



Cap Plc H1 2019 4 September 2019



MPR: 13.50%
Aug '18 Inflation Rate: 11.02%
Q2 '19 GDP: 1.94%

TICKER:
Sector:
Price as at 04 October 2019:
Target Price:

CAP
BUILDING MATERIALS
NGN25.55
NGN31.00

Upside Potential: 21.22%
Performance Rating: A (Excellent)
Recommendation: BUY
Suggested Entry Price: NGN23.00

Financial Summary (N'Bn)	H1 2019	H1 2018	Y-o-Y Δ	Industry* Share
Turnover	3.91	3.79	2.99%	56.57%
Gross Profit	1.86	1.82	2.16%	59.94%
Operating Expense	0.85	0.67	27.30%	46.25%
EBIT (Operating π)	1.04	1.18	-12.01%	78.28%
PAT	0.87	0.92	-5.35%	81.61%
Total Assets	5.53	4.83	14.56%	43.29%
Total Liabilities	3.88	3.10	25.12%	55.94%
Shareholders' Funds	1.65	1.72	-4.45%	28.25%

Source: Company Financials, Cowry Research

Financial Ratios	H1 2019	H1 2018	Industry* Average
Gross Profit Margin	47.59%	47.97%	38.20%
Operating Profit Margin	26.61%	31.14%	6.97%
Return on Equity	51.49%	57.96%	18.20%
Return on Total Assets	20.08%	26.11%	5.83%
Interest Coverage Ratio	2,395.34	492.88	599.80
CCC	176.20	217.50	284.68
Quick Ratio	0.96	0.96	0.68
Debt to Capital	6.38%	2.14%	132.84%
Equity Multiplier	3.36	2.80	1.21
Debt to Cash	0.04x	0.02x	3.00x
Debt to EBITDA	0.10x	0.03x	2.50x

Source: Company Financials, Cowry Research

Investment Ratios	H1 2018	Industry* Average
EPS TTM	2.83	0.97
F' EPS	2.48	0.85
NAV	2.35	3.17
EV/EBITDA	12.24x	12.90x
PER TTM	8.22x	8.44x
Weighted PER	6.20x	7.82x
P/B	9.88x	3.97x
Target Price (TP)	31.00	
Dividend Yield (%)	12.47	

Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value; PER – Price to Earnings; P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months

CAP Delivers 99.10% Five-Year Average Return on Equity...

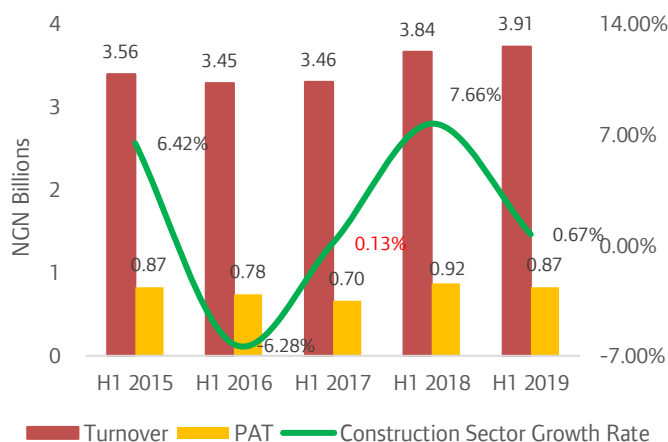
Chemical & Allied Products Plc delivered a five-year average return on equity (ROE) of 99.10% as at FY 2018. Also, the premium-paint-producing company recorded ROE of 51.49% in H1 2019, (albeit a cut from 57.96% in H1 2018), which was far above the industry average of 18.20%; hence, our 'A' rating. Given the company's consistent records of relatively high return on shareholders' funds (our computed trailing twelve month EPS of N2.83 for FY 2019 translates to more than 100% return on shareholders value at a net asset value per share of N2.35) and high pay-out ratio, we recommend a BUY on its shares.

... Sustained Cash from Operations, a Plus to Profitability

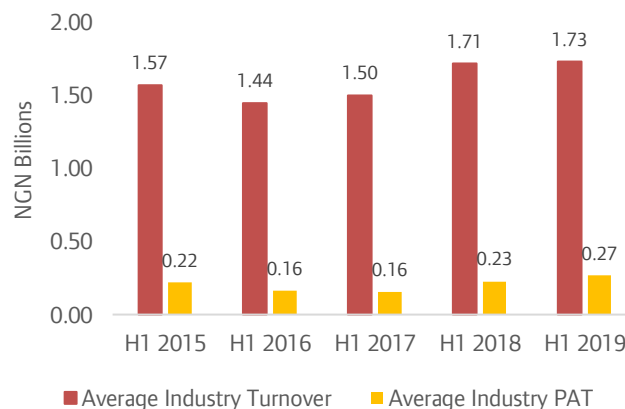
CAP Plc, the leading producer of premium decorative paints in Nigeria, grew its revenue by 2.99% to N3.91 billion in H1 2019 from N3.79 billion in H1 2018, in tandem with the increased activity in the construction space (according to Q2 2019 GDP figures, activity in construction space grew y-o-y by 0.67% to N752.83 billion). The UACN-subsidiary has remained the toast of investors as its share price trades at premium amid sustained strong efficiency ratios. Gross profit margin stood at 47.59% while operating profit margin was 26.61% in H1 2019. CAP Plc continued to generate good cash from operations which, in addition to the better margins at the EBIT level, has delivered "mouth-watering returns" to its shareholders.

Despite the positive fundamentals of the "cash-generating company", its share price has moderated from the 52 weeks high of N37.40 to N23.25 amid 5.35% fall in PAT in H1 2019. Nevertheless, we expect the share price to bounce back in the near term as the income stock has become more attractive given its dividend yield (11.35%) at the current price.

CAP Turnover & PAT

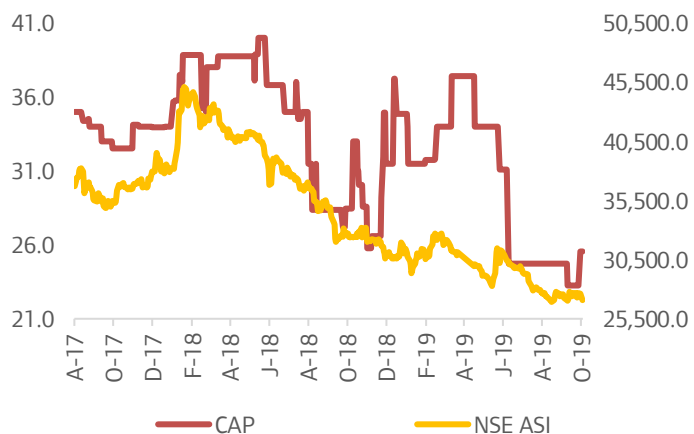


H1 2019 Building Materials (Paints) Industry Averages



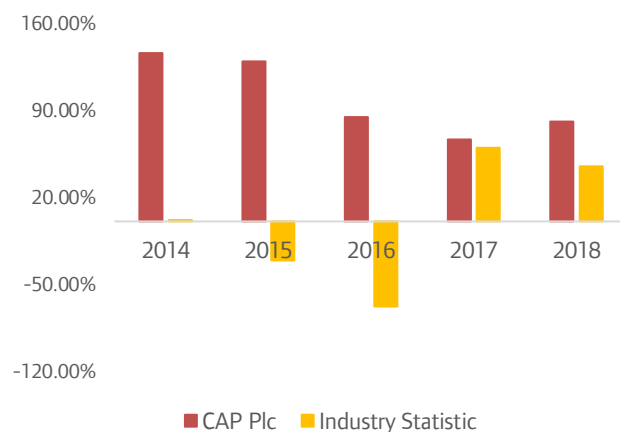
Source: Company Financials, Cowry Research

CAP vs NSE ASI



Source: NSE, Cowry Research

Industry Historical Returns on Equity



*Industry averages based on quoted players being Berger Paints, Chemical & Allied Products, Paints & Coatings Manufacturers, Portland Paints, Premier Paints

IMPORTANT DISCLOSURES:

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Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' Excellent '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' Investment Grade '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' Acceptable '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' Not Acceptable '; scores below industry average

Analyst Recommendation (AR)	Meaning
BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X \geq 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: $364\text{-day T-Bill Rate} < X < 500\text{bps above } 364\text{-day T-Bill Rate}$
NEUTRAL	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $< 364\text{-day T-Bill Rate}$
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued