



NIGERIAN AVIATION HANDLING COMPANY PLC (NAHCo)

**Hybrid Offer of 90 million shares and 30 million shares via
Offer for Subscription and Rights Issue at N17.50k &
N16.50k respectively.**

Offer opens/closes: September 10-28, 2007.

EXECUTIVE SUMMARY AND INVESTMENT RATIONALE

- Nigerian Aviation Handling Company Plc (NAHCO) was incorporated as a private limited company on November 6, 1979 with the Federal Government holding 60 per cent of the voting equity through the Federal Airport Authority of Nigeria (FAAN). It was converted to a public limited company on August 4, 2005 after the Federal Government decided to privatise the company.
- In 2005, the Bureau of Public Enterprises (BPE) offered the 60 per cent equity holding of the Federal Government for sale to the general public through an Initial Public Offering. At present, 60 per cent of the voting equity is held by the Nigerian public while the balance of 40 per cent is held by foreign airlines which include British Airways (12.5 per cent), Air France (12.5 per cent), Lufthansa (7 per cent) and the liquidators of Sabena (8 per cent). NAHCO Plc was listed on the floor of the Nigerian Stock Exchange on November 27, 2006 at the offer price of N5.50 which has since appreciated dramatically

- NAHCO's main operations include Passenger and Bag Handling at the four international airports in Nigeria, RAMP Services (air craft cleaning and maintenance etc) and Cargo Services. At present, the company provides handling services to 25 of the 35 airlines operating in the country, with North American Airlines and Turkish Airlines being some of the latest clients of the company. Others include Delta Airlines, Arik Air and Aero Contractors.
- The company has grown its revenue and after-tax profit at a compounded annual average (CAGR) of over 15.7 per cent and 28.7per cent respectively from 2002 to 2006 while its **return on average equity and return on average total assets (ROAE & ROTA)** were 45.6 per cent and 15.7 per cent respectively for the most recent financial year ended in December 31, 2006.
- Our revenue and after-tax profit forecasts for the year ending December 2007 are N3.8bn and N564.1m premised on an implied growth of 18.2 per cent and estimated earnings growth of 30 per cent respectively. We arrived at a forecast EPS of N0.75k.
- Our analysis revealed that NAHCO is being offered at a discount of 21.6 per cent relative to our valuation. **We therefore recommend the Offer a BUY for value investors.**

Intent of the Offer:

- NAHCO Plc is currently raising an aggregate sum of N2.153bn from a hybrid Offer of 90 million shares at N17.50 per share and 35 million shares at N16.50 via an Offer for Subscription and Rights respectively.
- The company plans to fund its growth strategy with the Offer proceeds. It intends to embark on aggressive business expansion (including the acquisition of new Ground Support Equipment), technology platform, new Cargo sheds, re-branding and improving working capital level.

Risks Analysis and Mitigants:

- Attached to our valuation is the **business risk** which NAHCO is exposed to in the ordinary course of its business. Aviation Handling companies are exposed to the risks of missing or pilfered baggages, bodily harm to passengers, delays in airlines' operations etc. Also, we have taken cognisance of the emerging **competition risks** as SAHCO Plc (**Skyline Aviation Handling Company**) will become more competitive following the completion of its proposed privatisation. **Sectoral risk** also exists in the form of Aviation industry crisis and reduced traffic flow as a result of dwindling passenger confidence. However, this is expected to be mitigated by the recent aviation industry reform.

Recent Developments:

- The company currently embarks on several strategic initiatives targeted at replacing old equipment and employing state-of-the-art information and communications technology equipment, aggressive marketing and business development, as well as business re-engineering and transformation programmes.
- In response to the emerging competition in the industry and its associated impact on its margins, NAHCo Plc is embarking on strategic diversification of its operations into the provision of ancilliary services such as Courier, Travel and Tours, in order to minimize its business risks.
- In its quest to instill a culture of transparency and accountability in all facets of its operations, NAHCO management, in the last quarter of 2006, commissioned an Oracle e-business suite; a bundle of applications software for processing business data, information analysis, and generation of performance metrics.
- The company was also recently contracted by another two (2) world-class airlines, North American Airlines and Turkish Airlines, who lately made their debut in Nigeria in 2006.

Future Prospects/Projections:

- In a swift response to the aftermath effects of the recent deregulation of the Nigerian aviation industry, NAHCO has decided to roll out its strategic expansion programmes. The company has planned to commence expansion of its operations to other domestic airports in the country namely Calabar, Benin, Enugu, Yola and Sokoto. **This is a proactive approach in anticipation of the commencement of international route operations by some of its existing clients such as Delta Air and Kenya Airways.**
- Furthermore, it also plans to extend its services to **Murtala Muhammed Airport II** as soon as it starts operations in order to position itself for both existing and prospective clients on the domestic routes.
- NAHCO also plans to explore West African Sub-region market directly or through strategic alliance with other international ground handling companies. All these are targeted at making the firm remain more competitive as well as sustaining its profitability and returns to all stakeholders.
- The company has projected turnover of N3.798bn and after-tax profit of N557 million for the year ending December 31, 2007. This implies growth rates of 17.0 per cent and 28.3 per cent respectively. Forecast earnings and dividend per share are 74k and 53k respectively, translating to a pay-out of 47.3 per cent.

Aviation Industry:

The aviation industry is central to all economies world over with air transportation playing a central role in the economy, facilitating commerce, tourism and movement of humans and as such contributing both directly and indirectly to national economies. The industry is highly regulated both domestically and internationally, with issues of safety and security standards being very paramount. Challenges facing the sector include the need to improve the level of

technology in her operations especially Ground Traffic Control, safety and security issues especially with the increasing concern on terrorism and national security, issues of aircraft crashes and the concomitant dwindling passenger confidence in air transportation.

Furthermore, the industry has to come to grasp with the harsh realities of increasing competition, rising operational costs, increasing concerns about pollution, demand for improved and high quality service by the ever-yearning air passengers and consequently, thinning margins. **Aviation handling services companies benefit and suffer from the prospects and problems of the aviation industry.**

Analysis of Financials:

Trend in Turnover Growth:

NAHCO has consistently improved on its turnover over the past five years. The company recorded a 5-year compounded annual growth rate (CAGR) of 15.07 per cent in turnover from N1.92 bn in 2002 to N3.25 bn in 2006. After achieving annual turnover growth rate of 30.2 per cent in 2005, the first ever in the past 5 years, the company's turnover growth rate nose-dived significantly to 6.4 per cent in 2006 financial year when the turnover rose from N3.05bn to N3.25bn between 2005 and 2006. Similarly, NAHCO's second-quarter results for the period ended June 30, 2007 revealed a lower growth rate of 5.1 per cent as the turnover rose from N1.58 bn in the corresponding quarter of prior year to N1.66 bn. **The observed downward trend in the company's growth rate is an indication of decline in its market share as well as a probable representation of the general trend in its industry growth rates.**

Profitability:

NAHCO's gross margin averaged 45.9 per cent in the last five financial years. The company's gross margin rose consistently from 40.6 per cent in 2002 to 56.9 per cent in 2005 before it plunged to 41.3 per cent in 2006 financial year. The observed decline could be explained by the astronomical increase of 44.6 per cent in its cost of operation, which was significantly higher than the corresponding increase of 6.4 per cent in turnover. This therefore reflects the impact of emerging competition from other providers of aircraft, passenger and cargo handling services in Nigeria. Similar trend is equally found in its operating margin which, after rising successively from 9.6 per cent in 2003 to 19.9 per cent in 2005, plummeted to 17.9 per cent in 2006. **Although the impact of rising competition remains relevant, the increased automation of the company's processes is expected to impact favourably on the size of its costs of operations relative to turnover and then help boost its gross and operating margins.**

NAHCO's Return on Average Equity (ROAE) averaged 34.5 per cent between 2002 and 2006. The peak was recorded in 2006 financial year at 45.6 per cent. Moreover, the company's Return on Average Asset (ROAA) which increased from 6.9 per cent in 2004 to 15.7 per cent in 2006.

NAHCO grew its after-tax profit from N165.95m in 2002 to N434.1m in 2006, thus translating to a 5-year CAGR of 28.7 per cent. The company surpassed its 5-year CAGR in recent years when it achieved after-tax profit growth rates of 218 per cent and 37 per cent in

2005 and 2006 respectively. However, the company's results for the period ended Q2-2007 showed a lower profit growth (quarter-on-quarter) of 17.2 per cent as it posted an after-tax profit of N238.1m against N203.2m reported over similar period in 2006. **Although the foregoing analysis may suggest a slowed growth momentum in earnings in years to come, an efficient utilisation of funds raised for the offer may change the future growth outlook of the firm. However, the growing competition in the industry, mainly reinforced by the current strategic turnaround of its main rival SAHCOL, which is being transferred to private hands, might impede NAHCo's earnings growth potentials.**

Liquidity, Efficiency and Solvency:

NAHCO's current ratio averaged 0.82 times in the past 5 years. The ratio has been stable in the last two years. Its current ratio was 1.24 times in 2002 and declined to 0.58 times in 2004. However, in 2005 and 2006 financial years, the ratio stabilized at 1.01 times. This implies that the company's total current assets cover 101 per cent of its total current liabilities. Similarly, trend in the company's acid-test ratio in recent years portends stable liquidity position. Although it declined successively from 1.07 times to 0.45 times between 2002 and 2004, the company's acid-test ratio later remain steady at 0.96 times in 2005 and 2006 financial years. That is, NAHCO's readily realizable short-term assets now cover 96 per cent of its total short-term liabilities. All these suggest a good liquidity status for a service-oriented company like NAHCO.

On the other hand, a review of NAHCO's cash flows reveals deteriorating liquidity between 2003 and 2006. The company's operating cash flow-to-net income ratio, a measure of the extent to which net income generates cash for a business, declined in succession from 5.82 times in 2003 to 1.75 times in 2006. Similarly, its operating cash flow-to-current liabilities ratio plummeted from 0.78 times in 2003 to 0.45 times in 2006, while its cash operating cycle, which indicates the average number of days it takes a company to turn its acquired inputs into actual cash inflows through sale of its output, increased from less than 1 day in 2003 to 46 days in 2006, thus implying that NAHCO is tying down more capital in its processes. The observed deteriorating trend in NAHCO's cash flows is corroborated by similar trends in its average days in receivables and payables. NAHCO's average receivables' days increased from 47 days in 2003 to 58 days in 2006. In other words, the company is increasing its level of finance to its clients. Also, with the trend in its average payable days, which declined from 149 days in 2003 to 28 days in 2006, it can be concluded that NAHCO is benefiting less finance from its suppliers.

However, there are indications of stability in the company's efficient use of assets. Its total asset turnover, which measures the extent of revenue generated from the use of its assets, has been relatively stable at 0.86 times, though with very mild fluctuations, over the past five years.

In terms of long-term solvency, NAHCO remains a very stable company. The company has no fixed-interest, long-term debt in its capital structure. Its total debt obligations have been

on the downward side in the last three years as shown by trends in **total debt-to-total asset ratio** and **total debt-to-equity ratio**, both of which declined from 80 per cent and 403 per cent in 2004 to 71 per cent and 250 per cent in 2006 respectively. Besides, the company's debts, save its short-term loans and bank overdraft, are mainly made up of interest-free liabilities, thus it has low interest bearing obligations. NAHCO's Earnings before Interest and Tax (EBIT) sufficiently covers its interest obligations. With a 5-year average of 14.3 times, the company's interest cover improved from 13.6 times to 24.3 times between 2002 and 2006.

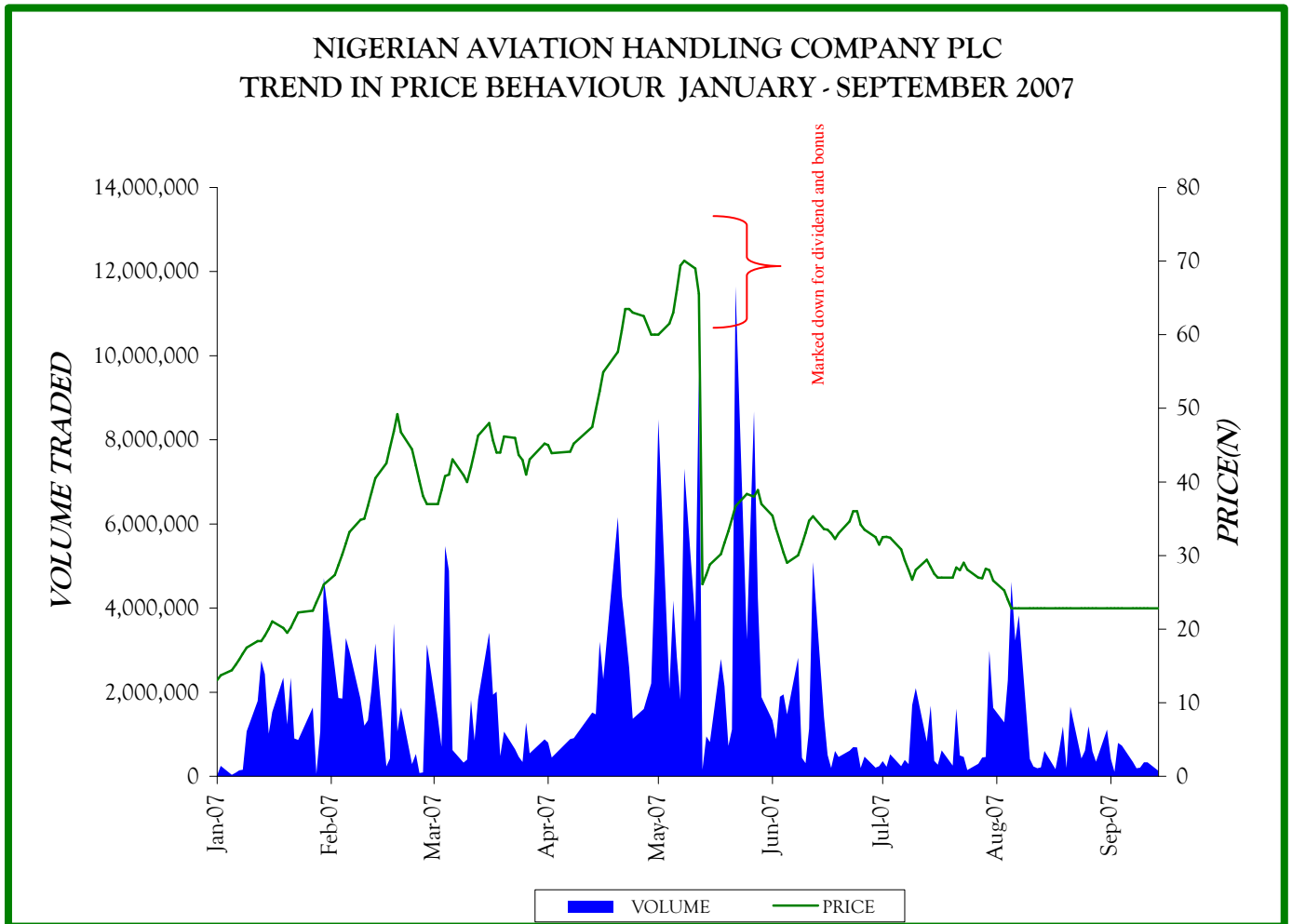
Value to Investors:

NAHCO's Earnings Per Share (EPS) soared from 55k to N1.45k between 2002 and 2006, thus representing a 5-year CAGR of 27.4 per cent. The company has stupendously rewarded investors since its listing on the Nigerian Stock Exchange (NSE) in November 2006. It rewarded investors with twin benefits of 30k dividend per share and a bonus issue of 3 for 2 in respect of the financial year ended December 31, 2006. The dividend yield of NAHCO currently stands at 1.32 per cent, while its year-to-date capital gain (cum bonus) stands at 358 per cent.

Technical Analysis of NAHCO Shares Performance:

The shares of NAHCO were listed on the floor of the NSE on November 27, 2006 at the opening price of N5.50. The stock which attracted investors' attention immediately after being listed was consistently on bid for the remaining part of the year, thus recording significant appreciation in its price which eventually closed at N12.45 on the last trading day of the year 2006.

In 2007, the stock continued on the bullish trend and later reached an all-time High of N70.04 on May 11, 2007 before it was marked down at N65.55 for its twin benefit declaration on May 16, 2007.



After the price adjustment, the stock maintained its bullish trend and rose as high as N38.89 before witnessing a downward trend from July, 2007. This trend continued until August 8, 2007 when the stock was placed on technical suspension at N22.81, sequel to the company's application to the Exchange to raise a combined sum of N2.153bn through a hybrid offer of 90 million shares at N17.50 per share and 35 million shares at N16.50 via an Offer for Subscription and Rights respectively. The stock which recorded its year low on January 4,

2007 (the first trading day of the year) witnessed huge activity during the year with an average daily turnover of 1.6 million units.

Valuation/Recommendation:

We employed Price-to-Book Value (P/BV); Price-to-Sales (P/S); Price-to-Earnings (P/E) relative valuation metrics, using relative indices of comparable companies. We also used Free Cash Flow Valuation method with a discount rate of 15.3 per cent in valuing NAHCO. After attaching appropriate weights to the results obtained from the various valuation methods, we arrived at a fair value of N22.31, which implies that NAHCO shares, though currently trading at a premium of 2.24 per cent, are being offered at a discount of 21.6 per cent to valuation. **This suggests a fair price and makes the stock a GOOD BUY at the offer price.**

NIGERIA AVIATION HANDLING COMPANY PLC (NAHC_o)

KEY STATISTICS : 2006 FINANCIALS

VALUATION METRICS

Market Cap(N'bn)	17.11
Trailing P/E	36.5
Forward EPS (fye 31-Dec-07) (Ngn)	0.75
PEG Ratio	2.58
Trailing Price/Sales	5.14
Price/Book Value	15.42

FINANCIAL HIGHLIGHTS

Fiscal Year End	Dec 31
Most Recent Quarter (mrq)	Q2-2007

Profitability

Gross Margin (per cent)	41.35%
Operating Margin (per cent)	17.87%

Management Effectiveness

Return on Average Asset (per cent)	16%
Return on Average Equity (per cent)	46%

Income Statement

Turnover (Sales) (N'bn)	3.25
Operating Profit (Nbn)	0.548
Profit Before Tax (PBT) (N'bn)	0.556
Profit After Tax (PAT) (N'bn)	0.434
Sales Per Share (Ngn)	4.33
Quarterly Turnover growth (Q1-07) y-o-y (per cent)	5.1%
Quarterly Net Income growth(Q1-07) y-o-y(per cent)	17.2%

TRADING INFORMATION

Stock price history

Beta (β)	0.7005
52-Week change (per cent)	936.6%
52-week high (Ngn)	N70.04
52-week low (Ngn)	N13.07

Share statistics

Average volume traded (1 month)	32,704,842
Average volume traded (1 week)	7,988,252
Shares outstanding(m)	0.75
Float	60%

Earnings, Dividend and Bonus History

Last Paid Dividend Per Share(Ngn)	0.30
Dividend Yield (per cent)	1.32%
Trailing Earnings Per Share(Ngn)	0.63
Earnings Yield (per cent)	2.74%
Last Script Issue (03/06/2004)	3:2
Trailing Payout ratio	20.7%
Last Dividend date	April, 2007

Balance sheet

Shareholders fund (N'bn)	1.11
Total Assets (N'bn)	3.94
Total debt/Equity (per cent)	250%
Book Value Per Share (Ngn)	15.42

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