,273
Net debt 2018	57,140
Pension Provision	-2,021
Equity value, Nm	223,118
No. of shares, m	5,745
Equity value per share	38.84

Summary Discounted Cash Flow (DCF) valuation for Unilever Nigeria

Source: Company, Coronation Research.

PZ Cussons Nigeria (PZ Cussons)

We value PZ Cussons by the discounted cash flow method using our forecast of free cash flows to the firm and also incorporating the use of a three stage model: the explicit forecast stage (2019f-22f), the semi-explicit stage (2023f-28f) and perpetuity.

Summary Discounted Cash Flow (DCF) valuation for PZ Cussons Nigeria

Peers	
Risk-free rate (10-yr)	14.5%
Post-tax cost of debt	11.8%
WACC-1	20.3%
WACC-2	18.3%
WACC-3	16.3%
Terminal growth rate	5.0%
DCF 2019e-22e	136
DCF 2023e-28e	18,587
DCF Terminal	38,321
Net debt 2018	14,025
Minority Interest	(2,947)
Equity value, Nm	68,122
No. of shares, m	3,970
Equity value per share	17.16

Source: Company, Coronation Research.

Risks

Risks

Risks to our investment thesis are evident in: exchange rates, in particular the Naira / US dollar exchange rate; oil prices and production; and other contingent liabilities that may crystallise, in particular the ongoing court case between the Federal Government of Nigeria (FGN) and Process and Industrial Development; insurgencies and security breaches; regulatory risk; macro-economic risk; market risk; interest rate conditions; and management decisions as they affect the performance of the covered companies.

Naira/ US dollar exchange rate

In January 2017 the unofficial, or parallel Naira/US\$ rate was N490.00/US\$1 while the interbank Naira/US\$ rate stood at N314.86/US\$1. By mid-August 2017 these rates had converged to approximately N360.00/US\$1. During 2017 the published foreign exchange reserves of the Central Bank of Nigeria (CBN) rose from US\$28.3bn to US\$38.7bn. The CBN's FX reserves are currently reported at US\$44.8bn. Therefore, by the end of 2017, the Naira/US dollar exchange rate had stabilised considerably. However, inflation (April 2019: 11.25% year-on-year) currently above its target of 6 – 9%, represents an ongoing threat to the exchange rate, which continues to be protected by various restrictive rules and controls.

In addition, and over the long term, the Naira/US dollar exchange rate has been subject to periodic dislocations. During periods of severe exchange rate disruption there can be limitation on capital flows and foreign exchange transfers.

Unless the consumer companies covered in this report are able to pass cost increases to their customers, which is unlikely because of stiff competition, a Naira devaluation will likely cause a surge in input costs and squeeze profit margins of the covered companies. Naira devaluation also affects the behavior of consumers negatively.

Oil prices and production rate

The average price of oil (Brent) in 2017 was US\$54.75/bbl, in 2018 it was US\$71.69/bbl. The Nigerian economy, and the companies covered in this report, depend on oil prices and production to a significant extent.

Average oil prices (Brent) in 2019 have remained favourable, having averaged US\$66.04/bbl up until 6 May. Nevertheless, a sharp decline in oil prices and/or production, especially below US\$60.00/bbl is likely to distort the implementation of the 2019 budget and confidence in the currency. This, in our opinion, could have destabilising effects on the broader economy and

covered companies. To limited degree low oil prices could benefit HPC manufacturers as the price of Linear Alkyl Benzene, a key input, tends to track oil.

Political Risk - Process and Industrial Development (P&ID)

Process and Industrial Development Limited, a company registered in the British Virgin Islands, currently has a US\$9bn claim against the Federal Government of Nigeria (FGN) over alleged contracts with the Ministry of Petroleum Resources of the FGN to build a natural gas processing plant – see Coronation Research: *P&ID's risk to Nigeria*, 14 March 2019. Enforcement of this contract through US courts could negatively impact the monetary and fiscal stability of Nigeria.

Political Risk - Insurgencies

The author(s) of this report are aware of three areas of insurgency in Nigeria: in the north-east of the country, where the so-called 'Boko Haram' group wages a terrorist campaign; in the south-south, particularly the Niger Delta area, where various groups disrupt oil & gas production; in the middle belt and north-west where violent raids by bandits have disturbed economic activity. These insurgencies are chronic and, if any one or more of them worsen, could significantly disrupt the politics and economy of Nigeria.

Worsening of security conditions could negatively impact the ability of food and consumer companies to distribute their products.

Regulatory Risk

Nigeria has not assented to the African Continental Free Trade Agreement (AfCFTA). If Nigeria were to join, tariffs and barriers to entry into the Nigerian market would be removed and highly competitive imports of food and home and personal care goods into the country would negatively affect the covered companies, in all likelihood.

Macro-economic risk

The authors of this report expect continued growth of the Nigerian economy during the forecast period, but cannot rule out a return to recession. Such a renewed downturn would have negative effects on consumer behaviour and on the profitability of the covered companies featured in this report.

Market risk

Some of the companies covered in this report may in future access the Naira bond market or the international eurobond market for their financing needs. Conditions in these markets may change for the worse and negatively affect the ability of these companies to favourably meet their financing needs, whether in those markets or via commercial loans which take those markets as their reference point.

The prices of shares listed on the Nigerian Stock Exchange (NSE) are subject to volatility which exceeds that of some developed and emerging markets. While volatility does not equate to risk, market participants may reduce participation in the Nigerian market if volatility reaches high levels, and this could negatively impact the share prices of the covered companies.

Interest rate conditions

The Central Bank of Nigeria (CBN) actively participates in Nigeria's interest rate markets in order to manage liquidity, and it sets the Monetary Policy Rate (MPR) for the banking sector. Interest rates are also driven by market demand for such products as Naira-denominated treasury bills (T-bills) and bonds, issued by the Federal Government of Nigeria (FGN) and the CBN's own open market operation (OMO) paper. Either by the design of the CBN, or through market conditions (for example, a sudden drop in demand for T-bills), interest rates could change rapidly. Such rapid changes in interest rates could have significant implications for the companies covered in this report.

Management decisions

Publicly-listed consumer companies are closely monitored by the NSE and are required to adhere to a broad framework of strictly-enforced rules. Managers of Nigerian corporates are required to have professional qualifications and experience. Nevertheless, in general, poor corporate governance practices still pose a risk to company performance in Nigeria.



Appendices

APPENDIX I

Company Profile

Nestle Nigeria (Nestle)

The Business - Value Chain

Nestle Nigeria, the biggest food and beverage company in Nigeria, operates in several different segments. Nestle Nigeria has limited exposure to FX effects on production materials. According to management, some 80% of agricultural input used is sourced locally. Currently, 100% of the grains and legumes used in Golden Morn are locally sourced, the malt in Milo is made from sorghum supplied by smallholder farmers who cultivate the grain in north western Nigeria as well as the soya used in Maggi.

Product portfolio

Nestle Nigeria manufactures 11 products in the Nigerian market which range from: Culinary; Dairy; Beverages; Coffee; Baby food; Chocolates; and water (see table below). The food segment (which includes culinary, chocolate and confectionary, and baby food) contributes 67% of revenues, while sales from the beverage segment account for the rest.

Nestle Nigeria product portfolio

Segment	Product	Variants
Culinary	Maggi Cubes	Star, Chicken, Shrimp, Naija Pot
	Maggi Mix'py	Golden beef, Tomato, Classic, and Garlic & Ginger
	Marvina seasoning powder	Chicken
Dairy	Nestle Carnation	Evaporated milk
	Nido	Nestle NIDO Fortified, Nestle NIDO NutriPAK
	Ideal Milk	Evaporated milk
Beverages	Milo	Milo powdered beverage
		Milo Ready-to-drink (RTD)
Chocolate and confectionary	Kit Kat	Chocolate bar
	Milo	Milo Energy Cubes
Cereals	Golden Morn	Golden morn maize cereal, Golden morn puff cereal
Coffee	Nescafe	NESCAFÉ Classic (Tin & Sachet), NESCAFÉ 3-in-1 mixes (32g)
Baby food	Cerelac	Wheat, Rice, Maize, 3 Fruits and Honey
	Nutrend	Maize & Soya
	Lactogen	Starter infant formula, Gentle start
	SMA	Gold, Pro, Follow-on milk, First infant milk
	NAN	Optipro, Comfort, Supreme,
Water	Nestle Pure Life	Nestle Pure Life

Source: Company, Coronation Research.

Flour Mills of Nigeria (FMN)

The Business - Value Chain

Flour Mills of Nigeria (FMN), with over 17 subsidiaries, aims to gain an edge through its integrated processes. The need to backwardly integrate to reduce dependence on imported materials remains one of the strategic initiatives of the group. The reduced dependence on imports is expected to shield the company from exchange rate fluctuations, tariffs and import barriers. To this end, the bulk of investments made recently have been in agriculture and infrastructure to aid sourcing of inputs and improve processes. According to the company, raw materials will be produced locally wherever possible to ensure that good quality products are developed through the full supply chain from growing to final consumer consumption – from farm to fork. The company's operations are broken into four main segments: Flour Milling; Agro-Allied; Logistics & Support; Sugar Value Chain.

Capacity and Positioning

The Nigerian flour milling industry is dominated by a few players. The top two players, FMN and Dangote Flour.

FMN product portfolio

Segment	Product	Variants
Foods	Golden Penny ball foods	Semovita, Garri, Masavita, Goldenvita
	Golden Penny sugar	Sugar cubes, granulated sugar
	Golden Penny pasta	Macaroni, Sphaghetini, Twists, Spaghetti
	Golden Penny instant noodles	Chicken flavor
	Golden Penny flour	Confectionary flour, prime flour, multi-purpose flour
	Snacks	Concentrated powdered drink, chin-chin, cheese balls
	Golden penny oils & spreads	Soya oil, pure vegetable oil, margarine, butter
Agro-Allied	Feeds	Animal feed, Concentrate, Mash
	Fertilizer	NPK, Urea
Logistics & Support	Bagco	Laminates, Rope, Thread, Webbing, Blown film, Carrier bags
Baby food	Cerelac	Wheat, Rice, Maize, 3 Fruits and Honey
	Nutrend	Maize & Soya
	Lactogen	Starter infant formula, Gentle start
	SMA	Gold, Pro, Follow-on milk, First infant milk
	NAN	Optipro, Comfort, Supreme,
Water	Nestle Pure Life	Nestle Pure Life

Source: Company, Coronation Research.

Unilever Nigeria (Unilever)

The Business - Value Chain

Unilever Nigeria controls sizeable market share in many of its product segments.

Looking at Unilever Nigeria's product portfolio, its offerings are skewed towards HPC, with 11 out of its 16 products in this segment

Product portfolio

Unilever Nigeria's products are segmented into Home and Personal care (HPC), and Food and Drink. The HPC segment includes sale of skin care products, and oral care products, while the Food and Drink Segment includes sale of tea, sauces, margarines and spreads, and cooking products such as liquid margarines. The average revenue contribution over the five years (2013 – 2017) was a 51%:49% split between HPC and Food and drinks segment.

There are currently 16 products in the Unilever Nigeria's portfolio.

Unilever Nigeria product portfolio

Segment	Product	Variants
Food and Drink		
Condiments	Knorr	Knorr Classic, Knorr Chicken
	Royco	Royco Beef & Royco Chicken
Spread	Blue Band	Low fat spread
Tea	Lipton	Yellow label tea, Green tea, Black tea
Home and Personal Care (HPC)		
Detergent	OMO	Multi-Active Detergent, OMO Auto machine liquid soap
	Sunlight	Sunlight washing powder, Sunlight dish washing liquid
Soap	LUX beauty soap	Bath bar soap
Cream	Fair & Lovely	Skin toning lotion
	Vaseline	Pure petroleum jelly, Gentle protective jelly, lip therapy
Oral Care	Close-UP toothpaste	Red hot, Naija herbal with aloe vera
	Pepsodent toothpaste	Cavity fighter, Expert protection
Deodorant/Sprays	AXE	Long lasting body sprays, roll ons
	Rexona	Long lasting body sprays, roll ons
	Lifebuoy	Anti-bacterial soap
	Geisha	Moisturising bath soap
Baby Products	Pears baby products	Moisturising cream, Moisturising oil, Bath soap

Source: Company, Coronation Research.

PZ Cussons Nigeria (PZ Cussons)

The Business - Value Chain

PZ Cussons Nigeria (PZ Cussons) manufactures, distributes and sells a range of consumer products such as detergents, soaps, cosmetics, medicaments, confectionery, refrigerators, freezers, air conditioners and home appliances, under various brand names. It also distributes the milk products of Nutricima Limited, Harefield Industrial Nigeria Limited, PZ Wilmar Limited and PZ Wilmar Food Limited. It operates in approximately 30 distribution depots across Nigeria with over 1,000 distributors.

PZ Cussons' revenues are broken into two distinct segments: branded consumer goods, or Home & Personal Care (HPC), and durable electrical appliances. This we further breakdown into: personal care, beauty, home care, food and nutrition, and electricals. The HPC segment, contributes about two thirds of revenues (73% as at 2018) while electrical goods account for the rest.

Capacity and Positioning

PZ Cussons' portfolio offerings are skewed towards consumer durable goods, which still generates the bulk of its revenues.

PZ Cussons Nigeria product portfolio

Segment	Product	Variants
Personal Care	Imperial Leather	Bar soap, Body wash, Roll Ons, Body spray, Body lotion
	Carex	Hand wash, Hand gel
	Cussons Baby	Cleansing, Hair Care, Skin Care and Gifting
	Premier	All-purpose bar soap
	Robb	Inhaler, Methyl balm
	Venus	Lotion
	Joy	Bath soap
Electricals	Cool world	
	Haier Thermocool	Refrigerators, Freezers, Air conditioner, Washing machines, Cookers, Generators, Stabilizers
Homecare	Zip	Detergent
	Morning Fresh	Liquid dishwashing soap
	Canoe	All-purpose bar soap
Food and Nutrition	Nunu	Evaporated milk, Instant filled milk powder
	Coast	Full cream evaporated milk
	Olympic	Filled evaporated milk, Instant full cream powdered milk
	Yo!	Yoghurt drink

Source: Company, Coronation Research.

APPENDIX II

Company Financial Forecasts

Nestle Nigeria (Nestle)

Nestle Nigeria CP&L Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
Revenue		181,911	244,151	266,275	295,565	326,210	360,040	397,386
Change		20%	34%	9%	11%	10%	10%	10%
Cost of Sales*		(102,101)	(138,416)	(143,838)	(164,372)	(180,856)	(198,110)	(219,991)
Grpss Profits		79,810	105,735	122,436	131,193	145,355	161,930	177,395
Change		11%	32%	16%	7%	11%	11%	10%
Margin		44%	43%	46%	44%	45%	45%	45%
Marketing and Distribution*		(27,580)	(33,860)	(41,219)	(45,377)	(47,130)	(52,659)	(57,923)
Change		12%	23%	22%	10%	4%	12%	10%
Administrative Expenses*		(8,040)	(9,691)	(9,222)	(12,357)	(13,293)	(14,853)	(16,337)
Change		9%	21%	-5%	34%	8%	12%	10%
Total Opex		(35,620)	(43,551)	(50,441)	(57,733)	(60,423)	(67,511)	(74,260)
Change		11%	22%	16%	14%	5%	12%	10%
EBITDA		44,190	62,184	71,995	73,459	84,931	94,419	103,135
Change		11%	41%	16%	2%	16%	11%	9%
EBITDA margin		24%	25%	27%	25%	26%	26%	26%
Depreciation		(5,976)	(6,486)	(11,355)	(6,887)	(7,587)	(8,287)	(8,986)
Amortization		-	-	-	-	-	-	-
Operating Profit		38,213	55,698	60,641	66,573	77,345	86,132	94,148
Change		13%	46%	9%	10%	16%	11%	9%
Margin		21%	23%	23%	23%	24%	24%	24%
Other Income		-	-	-	-	-	-	-
EBIT		38,213	55,698	60,641	66,573	77,345	86,132	94,148
Chnage		13%	46%	9%	10%	16%	11%	9%
EBIT Margin		21%	23%	23%	23%	24%	24%	24%
Interest Income		4,199	6,239	1,717	1,419	1,121	1,758	1,800
Interest Expense		(20,864)	(15,109)	(2,607)	(1,001)	(2,649)	(2,601)	(2,646)
Net Finance Income/ (Cost)		(16,665)	(8,870)	(890)	418	(1,528)	(843)	(846)
PBT		21,548	46,829	59,751	66,990	75,817	85,289	93,302
Change		-27%	117%	28%	12%	13%	12%	9%
Margin		12%	19%	22%	23%	23%	24%	23%
Tax		(13,623)	(13,105)	(16,743)	(20,097)	(22,745)	(25,587)	(27,991)
Effective tax rate		63%	28%	28%	30%	30%	30%	30%
Net Profits		7,925	33,724	43,008	46,893	53,072	59,702	65,312
Change		-67%	326%	28%	9%	13%	12%	9%
Margin		4%	14%	16%	16%	16%	17%	16%

Source: Company, Coronation Research. *Historic Cost of Sales, Marketing and Distribution expenses and Administrative expenses have been adjusted for Depreciation, while all historic Amortisation expenses have been allocated to Administrative expenses

Nestle Nigeria, balance sheet, Nm

Nestle Nigeria Balance Sheet Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
Property, plant & equip		70,172	72,378	73,366	78,479	80,892	82,606	83,619
Other receivables		1,678	1,921	2,237	2,237	2,237	2,237	2,237
Intangible Assets		-	-	-	-	-	-	-
Prepayments		-	-	3,997	3,997	3,997	3,997	3,997
Total Non- Current Assets		71,850	74,299	79,600	84,714	87,127	88,841	89,854
Inventories		20,638	23,910	23,124	34,518	37,980	41,603	43,998
Trade receivables		24,035	31,430	42,175	41,379	35,883	39,604	39,739
Other receivables & Prep		1,712	2,025	1,228	2,956	3,262	3,600	3,974
Amount due from related com- panies		-	-	-	-	-	-	-
Deposits for imports		-	-	-	-	-	-	-
Short-term investments		-	-	445	-	-	-	-
Cash and cash equivalents		51,351	15,139	15,762	12,458	19,536	19,998	21,895
Total Current Assets		97,736	72,505	82,734	91,311	96,661	104,806	109,606
Total Assets		169,586	146,804	162,334	176,024	183,788	193,646	199,460
Deferred Taxation		5,186	10,405	11,374	11,374	11,374	11,374	11,374
Provisions for gratuity		2,104	2,276	2,701	2,701	2,701	2,701	2,701
Loans and borrowings - Longterm		10,384	9,565	5,921	12,365	13,132	14,563	14,853
Total Non-Current Liabilities		17,674	22,245	19,996	26,440	27,207	28,638	28,928
Trade Payables		10,639	14,209	27,086	21,651	25,482	30,438	31,258
Other Payables		54,023	34,846	37,772	43,165	47,493	52,024	57,770
Loans and Borrowings - Short- term		40,130	10,913	1,026	6,720	4,961	2,631	1,321
Current Tax payable		15,490	15,099	23,630	23,630	23,630	23,630	23,630
Dividend payable		-	-	-	-	-	-	-
Bank Overdraft		155	3,714	1,394	2,989	3,586	4,856	5,123
Provisions		597	899	1,209	1,209	1,209	1,209	1,209
Amount due to related companies		-	-	-	-	-	-	-
Total Current Liabilities		121,033	79,680	92,118	99,364	106,361	114,788	120,311
Ordinary Share Capital		396	396	396	396	396	396	396
Share Premium		32	32	32	32	32	32	32
Share based reserve		126	147	155	155	155	155	155
Retained Earnings		30,323	44,302	49,637	49,637	49,637	49,637	49,637
Total Equity		30,878	44,878	50,220	50,220	50,220	50,220	50,220
Total libs & shrhldrs' funds		169,586	146,804	162,334	176,024	183,788	193,646	199,460

Source: Company, Coronation Research.

Nestle Nigeria, cash flow, Nm

Nestle Nigeria Cashflow Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
Operating profit('07-'09) / Net Profits from 2010		7,925	33,724	43,008	46,893	53,072	59,702	65,312
Taxation		13,623	13,105	16,743				
Interest Income		378	(2,299)	794				
Interest Expense								
Depreciation of fixed assets		5,976	6,486	11,355	6,887	7,587	8,287	8,986
Share based payment charge		85	79	80				
Reinstatement of previously impaired assets								
Write off of fixed assets								
Amortization of intangible assets								
Gain/(loss) on foreign exchange transactions		16,287	11,169	96				
Impact of foreign exchange difference on intercompany loans								
(Gain)/ loss on the disposal of fixed assets		42	(19)	359				
Curtailment gain on change in gratuity scheme								
Curtailment loss arising from restructuring exercise								
(Write back)/Provision for gratuity		(86)	556	699				
Provision for long service awards								
Changes in long term receivables								
(Increase)/decrease in long term debtors and prepayments								
Stock related exceptional items not involving cash movement								
		44,231	62,800					
Working Capital Changes								
(Increase)/decrease in inventories		(9,824)	(3,273)	786	(11,394)	(3,462)	(3,623)	(2,395)
Changes in long term receivables		(326)	(243)	(316)	-	-	-	-
(Increase)/decrease in Trade and other receivables + Prepayments		(776)	(7,709)	(10,270)	(932)	5,189	(4,060)	(508)
(Increase)/ Decrease in other receivables								
(Increase)/ Decrease in Non current Prepayments				(3,763)	-	-	-	-
(Increase)/decrease in deposits for imports								
(Increase)/decrease in short term investment				(260)	445	-	-	-
(Increase)/decrease in amount due from related companies								
Increase in amount due to related companies		33,052	(23,922)					
Increase/ (decrease) in other payables								
Increase/ (decrease) in Tax payables					-	-	-	-
Increase/ (decrease) in deferred taxation					-	-	-	-
Increase/ (decrease) in contract liabilities				472				
Increase/ (decrease) in refund liabilities				372				
Increase/ (decrease) in provision gratuity					-	-	-	-
Change in assets classified as held for sale								
Changes in provisions		(19)	302	310	-	-	-	-
Increase/ (decrease) in trade and other payables				21,696	(43)	8,159	9,487	6,566
Operating cash flow		66,338	27,956	82,161	41,857	70,546	69,793	77,961

Nestle Nigeria Cashflow Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
Gratuity Paid								
Long Service Awards paid		(192)	(384)	(73)				
Share based payment recharge paid		(109)	(58)	(274)				
VAT paid								
Tax paid		(4,551)	(8,277)	(7,195)				
Net Cash provided by operating activities		61,485	19,236	74,619	41,857	70,546	69,793	77,961
Purchase of fixed assets		(7,068)	(8,716)	(12,727)	(12,000)	(10,000)	(10,000)	(10,000)
Short term investments								
Purchase of intangible asset								
Proceeds from sale of fixed assets		26	43	26				
Interest received		4,199	6,239	1,717				
Net cashflow from investing activities		(2,843)	(2,433)	(10,984)	(12,000)	(10,000)	(10,000)	(10,000)
Free Cash Flow		58,642	16,803	63,635	29,857	60,546	59,793	67,961
Dividend paid		(20,081)	(11,429)	(44,554)	(46,893)	(53,072)	(59,702)	(65,312)
Interest paid		(2,090)	(7,289)	(2,478)				
(Decrease)/ Increase in bank overdraft								
Increase in long term loans		(1,503)	(1,503)	(1,115)	6,444	767	1,431	290
Repayments of borrowings		(4,364)	(41,241)	(12,544)				
Change in Short term loans					5,694	(1,760)	(2,330)	(1,309)
Proceeds from loans obtained- Intercom- pany loan		7,968	4,887					
Net cashflow from financing activities		(20,070)	(56,574)	(60,691)	(34,756)	(54,065)	(60,601)	(66,331)
Net Increase/(Decrease) in cash and cash equivalent		38,572	(39,772)	2,944	(4,899)	6,481	(808)	1,630
Cash and Cash equivalents, beginning of the year		12,625	51,197	11,425	14,368	9,469	15,950	15,142
Cash and Cash equivalents , 31st December		51,197	11,425	14,368	9,469	15,950	15,142	16,772
Short-term bank overdraft		155	3,714	1,394	2,989	3,586	4,856	5,123
Total Cash and Cash equivalents		51,351	15,139	15,762	12,458	19,536	19,998	21,895

Source: Company, Coronation Research.

FMN Nigeria, profit and loss account, Nm

Flour Mills of Nigeria P&L Nm	YE: March	2016	2017	2018	2019e	2020f	2021f	2022f
Sales		342,586	524,464	542,670	532,989	553,975	595,697	630,638
change		11%	53%	3%	-2%	4%	8%	6%
Cost of Sales		(292,810)	(444,997)	(459,082)	(460,825)	(473,932)	(509,195)	(533,628)
Gross Profit		49,777	79,467	83,588	72,164	80,043	86,502	97,011
Margin		15%	15%	15%	14%	14%	15%	15%
Distribution		(4,719)	(4,695)	(6,180)	(5,330)	(5,540)	(5,957)	(6,306)
Administration		(13,593)	(16,041)	(17,313)	(15,990)	(16,619)	(17,871)	(18,919)
Other operating income		16,011	(1,488)	5,943	6,240	6,553	6,880	7,224
EBITDA		47,476	57,243	66,038	57,085	64,436	69,555	79,009
EBITDA margin		14%	11%	12%	11%	12%	12%	13%
Depreciation		(14,692)	(15,803)	(17,615)	(20,912)	(24,236)	(27,810)	(31,594)
Amortisation		0	0	0	0	0	0	0
Operating Profit		32,784	41,440	48,423	36,173	40,201	41,745	47,416
Operating margin		10%	8%	9%	7%	7%	7%	8%
Other Income		0	0	0	-	-	-	-
Profit on disposal of fixed assets		0	0	0	0	0	0	0
EBIT		32,784	41,440	48,423	36,173	40,201	41,745	47,416
EBIT margin		10%	8%	9%	7%	7%	7%	8%
Interest Income		1,103	1,562	816	772	1,396	1,499	1,661
Interest Expense		(22,398)	(32,529)	(32,697)	(22,516)	(25,730)	(25,874)	(28,174)
Net finance cost		(21,294)	(30,967)	(31,881)	(21,744)	(24,333)	(24,375)	(26,513)
change		40%	45%	3%	-32%	12%	0%	9%
% of sales		-2%	-2%	-2%	-2%	-2%	-2%	-2%
Exceptional items		-	-					
Profit Before Taxation		11,489	10,473	16,542	14,430	15,867	17,370	20,903
Taxation		2,931	(1,636)	(2,926)	(2,164)	(2,380)	(2,606)	(3,135)
Tax rate		-26%	16%	18%	15%	15%	15%	15%
Net Profits		14,420	8,836	13,616	12,265	13,487	14,765	17,768
Margin		4%	2%	3%	5%	4%	3%	3%

Source: Company, Coronation Research.

FMN Nigeria, balance sheet, Nm

Flour Mills of Nigeria Balance Sheet Nm	YE: March	2016	2017	2018	2019e	2020f	2021f	2022f
Property, plant & equip		211,588	216,866	217,901	244,959	270,581	296,384	321,548
Investments		3,773	3,633	3,516	3,762	4,025	4,307	4,608
Deferred tax assets		66	1,847	6,460	6,783	7,122	7,478	7,852
Intangible Assets		735	208	1,095	1,150	1,208	1,268	1,331
Goodwill on acquisition		4,148	4,148	4,148	4,148	4,148	4,148	4,148
Long-term loans and Receivables		0	989	944	992	1,041	1,093	1,148
Deposit for shares		0	0	0	0	0	0	0
Biological Asset		352	29	38	39	41	42	44
Other long-term assets		0	0	0	0	0	0	0
Total Non-current Assets		220,662	227,720	234,102	261,832	288,165	314,720	340,679
Current Assets								
Stocks		58,699	117,296	111,373	113,628	114,263	119,975	122,807
Biological assets		183	558	180	192	206	220	235
Trade debtors		12,735	16,032	13,208	14,602	13,660	13,056	12,094
Amount due (rel. companies)		0	0	473	473	473	473	473
Other debtors and prepayments		6,231	5,371	5,402	5,111	4,553	4,896	3,456
Cash and bank deposits		33,213	45,019	22,245	40,235	43,202	47,856	64,230
Other assets		0	756	0	0	0	0	0
Prepayments		13,625	69,851	21,364	26,284	24,284	24,481	22,461
Total current Assets		124,686	254,883	174,246	200,526	200,640	210,957	225,757
Total Assets		345,348	482,603	408,348	462,358	488,805	525,677	566,436
Trade creditors		38,494	82,735	46,586	69,439	81,802	90,679	99,416
Bank Overdrafts		16,413	49,024	19,934	21,329	22,822	24,420	26,129
Term loans		100,830	141,702	103,923	111,343	114,700	125,617	135,384
Current portion of bond		0	0	0	0	0	0	0
Amount due (Subsidiaries)		0	0	0	0	0	0	0
Amount due (Rel. companies)		0	0	0	0	0	0	0
Taxation		1,336	2,136	3,151	3,284	3,422	3,565	3,715
Other creditors		11,923	11,832	10,407	10,407	10,407	10,407	10,407
Dividend payable		1,937	2,032	2,006	2,074	2,145	2,217	2,293
Deferred revenue		1,076	2,089	2,579	2,647	2,717	2,789	2,863
Provisions		0	0	0	0	0	0	0
Customer Deposits		11,030	12,453	11,202	11,383	11,568	11,755	11,946
Derivative Liabilities		0	3,493	0	0	0	0	0
Total current liabilities		183,039	307,497	199,788	231,907	249,583	271,449	292,152
Deferred taxation		5,768	7,819	12,308	12,633	12,967	13,309	13,661
Term loans		48,010	50,879	29,376	40,982	38,480	41,177	46,512
Bond		0	0	0	0	0	0	0
Gratuity		4,078	3,676	5,194	5,194	5,194	5,194	5,194
Deferred revenue		7,094	8,618	9,117	9,265	9,415	9,568	9,723
Long service award		1,594	1,569	1,948	1,948	1,948	1,948	1,948
Total Long term liabilities		66,543	72,562	57,943	70,022	68,004	71,197	77,039

Flour Mills of Nigeria Balance Sheet Nm	YE: March	2016	2017	2018	2019e	2020f	2021f	2022f
Total liabilities		249,583	380,059	257,731	301,929	317,587	342,646	369,191
Share capital		1,312	1,312	2,050	2,050	2,050	2,050	2,050
Share premium		36,813	36,813	75,377	75,377	75,377	75,377	75,377
Other reserves		-90	-111	-73	-73	-73	-73	-73
Retained Earnings		54,901	60,451	67,904	77,716	88,506	100,317	114,531
Total shrhldrs' funds		92,936	98,464	145,259	155,071	165,861	177,673	191,887
Minority		2,830	4,080	5,358	5,358	5,358	5,358	5,358
Total equity		95,766	102,544	150,617	160,429	171,219	183,030	197,244
Total Liabilities and Shareholders' funds		345,348	482,603	408,348	462,358	488,805	525,677	566,436

Source: Company, Coronation Research.

FMN Nigeria, cash flow, Nm

Flour Mills of Nigeria Cashflow Nm	YE: March	2016	2017	2018	2019e	2020f	2021f	2022f
CASHFLOW FROM OPERATING ACTIVITIES								
Profit after tax		14,420	8,836	13,616	12,265	13,487	14,765	17,768
Add: Depreciation		14,692	15,803	17,495	20,912	24,236	27,810	31,594
+/- Net interest expense/income		21,294	30,967	31,881	21,744	24,333	24,375	26,513
Other adjustments		(12,222)	5,687	3,046				
		38,185	61,294	66,038	54,921	62,056	66,949	75,874
Changes in Working Capital:								
Stocks		9,727	(58,597)	4,754	(2,255)	(635)	(5,712)	(2,833)
Trade Debtors		(2,899)	(3,426)	1,883	(1,394)	943	603	962
Other debtors & prepayments		1,006			291	558	(343)	1,441
Due from related companies		0	0		0	0	0	0
change in other current assets		(5,577)	(56,202)	48,556	(4,933)	1,987	(211)	2,004
Trade Creditors		16,054	44,241	(39,870)	22,853	12,363	8,877	8,737
Other Creditors and accruals		(215)	(91)		0	0	0	0
Due to related companies								
Taxation								
other liabilities		2,493	3,961	(218)	318	325	332	340
Net Cashflow from Operating Activities		58,774	(8,820)	81,142	69,801	77,596	70,495	86,525
Income tax paid		(630)	(621)	(1,307)				
Long service award benefit paid		(65)	(99)	(191)				
Retirement benefit paid		(662)	(230)	(341)				
Foreign exchange loss		(6,544)	(5,795)	1,283				
Net cash (used in)/ generated from operating activities		50,873	(15,566)	80,586	69,801	77,596	70,495	86,525
CASHFLOW FROM INVESTING ACTIVITIES								
Purchase of Fixed Assets		(24,116)	(22,539)	(21,399)	(47,969)	(49,858)	(53,613)	(56,757)
Proceeds from sale of PPE & Biological assets		389	2,419	3,336				
Interest received		1,103	1,562	816	772	1,396	1,499	1,661
Acquisition of intangible assets		(16)	(42)	(13)	(55)	(58)	(60)	(63)
Acquisition of investment property		0	(10)	0	(246)	(263)	(282)	(301)
Acquisition of biological assets				(27)	(1)	(1)	(2)	(2)
Long-term loans and Receivables				0	(47)	(50)	(52)	(55)
Suppliers' credit obtained								
Net proceeds from sale of investment in associate		27,267						
Net loans received from / (granted to) related companies		3,904						
Net Cashflow from Investing Activities		8,532	(18,609)	(17,287)	(47,547)	(48,833)	(52,509)	(55,518)
Free Cash Flow (Cash Flow Available for Financing Activities)		67,306	(27,429)	63,298	22,255	28,763	17,986	31,007

Flour Mills of Nigeria Cashflow Nm	YE: March	2016	2017	2018	2019e	2020f	2021f	2022f
CASHFLOW FROM FINANCING ACTIVITIES								
Share Capital			0	738	0	0	0	0
Share Premium			0	38,565	0	0	0	0
Dividends Paid		(3,689)	(2,971)	(2,839)	(2,453)	(2,697)	(2,953)	(3,554)
Interest paid		(22,398)	(29,037)	(32,697)	(22,516)	(25,730)	(25,874)	(28,174)
Increase/decrease in LT gratuity provisions					0	0	0	0
Change in borrowings		39,340	43,741	(59,282)	19,026	855	13,614	15,102
change in taxation					135	133	130	128
change in other long term liabilities				(1,467)	148	150	153	155
Bank Overdraft Borrowings / (Repayment)					1,395	1,493	1,598	1,709
Movement in Long-term debt issuance		(19,248)						
Net Cashflow from Financing Activities		(5,995)	11,733	(56,982)	(4,265)	(25,796)	(13,332)	(14,633)
Net Change in Cash		53,410	(22,442)	6,317	17,990	2,967	4,654	16,374
Effect of exchange rate changes on balance of cash held in foreign currency								
Cash and Bank Balance (Beginning)		(33,679)	19,731	(4,005)	22,245	40,235	43,202	47,856
Cash and Bank Balance (Ending)		19,731	(2,711)	2,311	40,235	43,202	47,856	64,230
Overdraft		16,413	49,024	19,934				
Total Cash and cash equivalents		36,144	46,313	22,245	40,235	43,202	47,856	64,230

Source: Company, Coronation Research.

Unilever Nigeria, profit and loss account, Nm

Unilever Nigeria P&L Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
Revenue		69,777	85,193	92,900	102,399	113,228	125,408	136,497
change		18%	22%	9%	10%	11%	11%	9%
Cost of Sales*		(47,746)	(54,605)	(62,671)	(67,584)	(74,730)	(81,515)	(88,723)
Gross Profits		22,031	30,589	30,229	34,816	38,497	43,893	47,774
change		-2%	39%	-1%	15%	11%	14%	9%
margin		32%	36%	33%	34%	34%	35%	35%
Selling & Distribution*		(2,688)	(2,971)	(3,705)	(3,584)	(3,963)	(4,389)	(4,777)
change		9%	11%	25%	-3%	11%	11%	9%
Marketing & Administrative Expenses*		(11,565)	(11,037)	(14,346)	(12,288)	(13,587)	(14,422)	(15,697)
change		0%	-5%	30%	-14%	11%	6%	9%
Total Opex		(14,254)	(14,008)	(18,051)	(15,872)	(17,550)	(18,811)	(20,475)
change		1%	-2%	29%	-12%	11%	7%	9%
EBITDA		7,777	16,581	12,179	18,944	20,947	25,082	27,299
change		-8%	113%	-27%	56%	11%	20%	9%
margin		11%	19%	13%	19%	19%	20%	20%
Depreciation		(2,313)	(4,099)	(2,672)	(5,093)	(5,909)	(6,811)	(7,794)
Amortization		(233)	(234)	(233)	(66)	(57)	(49)	(42)
Operating Profit		5,230	12,248	9,273	13,784	14,982	18,221	19,463
change		-17%	134%	-24%	49%	9%	22%	7%
margin		7%	14%	10%	13%	13%	15%	14%
Other Income		124	(17)	236	260	288	319	347
EBIT		5,355	12,231	9,509	14,045	15,270	18,540	19,810
change		-16%	128%	-22%	48%	9%	21%	7%
margin		8%	14%	10%	14%	13%	15%	15%
Interest Income		1,028	1,565	4,027	2,857	2,899	3,093	3,392
Interest Expense		(2,726)	(3,201)	(603)	(1)	(251)	(171)	(297)
Net Finance Income/(Cost)		(1,699)	(1,635)	3,424	2,857	2,648	2,922	3,095
Exceptional items		-	1	(311)	-	-	-	-
Pension and Similar Obligation		-	-	-	-	-	-	-
PBT		3,656	10,596	12,622	16,901	17,918	21,462	22,905
change		5%	190%	19%	34%	6%	20%	7%
margin		5%	12%	14%	17%	16%	17%	17%
Tax		(1,035)	(3,526)	(3,490)	(5,070)	(5,375)	(6,439)	(6,872)
Effective tax rate		28%	33%	28%	30%	30%	30%	30%
PAT		2,621	7,070	9,132	11,831	12,542	15,023	16,034
change		-10%	170%	29%	30%	6%	20%	7%
margin		4%	8%	10%	12%	11%	12%	12%

Source: Company, Coronation Research. *Historic Cost of Sales, Marketing and Distribution expenses and Administrative expenses have been adjusted for Depreciation, while all historic Amortisation expenses have been allocated to Administrative expenses

Unilever Nigeria, balance sheet, Nm

Unilever Nigeria Balance Sheet Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
Property, plant & equip		29,272	29,881	29,678	31,752	32,637	33,350	33,746
Employee loan receivables		112	130	66	66	66	66	66
Intangible Assets		940	706	448	382	325	277	234
Non-current asset held for sale		0	0	0	0	0	0	0
Other non current assets		140	79	48	48	48	48	48
Pension scheme surplus		485	329	293	293	293	293	293
Total Non- Current Assets		30,949	31,126	30,533	32,542	33,370	34,034	34,388
Assets held for sale		171	0	0	0	0	0	0
Inventories		9,878	11,479	13,929	13,517	14,946	16,303	17,745
Trade receivables		18,946	27,907	30,188	33,792	37,365	41,385	45,044
Employee loans receivables		73	79	49	49	49	49	49
Cash and cash equivalents		12,474	50,494	57,144	57,985	61,855	67,845	74,230
Total Current Assets		41,543	89,959	101,310	105,342	114,215	125,582	137,068
Total Assets		72,491	121,084	131,843	137,884	147,585	159,616	171,455
Deferred Taxation		3,942	4,485	3,652	3,652	3,652	3,652	3,652
Provisions for gratuity		2,613	3,454	2,021	2,021	2,021	2,021	2,021
Long service award obligations		181	206	210	210	210	210	210
Other employee benefits		74	86	-	-	-	-	-
Deferred income		63	30	-	-	-	-	-
Loans and borrowings - Longterm		414	220	4	699	700	701	702
Total Non-Current Liabilities		7,288	8,481	5,887	6,582	6,583	6,584	6,585
Trade Payables		32,477	33,409	38,611	37,171	41,102	44,834	48,798
Loans and Borrowings - Short-term		20,501	455	0	870	368	1,155	1,012
Current Tax payable		503	2,799	4,556	4,556	4,556	4,556	4,556
Bank Overdraft		0	0	0	0	0	0	0
Provisions		0	0	0	0	0	0	0
Deferred Income		33	33	0	0	0	0	0
Total Current Liabilities		53,513	36,695	43,167	42,597	46,026	50,544	54,366
Ordinary Share Capital		1,892	2,873	2,873	2,873	2,873	2,873	2,873
Share Premium		46	56,813	56,813	56,813	56,813	56,813	56,813
Retained Earnings		9,753	16,223	23,104	29,020	35,291	42,803	50,819
Total Equity		11,690	75,908	82,790	88,705	94,976	102,488	110,505
Total libs & shrhldrs' funds		72,491	121,084	131,843	137,884	147,585	159,616	171,455

Source: Company, Coronation Research.

Unilever Nigeria, Cashflow, Nm

Unilever Nigeria Cashflow Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
PBT		4,106	11,207	14,853	16,901	17,918	21,462	22,905
Taxation		-	-	-	-	-	-	-
Interest Income		(333)	(1,304)	(3,452)	(2,857)	(2,899)	(3,093)	(3,392)
Interest Expense		2,721	1,168	(37)	1	251	171	297
Depreciation of fixed assets		2,313	4,099	2,672	5,093	5,909	6,811	7,794
Inventory write down		-	-	75	-	-	-	-
Net impairment charge/(Write-back)		-	-	-	-	-	-	-
Write off of fixed assets		3	-	-	-	-	-	-
Amortization of intangible assets		234	234	257	66	57	49	42
Net charge in retirement benefit obligation		709	564	692	-	-	-	-
Impact of foreign exchange difference on intercompany loans		(510)	593	-	-	-	-	-
(Gain)/ loss on the disposal of fixed assets		(8)	18	(160)	-	-	-	-
change in employee loan receivable		29	(25)	95	-	-	-	-
(Gain) on sale of discontinued operations		-	-	(1,971)	-	-	-	-
Impairment on intercompany receivables		-	-	(1,351)	-	-	-	-
Restructuring provision		-	-	-	-	-	-	-
(Write back)/Provision for gratuity		-	-	-	-	-	-	-
Provision for long service awards		(68)	46	35	-	-	-	-
Statute barred dividend		(14)	12	-	-	-	-	-
Other employee benefits		-	(286)	(86)	-	-	-	-
Changes in long term receivables		-	-	-	-	-	-	-
(Increase)/decrease in long term debtors and prepayments		61	79	-	-	-	-	-
Stock related exceptional items not involving cash movement		-	-	-	-	-	-	-
Working Capital Changes		-	-	-	-	-	-	-
(Increase)/decrease in inventories		(3,705)	(1,600)	(2,450)	412	(1,429)	(1,357)	(1,442)
(Increase)/decrease in Trade receivables		(8,803)	(8,676)	(2,567)	(3,604)	(3,573)	(4,020)	(3,659)
(Increase)/ Decrease in other receivables		-	-	-	-	-	-	-
(Increase)/decrease in other non-current assets		69	61	31	-	-	-	-
(Increase)/decrease in amount due from related companies		-	-	-	-	-	-	-
(Increase)/ decrease in Short-term investments		-	-	-	-	-	-	-
Increase/ (decrease) in amount due to related companies		-	-	-	-	-	-	-
Increase/ (decrease) in trade payables		9,931	932	5,202	(1,440)	3,931	3,732	3,964
Increase/ (decrease) in other payables		-	-	-	-	-	-	-
Increase/ (decrease) in dividend payable		-	-	-	-	-	-	-
Increase/ (decrease) in deferred income		-	-	-	-	-	-	-
Changes in Short term provisions		-	-	-	-	-	-	-
Increase/ (decrease) in current tax payables		-	-	-	-	-	-	-

Unilever Nigeria Cashflow Nm	YE: December	2016	2017	2018	2019e	2020f	2021f	2022f
Retirement Benefit Paid		(567)	(568)	(1,913)				
Long service award obligations paid		(17)	(21)	(31)				
Tax paid		(159)	(598)	(3,001)	(5,070)	(5,375)	(6,439)	(6,872)
Net Cash provided by operating activities		5,991	5,935	6,893	9,502	14,788	17,317	19,638
Purchase of fixed assets		(4,228)	(4,559)	(5,396)	(7,168)	(6,794)	(7,525)	(8,190)
Short term investments		-	-	-	0	0	0	0
Purchase of intangible asset		(5)	-	-				
Proceeds from sale of fixed assets		17	5	5,057				
Interest received		333	1,304	3,554	2,857	2,899	3,093	3,392
Net cashflow from investing activities		(3,883)	(3,251)	3,216	(4,311)	(3,894)	(4,432)	(4,798)
Free Cash Flow		1,762	1,376	10,109	5,192	10,893	12,885	14,841
Dividend paid		(186)	(378)	(2,873)	(5,915)	(6,271)	(7,512)	(8,017)
Interest paid		-	57,748	(26)	(1)	(251)	(171)	(297)
Increase/ (decrease) in bank overdraft		-	-	-	-	-	-	-
Increase/(decrease) in long-term loans		15,491	17,529	-	695	1	1	1
Repayments of Long term loan		(2,410)	(1,113)	-				
Change in long-term deferred taxes					-	-	-	-
Change in provisions					-	-	-	-
Increase/(decrease) in Short term loans		(427)	(33,451)	(561)	870	(502)	786	(143)
Net cashflow from financing activities		12,468	40,335	(3,459)	(4,351)	(7,023)	(6,895)	(8,456)
Net Increase/(Decrease) in cash and cash equivalent		14,575	43,019	6,651	841	3,870	5,990	6,385
Cash and Cash equivalents, beginning of the year		(7,100)	7,474	50,494	57,144	57,985	61,855	67,845
Bank Overdrafts								
Short Term Loans		5,000	-					
Cash and Cash equivalents, 31st December		12,474	50,494	57,144	57,985	61,855	67,845	74,230

Source: Company, Coronation Research.

PZ Cussons, profit and loss account, Nm

PZ Cussons Nigeria P&L Nm	YE: May	2016	2017	2018	2019e	2020f	2021f	2022f
Revenue		69,528	78,216	80,553	76,525	78,129	79,791	82,080
change		-5%	12%	3%	-5%	2%	2%	3%
Cost of Sales*		(47,710)	(47,944)	(53,540)	(55,098)	(57,034)	(58,247)	(59,919)
Gross Profits		21,818	30,272	27,013	21,427	21,095	21,544	22,162
change		-1%	39%	-11%	-21%	-2%	2%	3%
margin		31%	39%	34%	28%	27%	27%	27%
Selling and Distribution*		(8,395)	(9,096)	(9,602)	(9,948)	(9,375)	(9,575)	(9,850)
change		-5%	8%	6%	4%	-6%	2%	3%
Administrative Expenses*		(5,135)	(5,637)	(6,626)	(6,505)	(6,250)	(6,383)	(6,566)
change		15%	10%	18%	-2%	-4%	2%	3%
Total Opex		(13,530)	(14,733)	(16,228)	(16,453)	(15,626)	(15,958)	(16,416)
change		2%	9%	10%	1%	-5%	2%	3%
Operating Profit		8,288	15,539	10,785	4,974	5,469	5,585	5,746
change		-5%	87%	-31%	-54%	10%	2%	3%
margin		12%	20%	13%	7%	7%	7%	7%
Other Income		286	199	129	269	313	319	328
EBITDA		8,574	15,738	10,914	5,243	5,782	5,905	6,074
change		-3%	84%	-31%	-52%	10%	2%	3%
margin		12%	20%	14%	7%	7%	7%	7%
Depreciation		(2,155)	(2,324)	(2,557)	(2,778)	(3,091)	(3,410)	(3,738)
Amortization		-	-	-	-	-	-	-
EBIT		6,419	13,414	8,357	2,464	2,691	2,494	2,336
change		-5%	109%	-38%	-71%	9%	-7%	-6%
margin		9%	17%	10%	3%	3%	3%	3%
Interest Income		210	486	181	570	640	732	692
Interest Expense		(598)	(290)	(832)	(371)	(451)	(735)	(758)
Net Finance Income/(Cost)		(387)	195	(652)	199	188	(3)	(66)
Exceptional income/(loss)		(2,884)	(8,798)	(5,392)				
PBT		3,148	4,811	2,314	2,664	2,879	2,491	2,269
change		-52%	53%	-52%	15%	8%	-13%	-9%
margin		5%	6%	3%	3%	4%	3%	3%
Tax		(1,019)	(1,125)	(386)	(799)	(806)	(698)	(635)
Effective tax rate		32%	23%	17%	30%	28%	28%	28%
PAT		2,130	3,687	1,927	1,865	2,073	1,794	1,634
change		-53%	73%	-48%	-3%	11%	-13%	-9%
margin		3%	5%	2%	2%	3%	2%	2%

PZ Cussons Nigeria P&L Nm	YE: May	2016	2017	2018	2019e	2020f	2021f	2022f
Minority Interest		267	363	82	425	448	-	-
PAT (Less Minority Interest)		1,863	3,324	1,845	1,440	1,625	1,794	1,634
change		-54%	78%	-44%	-22%	13%	10%	-9%
margin		3%	4%	2%	2%	2%	2%	2%

Source: Company, Coronation Research. *Historic Cost of Sales, Marketing and Distribution expenses and Administrative expenses have been adjusted for Depreciation, while all historic Amortisation expenses have been allocated to Administrative expenses

PZ Cussons, balance sheet, Nm

PZ Cussons Nigeria Balance Sheet Nm	YE: May	2016	2017	2018	2019e	2020f	2021f	2022f
Property, plant & equip		26,505	28,514	28,430	29,478	30,294	30,873	31,239
Invesments in subsidiaries		-	-	24	24	24	24	24
Intangible Assets			1,017	954	954	954	954	954
Total Non- Current Assets		26,505	29,532	29,408	30,456	31,272	31,851	32,217
Inventories		19,278	28,710	26,040	26,797	27,739	28,329	29,142
Trade receivables		6,195	6,579	8,127	7,079	7,555	7,548	7,851
Other receivables & Prep		9,392	9,093	6,926	7,738	7,309	7,767	7,834
Deposits for letters of Credit		192	6,602	2,337	3,137	3,937	4,737	5,537
Cash and cash equivalents		12,868	8,022	14,260	15,996	18,294	17,300	17,153
Other assets		-	1,550	1,518	1,518	1,518	1,518	1,518
Total Current Assets		47,925	60,556	59,208	62,265	66,351	67,198	69,034
Total Assets		74,430	90,088	88,616.0	92,721	97,623	99,049	101,251
Deferred Taxation		3,694	2,399	2,422	2,367	2,267	2,167	2,067
Long-term Borrowing		-	-	-	-	-	-	-
Provisions		238	184	104	204	304	404	504
Total Non-Current Liabilities		3,932	2,584	2,525	2,570	2,570	2,570	2,570
Short-term Borrowing		-	-	235	354	678	596	911
Trade Payables		2,127	5,431	2,585	6,038	6,250	6,383	6,566
Other Payables		23,589	34,293	37,620	35,122	38,216	38,079	39,660
Current Tax Payable		1,290	2,555	458	2,892	3,547	4,301	3,612
Provisions		90	88	84	204	334	554	874
Total Current Liabilities		27,096	42,366	40,982	44,610	49,025	49,913	51,624
Ordinary Share Capital		1,985	1,985	1,985	1,985	1,985	1,985	1,985
Share Premium		6,878	6,878	6,878	6,878	6,878	6,878	6,878
Retained Earnings		32,037	33,409	33,298	33,730	34,217	34,756	35,246
Shareholders' funds		40,901	42,273	42,161	42,593	43,081	43,619	44,109
Minority Interest		2,502	2,865	2,947	2,947	2,947	2,947	2,947
Total Equity		43,403	45,138	45,109	45,541	46,028	46,566	47,056
Total libs & shrhldrs' funds		74,430	90,088	88,616	92,721	97,623	99,049	101,251

Source: Company, Coronation Research..

PZ Cussons, cash flow, Nm

PZ Cussons Nigeria Cash flow Nm	YE: May	2016	2017	2018	2019e	2020f	2021f	2022f
PAT		3,148	4,811	2,314	1,440	1,625	1,794	1,634
Depreciation		2,155	2,324	2,663	2,778	3,091	3,410	3,738
Inter Company Transfer of Fixed Assets		-	-	-				
(Profit)/loss on disposal of Fixed Assets		(25)	(5)	-				
Fixed Assets Written Off		10	-	-				
Unclaimed Dividend Forfeited		23	34	29				
Interest Expense		598	290	832	371	451	735	758
(Interest Income)		(210)	(486)	(181)	(570)	(640)	(732)	(692)
Working Capital Changes								
(Increase)/ Decrease in Trade receivables		2,325	(2,835)	594	1,048	(476)	7	(303)
Decrease/(increase) in other assets			1,200	32				
(Increase)/ Decrease in other receivables		-	-	-	(812)	429	(457)	(68)
(Increase)/ Decrease in deposit for letters of Credit		725	(6,410)	4,265	(800)	(800)	(800)	(800)
(Increase)/ Decrease in Inventories		1,734	(9,431)	2,670	(758)	(942)	(590)	(813)
(Increase)/ Decrease due from related companies		-	-	-				
Increase/ (Decrease) in trade payables		-	-	-	3,453	212	133	183
Increase/ (Decrease) in other payables		7,903	13,952	398	(2,498)	3,093	(137)	1,581
Increase/ (Decrease) in due from related parties		-	-	-				
Increase/ (Decrease) in Provisions		-	-	-	120	130	220	320
Operating Cash		18,385	3,444	13,617	3,773	6,175	3,583	5,540
VAT Paid								
Tax Paid		(1,610)	(1,154)	(2,461)	2,434	655	754	(688)
Net cash generated from operating activities		16,776	2,291	11,155	6,207	6,830	4,336	4,851
Purchase of Fixed Assets		(3,454)	(4,333)	(2,473)	(3,826)	(3,906)	(3,990)	(4,104)
Purchase of intangible Assets			(1,017)	(42)				
Proceeds from Sale of Fixed Assets		27	5	-				
Interest Income		210	486	181	570	640	732	692
Net cash used in investing activities		(3,217)	(4,860)	(2,335)	(3,256)	(3,267)	(3,258)	(3,412)
Free Cash Flow		13,322	(2,043)	8,682	2,381	2,923	347	747
Dividend Paid to equity holders of parent		(2,422)	(1,985)	(1,985)	(1,008)	(1,138)	(1,256)	(1,144)
Dividend Paid to non-controlling Interest		-	-	-				
Interest Expense		(598)	(290)	(832)	(371)	(451)	(735)	(758)
Change in short-term debt					119	324	(82)	316
Change in long-term debt								
Change in long-term provisions					100	100	100	100

PZ Cussons Nigeria Cash flow Nm	YE: May	2016	2017	2018	2019e	2020f	2021f	2022f
Change in long-term deferred taxes					(55)	(100)	(100)	(100)
Net Cash used in financing activities		(3,020)	(2,276)	(2,818)	(1,215)	(1,265)	(2,073)	(1,586)
Net Increase/(decrease) in cash and cash equivalents		10,539	(4,845)	6,003	1,736	2,298	(994)	(147)
Cash and Cash Equivalent at 1 June		2,328	12,868	8,022	14,260	15,996	18,294	17,300
short-term borrowing		-	-	235				
Cash and Cash Equivalent at 31 May		12,868	8,022	14,260	15,996	18,294	17,300	17,153

Source: Company, Coronation Research..

APPENDIX III

The Ajayi's Diet

The Ajayi's Diet

Three meals per day, for two

The Ajajis are hearty eaters, which is not surprising given the amount of physical work they do - both of them are on their feet all day at work. They have varied diet which reflects Nigeria's agricultural productivity and culinary diversity. Here we present their weekly menu (the midday meals are carried to work for consumption). In Appendix IV we break down their weekly menu into all the items they need to buy.

Daily menu of married couple working in Lagos

Period	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
Morning	1. Egusi soup	1. Two loaves of bread	1. Efo riro with smoked fish	1. Porridge beans	1. Two loaves of bread	1. Akara	1. Two loaves of bread
	2. Smoked fish	2. Two hard boiled eggs	2. Eba	2. Fried plantain	2. Beef stew	2. Pap	2. Two hard boiled eggs
	2. Eba						3. Two cups of tea
Afternoon	1. Boiled white rice	1. Fried yam	1. Soaked garri	1. Boiled plantain	1. Jollof spaghetti	1. Fried rice	1. Jollof rice
	2. Beef stew	2. Beef stew	2. Sugar	2. Efo riro	2. Two hard boiled eggs	2. Fried beef	2. Fried plantain
			3. Milk	3. Smoked fish		3. Stew	3. Fried beef
Evening	1. Soaked garri	1. Three packs of noodles	1. Jollof spaghetti	1. Boiled yam (salted)	1. Beans porridge	1. Soaked garri	1. Three packs of noodles
	2. Sugar		2. Two hard boiled eggs	2. Palm oil stew	2. Boiled yam	2. Sugar	2. Smoked fish
	3. Milk				3. Smoked fish	3. Milk	

Source: Company, Coronation Research.

APPENDIX IV

The Ajayi's Weekly Consumption

Daily consumption of married couple working in Lagos

Food Item	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Weekly Consumption
Cooking oil	250ml	600ml	n/a	n/a	n/a	n/a	n/a	850ml
Salt	Two tea spoons	One tea spoon	Two tea spoons	Three tea spoons	Three tea spoons	Three tea spoons	One tea spoon	15 teaspoons
Seasoning cube/powder	Two seasoning cubes	Two seasoning cubes	One seasoning cubes	Two seasoning cubes	Two seasoning cubes	One seasoning cubes	Two seasoning cubes	12 seasoning cubes
Drinking water	Eight sachets	Eight sachets	Eight sachets	Eight sachets	Eight sachets	Eight sachets	Eight sachets	56 sachets
Sugar	Three tea spoons	n/a	Three tea spoons	n/a	n/a	Three tea spoons	n/a	9 tea spoons (36g)
Milk	Three table spoons	n/a	Three table spoons	n/a	n/a	Three table spoons	n/a	9 table spoons (135g)
Tomato puree	Half sachet	Half sachet	Half sachet	n/a	Half sachet	n/a	Half Sachet	2.5 sachets (175g)
Pepper	Three peppers	Three peppers	Three peppers	Three peppers	Three peppers	Three peppers	Three peppers	23 peppers
Onions	One bulbs	One bulb	One bulb	One bulb	One bulb	One bulb	one bulb	Seven bulbs (c. 7g)
Tomato	Three plum tomatoes	One plum tomatoes	One plum tomatoes	Three plum tomatoes	Three plum tomatoes	Three plum tomatoes	One plum tomatoes	15 plum tomatoes
Beans	n/a	n/a	n/a	one cup	one cup	one cup	n/a	three cups
Garri	two cups	n/a	Two cups	n/a	n/a	one cup	n/a	five cups
Vegetables (Efo)	One small bowl	n/a	Two small bowls	Two small bowls	n/a	n/a	n/a	5 small bowls
Rice	One and half cups	n/a	n/a	n/a	n/a	One and half cups	One and half cups	4.5 cups
Egusi	1/4 de rica tin	n/a	n/a	n/a	n/a	n/a	n/a	1/4 de rica tin
Yam	n/a	Four slices	n/a	Four slices	Two slices	n/a	n/a	Ten slices
Carrot	n/a	Three carrots	Three carrots	n/a	Three carrots	Three carrots	n/a	n/a
Plantain	n/a	n/a	n/a	Three Plantains	n/a	n/a	One plantains	four plantains
Noodles	n/a	Two packs	n/a	n/a	n/a	n/a	Two packs	four packs
Spaghetti	n/a	n/a	One pack	n/a	One pack	n/a	n/a	two packs
Eggs	n/a	Two eggs	Two eggs	n/a	Two eggs	n/a	Two eggs	eight eggs
Fish	One small smoked titus	n/a	One small smoked titus	One small smoked titus	One small smoked titus	n/a	One small smoked titus	five small smoked titus
Beef	Two pieces	Two pieces	n/a	n/a	Two pieces	Two pieces	Two pieces	eight pieces
Palm Oil	45ml	n/a	n/a	150ml	150ml	45ml	n/a	390ml
Pap	n/a	n/a	n/a	n/a	n/a	Two bowls	n/a	Two bowls
Bread	n/a	Two loaves	n/a	n/a	Two loaves	n/a	Two loaves	six loaves

Source: Company, Coronation Research.

APPENDIX V

Total Shareholder Returns

Naira returns

Only two of our four covered listed companies made positive total returns in Naira over the period 2011-18. Our measure takes a purchase on 1 January 2011 and then accounts for share price changes and gross dividends received.

Total return in Naira (share price + gross dividend)

Period	Nestle Nigeria	Flour Mills of Nigeria	Unilever Nigeria	PZ Cussons Nigeria
2011	49.20%	-2.30%	13.50%	14.50%
2012	61.60%	1.80%	65.60%	1.50%
2013	75.10%	36.90%	18.70%	34.10%
2014	-13.60%	-48.00%	-33.30%	-33.50%
2015	-13.10%	-41.60%	21.00%	11.40%
2016	-4.70%	-6.30%	-18.80%	-41.20%
2017	97.30%	76.30%	29.00%	46.30%
2018	-0.80%	-16.90%	-9.00%	-38.80%
Cumulative return Jan 2011 - Dec 2018	452.90%	-40.40%	70.40%	-31.40%
Total return CAGR	23.80%	-6.30%	6.90%	-4.60%

Source: Bloomberg, Coronation Research. NB Does not treat dividends as reinvested

US dollar returns

US dollar-based investors have contended with periodic devaluation of the Naira (most notably, for this data set, in 2016 and 2017). Translating returns into US dollars, only one company, Nestle Nigeria, delivered positive returns over the period 2011-18.

Total return in Naira (share price + gross dividend)

Period	Nestle Nigeria	Flour Mills of Nigeria	Unilever Nigeria	PZ Cussons Nigeria
2011	37.40%	-10.00%	4.60%	5.50%
2012	67.90%	5.80%	72.20%	5.50%
2013	70.50%	33.40%	15.60%	30.70%
2014	-24.50%	-54.60%	-41.70%	-41.90%
2015	-20.00%	-46.20%	11.40%	2.50%
2016	-39.70%	-40.80%	-48.70%	-62.80%
2017	72.90%	54.40%	13.00%	28.10%
2018	-1.50%	-17.50%	-9.60%	-39.30%
Cumulative return Jan 2011 - Dec 2018	143.60%	-68.70%	-20.80%	-65.40%
Total return CAGR	11.80%	-13.50%	-2.90%	-12.40%

Source: Bloomberg, Coronation Research. NB Does not treat dividends as reinvested. US dollar / Naira rate is taken as the inter-bank foreign exchange rate quoted on Bloomberg.

APPENDIX VI

Key Ratios

Key ratios of Nestle Nigeria

Nestle Nigeria	2017	2018	2019e	2020f	2021f	2022f
EV/Sales	4.7x	4.2x	3.9x	3.5x	3.2x	2.9x
EV/EBITDA	18.4x	15.6x	15.6x	13.4x	12.1x	11.0x
EBITDA Margin	25%	27%	25%	26%	26%	26%
Operating Profit Margin	23%	23%	23%	24%	24%	24%
Net Profit Margin	14%	16%	16%	16%	17%	16%
Price to earnings	33.6x	26.4x	24.2x	21.4x	19.1x	17.4x
ROAA	21%	28%	28%	29%	32%	33%
ROIC	95%	90%	91%	97%	115%	129%
ROAE	89%	90%	93%	106%	119%	130%
Net debt/equity	0.2x	-0.1x	0.2x	0.0x	0.0x	0.0x
Earnings per share (N)	42.55	54.26	59.09	66.79	75.04	81.98
Gross dividend yield	3%	4%	4%	5%	5%	6%

Source: Companies, Coronation Research. Priced at N1,430.00/s at close of business on 15 May 2019

Key ratios of Flour Mills of Nigeria

Flour Mills of Nigeria	2017	2018	2019e	2020f	2021f	2022f
EV/Sales	0.5x	0.4x	0.4x	0.4x	0.4x	0.3x
EV/EBITDA	4.2x	3.0x	3.5x	3.1x	3.0x	2.7x
EBITDA Margin	11%	12%	11%	12%	12%	13%
Operating Profit Margin	8%	9%	7%	7%	7%	8%
Net Profit Margin	2%	3%	2%	2%	2%	3%
Price to earnings	4.8x	4.8x	5.3x	4.9x	4.4x	3.7x
ROAA	2%	3%	3%	3%	3%	3%
ROIC	12%	12%	10%	10%	10%	10%
ROAE	9%	11%	8%	8%	8%	9%
Net debt/equity	1.9x	0.9x	0.8x	0.8x	0.8x	0.7x
Earnings per share (N)	3.37	3.32	2.99	3.29	3.6	4.33
Gross dividend yield	6%	6%	4%	4%	5%	5%

Source: Companies, Coronation Research. Priced at N16.00/s at close of business on 15 May 2019

Key ratios of Unilever Nigeria

Unilever Nigeria	2017	2018	2019e	2020f	2021f	2022f
EV/Sales	1.5x	1.3x	1.2x	1.0x	0.9x	0.8x
EV/EBITDA	7.7x	9.9x	6.4x	5.6x	4.5x	3.9x
EBITDA Margin	19%	13%	19%	19%	20%	20%
Operating Profit Margin	14%	10%	14%	13%	15%	15%
Net Profit Margin	8%	10%	12%	11%	12%	12%
Price to earnings	25.2x	19.5x	15.1x	14.2x	11.9x	11.1x
ROAA	7%	7%	9%	9%	10%	10%
ROIC	35%	27%	34%	32%	37%	37%
ROAE	16%	12%	14%	14%	15%	15%
Net debt/equity	-0.7x	-0.7x	-0.6x	-0.6x	-0.6x	-0.7x
Earnings per share (N)	1.23	1.59	2.06	2.18	2.62	2.79
Gross dividend yield	0%	1%	3%	3%	3%	4%

Source: Companies, Coronation Research. Priced at N31.00/s at close of business on 15 May 2019

Key ratios of PZ Cussons Nigeria

PZ Cussons Nigeria	2017	2018	2019e	2020f	2021f	2022f
EV/Sales	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	1.6x	1.8x	3.5x	2.8x	2.9x	2.9x
EBITDA Margin	20%	14%	7%	7%	7%	7%
Operating Profit Margin	20%	13%	7%	7%	7%	7%
Net Profit Margin	4%	2%	2%	2%	2%	2%
Price to earnings	10.2x	18.3x	23.4x	20.8x	18.8x	20.7x
ROAA	4%	2%	2%	2%	2%	2%
ROIC	30%	20%	6%	7%	6%	6%
ROAE	8%	4%	3%	4%	4%	4%
Net debt/equity	-0.2x	-0.3x	-0.3x	-0.4x	-0.4x	-0.3x
Earnings per share (N)	0.84	0.46	0.36	0.41	0.45	0.41
Gross dividend yield	6%	6%	3%	3%	4%	3%

Source: Companies, Coronation Research. Priced at N8.50/s at close of business on 15 May 2019

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Security Name	Available Disclosure
Nestle Nigeria	
Flour Mills of Nigeria	G
Unilever Nigeria	G
PZ Cussons Nigeria	G

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Ratings and Price target history

	Date	Recommendation	Date	Recommendation	Date	Recommendation	Current price, Naira/s	Target price, Naira/s
FBNH	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	7.5	12.5
Zenith	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	20.45	27.5
UBA	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	6.6	11.5
GT Bank	1-Jan-19	Hold	21-Dec-18	Hold	8-May-19	Hold	32.3	35
Access	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	7	8.7
Fidelity	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	1.85	2.4
Stanbic IBTC	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	43.5	66
Sterling	1-Jan-19	Hold	21-Dec-18	Hold	8-May-19	Hold	2.7	1.9

This documents marks the initiation of coverage by Coronation Research for Nestle Nigeria, Flour Mills of Nigeria, Unilever Nigeria and PZ Cussons Nigeria.

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Hold	25%
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