

Q2-2009 Results

Our Initial Reaction

UAC of Nigeria Plc (UAC)

Turnover & Earnings Growth: Bumpy ride ahead as UAC management grapples with realignment of strategies amidst perturbed business environment- In a sharp contrast to FY-08 widely applauded feat, the Company's Q2-09 results show striking difference in performance and growth momentum, especially in earnings and margins. Though growth in turnover has been slightly stable at above 25% YoY (**vs. c29%** 2008 YoY) profit before tax figures for the first 2 consecutive quarters in 2009 have rather been meager with marginal rises of 9% Q1-09 (**vs. Q1-08: 61%**) and 0.8% in Q2-09 (**vs. Q2-08: 46%**) respectively. In our opinion, should this trend continue till next 2 quarters, the Company's earnings may close flat or possibly record earnings de-growth for the fiscal year 2009. We also see risk to the downside in turnover growth as the Company has to wrestle with competitors to defend its share of food market in Quick Service Restaurant (QSR) business.

Re-designed business architecture, a conception of needful strategic rebirth: Despite the recent repositioning of UAC for evolving ball game, OPEX still poses daunting challenges- Apparently in an attempt to sustain its aged brand equity and pleasing its diverse investors' base amidst emerging realities, UAC recently evolved as a food-focused group having gone through extensive strategic restructuring and business processes realignment. However, the Company still has to contend with market resistance to the full pass-through of the industry mounting operating costs. Gross margin averaged 24% (FY 2007 & 2008), out of which more than a halve (>13%) was wiped off by operating expenses (OPEX). Frankly, **OPEX** remains a major drag on performance, eating deep and fast into bottom line. We believe to a great extent, that business processes fine-tuning will serve as a panacea for efficient cost management.

Thinning profit margins demand a closer look: Concern is rife as margin is hurriedly thinning out with OPEX's strong pull on earnings velocity- UAC recent performance scorecards and forecasts for Q3-09 present more puzzles than progress in margins over prior year. The Company's forecast data for Q3-09, though projects a 51% rise in turnover over prior quarter, puts earnings growth at about 3% translating to a net margin of near 9%. A closer look at actual performance and forecast figures suggests the food-centric company is faced with a cost structure which is eating deep into margins. Though the Company's costs challenges is partly attributed to operating environment. This same challenge as well as industry specifics is being faced by other businesses/subsidiaries of the Group, impacting on the overall performance.

Valuation: Notwithstanding drags on performance, we expect a near-flat growth rate with a conservative profit after tax figure of N6.99bn for FY-09 (+3% rise over FY-08 and +28% above company forecast figure). Hence, valuation of UAC shares at FY-09e P/E of 6.74x still presents impressive uptrend in price movement. Despite our market-wide 15% base-case earnings growth projection for non-financials (i.e. non-banking stocks) and estimated P/E multiple of 8.08x, UAC shares still look more attractive at current pricing.

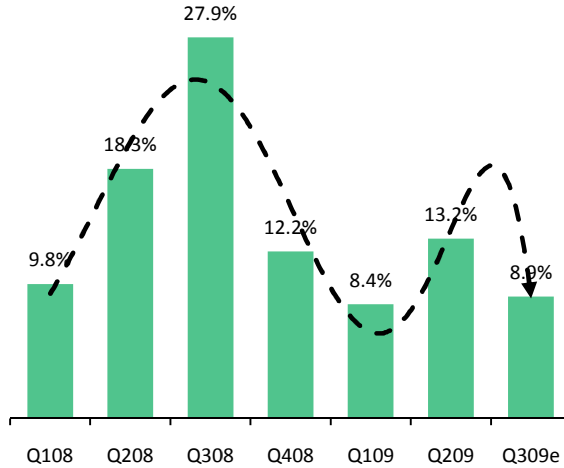


NSE: UACN | Bloomberg: UACN: LN | Reuters: UACN.LG

NIGERIA EQUITY MARKETPLACE

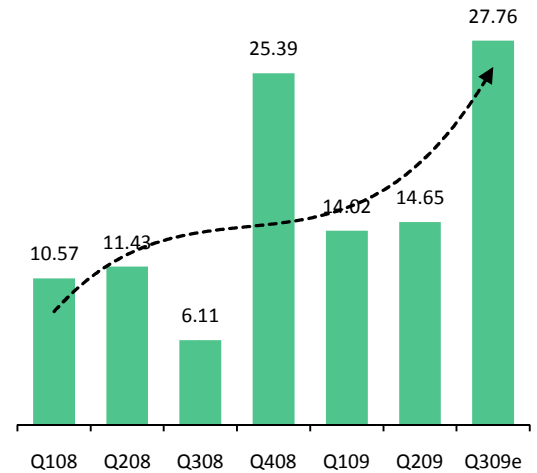
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...concern is rife as margins now misbehave against expectations



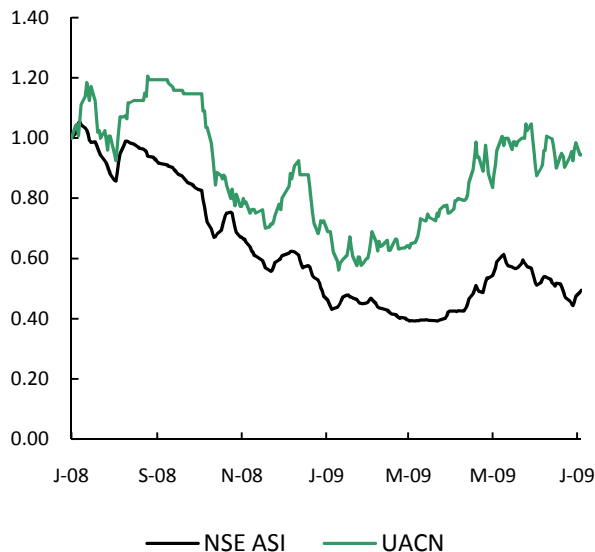
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on the contrary, QoQ growth in turnover has been rather stable though with spikes at Q4s.

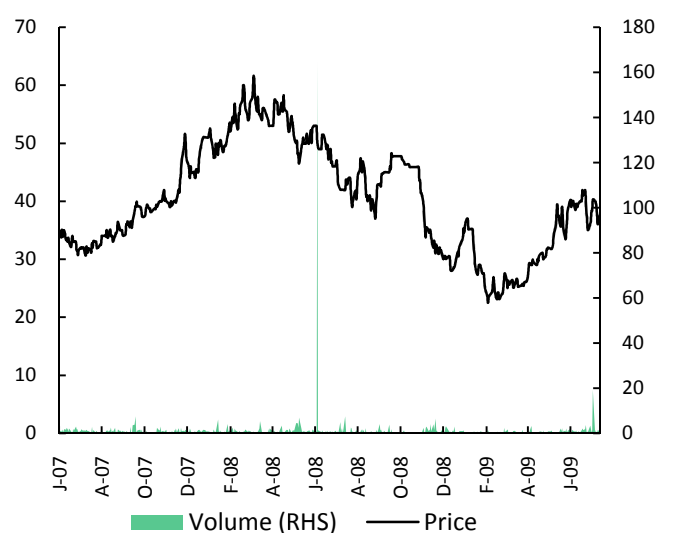


Share Performance: UAC shares have shown some noticeable resilience in the face of 2008 and early Q1-2009 market volatility returning +4.08% Year-to-Date (YtD) (vs. Market: -20.6%) outperforming the market by near 25%. Though the Company is faced with some challenges in growing earnings appreciably, our analysis suggests that the management is making frantic effort to defend and sustain earnings tempo vis-à-vis meeting (or possibly surpassing) investors' expectations for FY-2009. This may present further upside potential for share price performance.

52-week relative price gyration



Historical price-volume performance





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