



CAP – Portland Paints Proposed Merger

Sept '20 Annual Inflation: 13.71%
Q2 '20 Real GDP Growth Rate: -6.1%

CAP Plc to Offer Portland Paints Plc Shareholders N2.90k amid Proposed Merger

Valued Investor,

- Chemical and Allied Products PLC ("CAP") and Portland Paints and Products Nigeria PLC ("Portland Paints") notified the Nigerian Stock Exchange (NSE), and the general public of their Boards of Directors' decision to merge their respective businesses in accordance with applicable laws; with CAP emerging as the resultant entity (the "Proposed Merger").
- According to the statement, the decision to pursue the Proposed Merger was driven by the strategic objectives of the Boards of CAP and Portland Paints to drive growth and expansion within the Nigerian and African markets.
- Subject to receipt of the relevant regulatory and corporate approvals, the Proposed Merger will be executed by way of a Scheme of Merger (the "Scheme") in accordance with Section 711 of the Companies and Allied Matters Act, 2020 and other applicable laws, rules and regulations. Hence, the Scheme would involve the transfer of all Portland Paints' assets, liabilities and business undertakings including real property and intellectual property rights to CAP.

What is in it for Portland Paints Shareholders?

In consideration for the transfer, CAP is offering shareholders of Portland Paints a choice to receive:

- N2.90k cash for each Portland Paints shares held **or**
- One new ordinary share of CAP, credited as fully-paid up for every Eight Portland Paints shares held.

Given the closing price of Portland Paints shares at N2.05 on Monday, October 26, 2020, the cash consideration offers 41.46% returns on investment for investors despite the company's weak financial performance in 9M 2020 (printed N115.45 million loss). We hereby advise our clients to trade cautiously while they buy at a discount price of N2.05k, to grab some easy gains as compared to the proposed merger cash consideration of N2.90k, because the completion of the Proposed Merger is still subject to approval from the Federal Competition and Consumer Protection Commission (FCCPC), the Securities and Exchange Commission (SEC), The NSE as well as shareholders of CAP and Portland Paints, respectively.

Any Good News for CAP Shareholders?

Given the outstanding historical performance of CAP, we expect the increased capacity to impact positively on its profitability and share price going forward as its competent managers further have more resources to deploy. We also note that CAP would have to increase its issued shares in order to accommodate the distributable shares to Portland Paints shareholders, who would subscribe to One unit of CAP share in substitute to their Eight units of Portland Paints shares.

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