

Arthur Steven
Asset Management Ltd

VALUATION REPORT
PZ CUSSONS PLC



Trade online via our e-trading platform, visit www.arthurstevenonline.com to start trading.

Our Thought on: PZ CUSSON PLC VALUATION

SUMMARY

The report outlines PZ Cussons' financial performance amid significant economic headwinds impacting Nigeria's manufacturing sector, including rising inflation, exchange rate volatility, and fluctuating demand. The company faced challenges in 2023 due to macroeconomic pressures, with GDP growth slowing during Q1–Q3 2023 but slightly improving in subsequent quarters.

PZ Cussons operates within Nigeria's "**Other Manufacturing**" sector, which experienced performance fluctuations due to foreign exchange challenges. In 2023, the official exchange rate increased by 257%, impacting the company's costs. Despite external pressures, the sector showed resilience, though it remains vulnerable to ongoing challenges.

PZ Cussons' Financial Performance: The company's financial trajectory from 2018–2024 shows improvement, particularly in profitability post-COVID. Trade receivables and inventory management improved, reflecting better operational efficiency. However, exchange rate fluctuations, high import costs, and other macroeconomic challenges have affected profitability. The gross profit margin increased to 29.6% in 2024, while the operating profit margin and net income margin also improved significantly, indicating better cost management.

The report forecasts a 227% potential upside for PZ Cussons' stock price, projecting a value increase from ₦17.65 to ₦54.66. Despite the recent Q2 2024 loss driven by exchange rate losses, the company's stable asset utilization and manageable debt levels suggest long-term resilience.

Recommendation: While there's significant upside potential, the report advises a "**HOLD**" position for now, as PZ Cussons' board evaluates strategic restructuring, including possibly selling off its African operations. Investors are advised to wait for further clarity on this direction. If the investor is willing to tolerate short-term volatility, holding might be more strategic.

Executive summary

Company Data	PZ
Current Price	17.65
Intrinsic	10.44
Upside	-41%

Source: NGX, ASAM Research

Company Data	PZ
Tick (NGX)	PZ
Current Price @ 6-Oct-2024	₦17.65
2024 Target Price	₦57.68
Rating	BUY
52-Week Low (N)	₦40
52-Week High (N)	₦15.25
Shares outstanding (mn)	3,970
Market Capitalisation(mn)	₦70,079
Market Capitalisation (US\$'mn)	\$42.24
Trailing EPS (N)	4.02
Trailing P/E (x)	4.39x

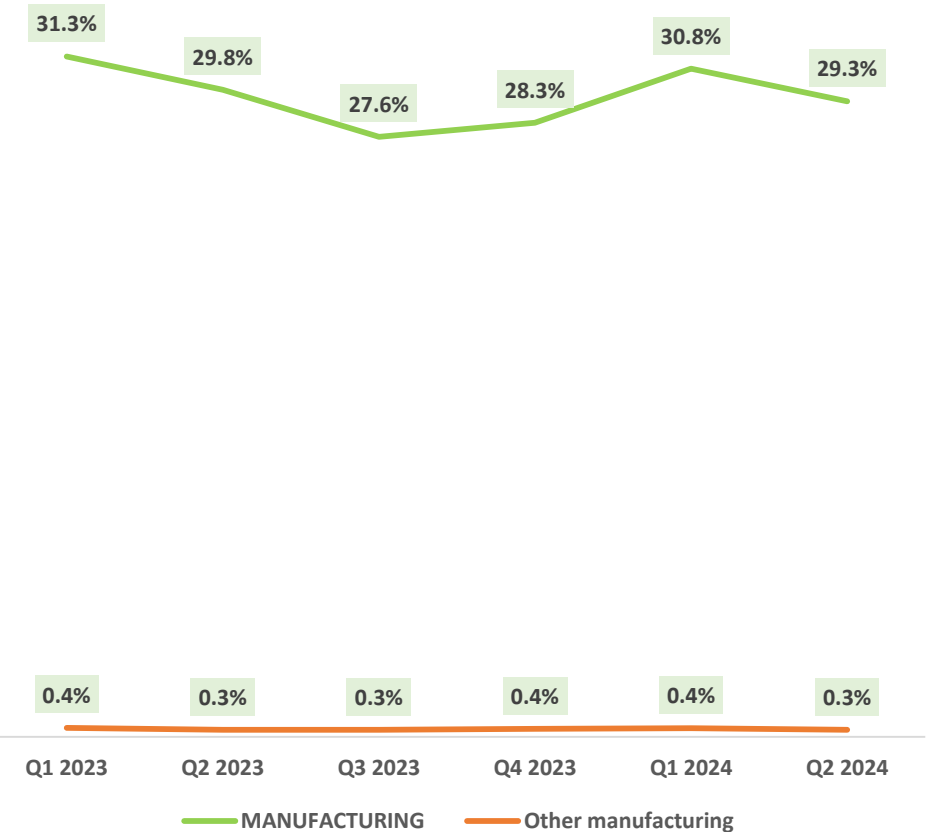
Our Thought on: PZ CUSSON PLC VALUATION

Sector/Industry Review

INTRODUCTION

Over the course of 6 quarters, GDP figures reflected an economy under pressure from significant economic headwinds, which led to a period of slowing growth from Q1 2023 to Q3 2023, followed by slight improvements in subsequent quarters. While there are signs of recovery, the persistent fluctuations suggest that the economy remains vulnerable to ongoing external and internal challenges.

- The **downward trend** from Q1 2023 to Q3 2023 can be directly associated with economic headwinds such as inflation, rising interest rates, and possibly external factors like declining demand for exports and higher import costs.
- The **slight recovery** in Q4 2023 and Q1 2024 might reflect policy measures (such as the monetary policy rate) that tends to reflect on inflation rate. Although the manufacturing sector remains susceptible, as seen in the Q2 2024 decline.
- The fluctuations indicate that while the economy is adapting to the challenging environment, it is still affected by **underlying economic instability resulting from exchange rate increase**. The headwinds, particularly exchange rate volatility, inflationary pressures, and global economic factors affects the performance of the manufacturing sector.



Our Thought on: PZ CUSSONS PLC VALUATION

Sector/Industry Review

OTHER MANUFACTURING INDUSTRY

The Nigerian manufacturing sector comprises thirteen distinct industries, with other manufacturing industry being one of these key sectors, alongside twelve others.

The other manufacturing industry's impact on the GDP, and the manufacturing sector, has remained steadfast, with the annual and quarterly contributions consistently reinforcing its pivotal role in the national economy and its contribution to the manufacturing sector.

However the Other Manufacturing industry has experienced fluctuations throughout 2023 and 2024. Despite occasional rebounds, the trend suggests volatility driven by macroeconomic factors such as foreign exchange challenges.

The significant decrease between Q1 and Q2 each year points to potential external pressures

To stabilize and improve the performance of this segment, addressing key issues such as foreign exchange will be crucial

MANUFACTURING	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
Oil Refining	0.1%	0.1%	0.1%	0.2%	0.0%	0.1%
Cement	10.7%	9.7%	12.2%	9.9%	10.7%	9.8%
Food, Beverage and Tobacco	50.6%	51.9%	49.0%	50.1%	51.2%	52.4%
Textile, Apparel and Footwear	18.4%	17.7%	18.0%	19.6%	17.8%	17.2%
Wood and Wood Products	3.1%	3.0%	3.1%	2.6%	3.1%	3.0%
Pulp, Paper and Paper Products	0.8%	0.6%	0.7%	0.7%	0.8%	0.6%
Chemical and Pharmaceutical Prod.	2.5%	3.3%	3.4%	2.8%	2.6%	3.3%
Non-Metallic Products	3.6%	3.3%	3.7%	3.2%	3.6%	3.3%
Plastic and Rubber products	3.4%	3.6%	3.1%	3.5%	3.4%	3.6%
Electrical and Electronics	0.0%	0.1%	0.1%	0.1%	0.0%	0.1%
Basic metal , Iron and Steel	2.2%	2.5%	2.4%	2.6%	2.2%	2.5%
Motor vehicles & assembly	0.6%	0.5%	0.4%	0.5%	0.6%	0.5%
Other Manufacturing	4.1%	3.7%	3.9%	4.4%	4.0%	3.7%

Our Thought on: PZ CUSSONS PLC VALUATION

Sector/Industry Review

EXCHANGE RATE FLUCTUATION

Both the manufacturing sector and all the industries in this category are faced with the increasing exchange rate following the unification in May 2023. Most of the companies in the food and beverage industry are being faced with exchange rate loss both in on cash held and purchase of raw material.

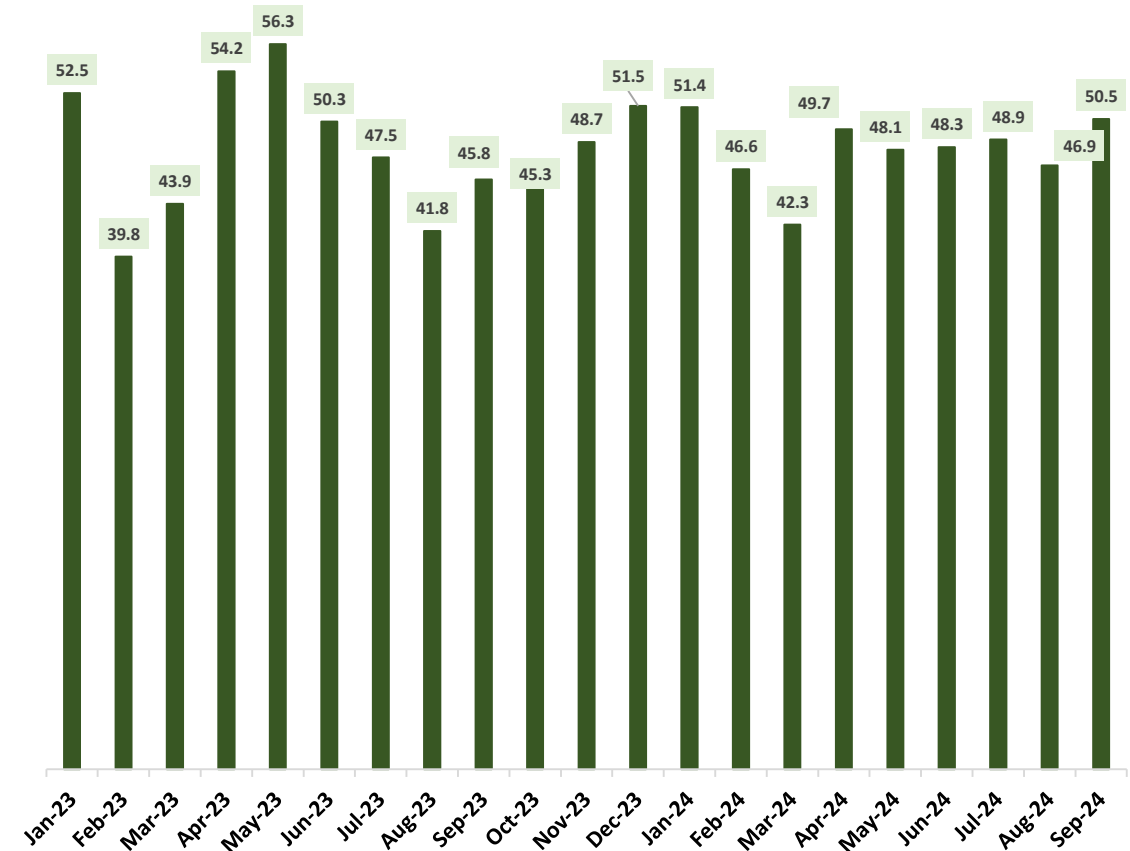
The official exchange rate has increased 257% from ₦464.50/\$1 as at May 30, 2023 before the announcement of the unification and is now at ₦1,659.26/\$1 as at the time of writing this report.

PURCHASING MANAGERS' INDEX

The PMI, or Purchasing Managers' Index, indicates whether market conditions are expanding or contracting. A PMI above 50% suggests economic expansion in the previous month, while below 50% indicates contraction.

The other Manufacturing industry PMI showed a contraction in Q2 2023, reflecting a decline in production as a result of fluctuation of foreign exchange. This was followed by an expansion in Q3 and Q4 2023, with a notable boost in Q4 likely driven by year-end demand. However, after the festive period, the sector experienced a decline in Q1 2024, and this downward trend continued into Q2 2024, with production falling below par due to ongoing macroeconomic challenges.

Purchasing Managers' Index



VALUATION REPORT

ASAM Research

Our Thought on: PZ CUSSONS PLC VALUATION

Company review

Event

Analyzing the Financial Trajectory of PZ Cussons PLC

This is an evaluation of PZ Cussons Plc performance over the years and its expected performance the next five years.

Company Data

Tick (NGX)	PZ
Current Price @ 6-Oct-2024	₦17.65
2024 Target Price	₦57.68
Rating	BUY
52-Week Low (N)	₦40
52-Week High (N)	₦15.25
Shares outstanding (mn)	3,970
Market Capitalisation(mn)	₦70,079
Market Capitalisation (US\$'mn)	\$42.24
Trailing EPS (N)	4.02
Trailing P/E (x)	4.39x

Terminal Value (TV)

FCFF	23,148,369
Growth	3%
WACC	22.38%
Terminal value	106,738,064
NPV of (TV)	₦78,236,113

Equity Value

NPV of FCFF	35,349,499
NPV of TV	₦78,236,113
Enterprise Value	113,585,612
Add: Cash and cash equivalent	84,701,274
Less: Debt	18,735,092
Equity Value	217,021,979
Share outstanding	3,970,477
Implied share price	54.66
Current share price	17.65
Upside potential	3.096823
Recommendation	BUY

VALUATION REPORT

There was a substantial improvement in PZ CUSSONS PLC profitability from 2020 onwards after the challenging effects of COVID

The financial performance of PZ Cussons Plc from June 2018 through projections until May 2028 highlights significant fluctuations and strategic adjustments in key financial metrics that demonstrate both resilience and challenges.

The company's trade receivable days dramatically decreased from 117 days in 2018 to consistently around 53 days from 2023 onwards, indicating an improvement in the collection of accounts receivable or a change in credit terms. Conversely, inventory days peaked at 298 in 2018 and then stabilized at 184 days from 2023, suggesting optimization in inventory management despite longer holding periods. Trade payable days showed variability but trended towards stabilization (359 days). This can be achievable through renegotiation of payment terms with suppliers or better cash management.

Start date	1 Jun 2018	1 Jun 2019	1 Jun 2020	1 Jun 2021	1 Jun 2022	1 Jun 2023	1 Jun 2024	1 Jun 2025	1 Jun 2026	1 Jun 2027
End date	31 May 2018	31 May 2019	31 May 2020	31 May 2021	31 May 2022	31 May 2023	31 May 2024	31 May 2025	31 May 2026	31 May 2027
Year		2019 A	2020 A	2021 A	2022 A	2023 A	2024 F	2025 F	2026 F	2027 F
Number of Days		365	366	365	365	365	366	365	365	365
Description										
Trade Receivable days	117 days	38 days	38 days	30 days	41 days	53 days	53 days	53 days	53 days	53 days
Inventory days	298 days	167 days	157 days	149 days	149 days	184 days	184 days	184 days	184 days	184 days
Trade payable days	318 days	299 days	394 days	376 days	409 days	359 days	359 days	359 days	359 days	359 days
Operating cycle	416 days	205 days	195 days	179 days	191 days	237 days	237 days	237 days	237 days	237 days
Cash conversion cycle	97 days	-93 days	-199 days	-197 days	-218 days	-122 days	-122 days	-122 days	-122 days	-122 days
Profitability Ratio										
Gross profit Margin	25.86%	11.76%	25.79%	19.17%	27.83%	29.6%	33.2%	34.1%	32.9%	33.4%
Operating profit margin	5.84%	-10.42%	8.64%	11.49%	14.20%	14.1%	17.0%	17.8%	15.8%	16.3%
Net Income Margin	1.23%	-15.24%	1.71%	6.49%	12.65%	11.8%	13.3%	13.4%	11.7%	11.8%
Return on Equity (ROE)	1.26%	-26.24%	3.55%	15.85%	29.74%	25.7%	27.9%	27.2%	23.3%	23.0%
Return on Asset (ROA)	0.72%	-10.30%	1.18%	4.74%	7.70%	7.8%	9.2%	9.5%	8.4%	8.6%
Solvency Ratio										
Debt-to-Equity Ratio	0.00%	0.00%	0.00%	0.00%	65.34%	54.6%	44.9%	37.1%	31.6%	26.9%
Debt-Net Asset Ratio	0.00%	0.00%	0.00%	0.00%	65.34%	54.6%	44.9%	37.1%	31.6%	26.9%
Interest-coverage Ratio										

**Open an online
account today.**

WITH
ASAM  **TRADE**
ONLINE REAL-TIME SECURITIES TRADING



WITH
ASAM  **TRADE**
ONLINE REAL-TIME SECURITIES TRADING

Trade online via our e-trading platform, visit www.arthurstevenonline.com to start trading.

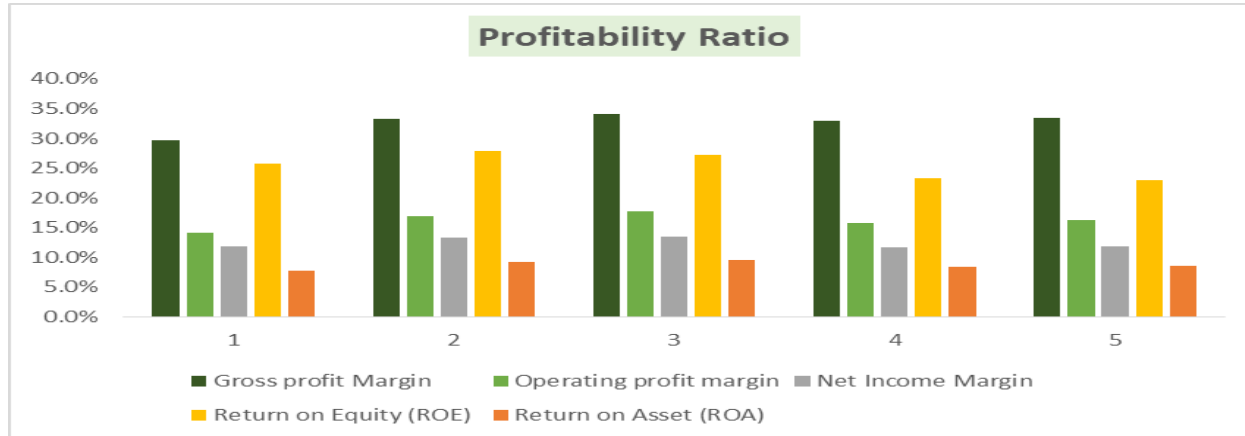
VALUATION REPORT

Our Thought

Gross Profit Margin: Shows a company's financial health by indicating the percentage of revenue that exceeds the cost of goods sold. The margin improves over time, suggesting increasing efficiency or pricing power.

Operating Profit Margin and Net Income Margin: Both show significant improvements. Negative values in earlier periods suggest operational difficulties or costs that have since been managed, as indicated by the positive and growing margins in later periods.

Return on Equity (ROE) and Return on Assets (ROA): These have substantially improved, reflecting better profitability and asset utilization, respectively.



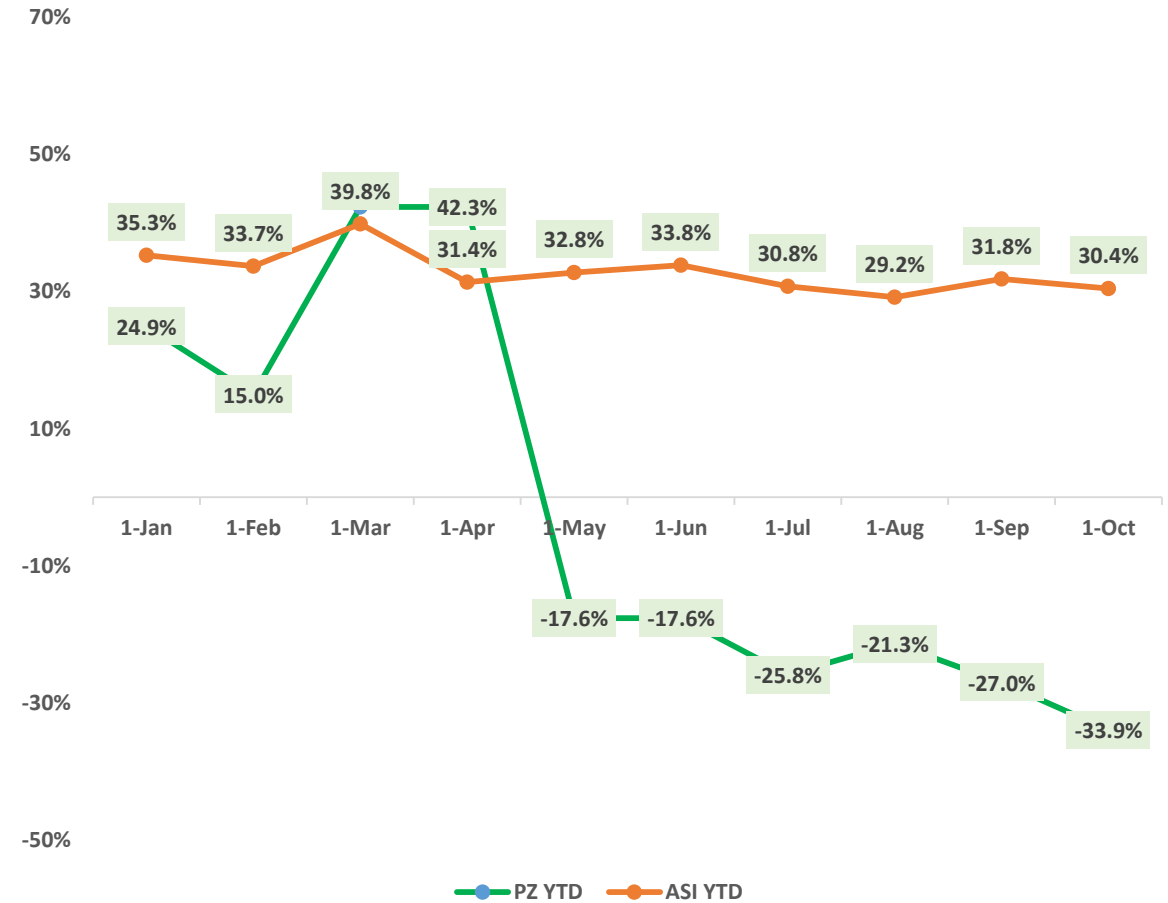
1 Jun 2022	1 Jun 2023	1 Jun 2024	1 Jun 2025	1 Jun 2026	1 Jun 2027
31 May 2023	31 May 2024	31 May 2025	31 May 2026	31 May 2027	31 May 2028
2023 A	2024 F	2025 F	2026 F	2027 F	2028 F
365	366	365	365	365	366
67,413,111	74,634,223	87,893,351	102,393,201	117,925,187	135,656,203
(48,653,086)	(52,528,459)	(58,718,727)	(67,469,532)	(79,122,253)	(90,284,239)
18,760,025	22,105,764	29,174,625	34,923,669	38,802,934	45,371,964
(12,503,257)	(14,890,901)	(17,569,550)	(20,041,064)	(23,464,581)	(26,577,543)
(3,808,074)	(3,808,074)	(3,808,074)	(3,808,074)	(3,808,074)	(3,808,074)
7,311,799	7,311,799	7,311,799	7,311,799	7,311,799	7,311,799
(187,922)	(187,922)	(187,922)	(187,922)	(187,922)	(187,922)
9,572,571	10,530,666	14,920,878	18,198,408	18,654,155	22,110,224
2,454,617	1,779,107	2,004,690	2,258,877	2,545,293	2,868,026
7,117,954	8,751,559	12,916,188	15,939,531	16,108,863	19,242,198
(1,456)	(1,456)	(1,456)	(1,456)	(1,456)	(1,456)
4,149,329	4,149,329	4,149,329	4,149,329	4,149,329	4,149,329
11,265,827	12,900,888	17,065,517	20,088,860	20,258,192	23,391,527
(2,737,391)	(4,087,610)	(5,407,161)	(6,365,099)	(6,418,751)	(7,411,540)
8,528,436	8,813,278	11,658,355	13,723,761	13,839,440	15,979,987

THE STOCK EXCHANGE PERFORMANCE

PZ Cussons PLC's year-to-date (YTD) stock performance stands at **-33.9%**, in contrast to the **30.4%** YTD performance of the ASI-NGX. While PZ Cussons has underperformed compared to the ASI, the company's financial position remains stable, with solid asset utilization and manageable debt levels, suggesting resilience despite its recent stock performance.

According to our forecast analysis, we project a **227%** potential increase from the current stock price of **₦17.65**, leading to a forecasted value of **₦57.68**.

Despite this significant upside potential, our recommendation to adopt a "BUY" position is tempered by the recent **Q2 2024 loss**, attributed to foreign exchange fluctuations. Additionally, PZ Cussons Plc's board is currently evaluating the strategic option of selling off its African operations as part of the Group's restructuring efforts. Given these uncertainties, our current recommendation is to "**HOLD**" until further clarity is provided regarding the strategic direction of the company.



**Open an online
account today.**

WITH
ASAM e TRADE
ONLINE REAL-TIME SECURITIES TRADING



WITH
ASAM e TRADE
ONLINE REAL-TIME SECURITIES TRADING

Trade online via our e-trading platform, visit www.arthurstevenonline.com to start trading.

Analyst Certification, Important Disclosure and Disclaimer

Analyst Certification

The research analysts who prepared this report certify as follows:

That all of the views expressed in this report articulate the research analyst(s) independent views/opinions regarding the companies, securities, industries or markets discussed in this report.

That the research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Investment Rating Criteria and Disclosure

Arthur Steven Asset Management adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell.

These generic ratings are defined below;

Buy: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is greater than our estimated cost of equity.

Hold: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the cost of equity, however, the expected total return on the stock is greater than or equal to the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 27.25%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

Sell: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 27.25%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity, especially as we consider the average 4.5% total transaction cost for an average retail investor.

Disclaimer

Arthur Steven Asset Management (ASAM) notes are prepared with due care and diligence based on publicly available information as well as analysts' knowledge and opinion on the markets and companies covered; albeit ASAM neither guarantees its accuracy nor completeness as the sole investment guidance for the readership. Therefore, neither ASAM nor any of its associate or subsidiary companies and employees thereof can be held responsible for any loss suffered from the reliance on this report as it is not an offer to buy or sell securities herein discussed.

ANALYST

Abdulsalam Ayoade

Abdulsalam.ayoade@arthursteven.com

CONTACT

Arthur Stevens Asset Management Ltd.

**(MEMBER OF THE NIGERIAN
STOCK EXCHANGE)**

**86, Raymond Njoku Street, S.W.
Ikoyi, Lagos**

Website: www.arthursteven.com

Email: info@arthurstevenng.com

**Tel: 09035996606;
08091054142**