



ARDOVA PLC

Opex savings may lift Q4 earnings

- Revenue rises 6% y/y
- Finance costs down 13% y/y
- Net Profit down 28% y/y

In its recently released 9M'21 results, Ardova Plc reported a 6% y/y increase in revenue from ₦128.1 billion to ₦135.6 billion (Vetiva estimate: ₦132.8 billion). However, a dip in its Q3 performance dragged bottom line lower. The company's Q3 performance witnessed a decline, driven by lower profitability margins. While revenue grew 22% y/y and 8% q/q, a 26% rise in cost of sales, as well as a one-off acquisition cost drove bottom line to a loss for the quarter. Evaluating revenue line items, for the 9M period, all business segments posted gains, with turnover from the lubricants business recording the highest improvement, rising 52% y/y, as the continuous increase in prices we have witnessed in the lubricants space supported this jump. Meanwhile, revenue from its fuel operations posted a modest 1% y/y improvement. On a q/q basis, Ardovas's fuel turnover recorded a 12% growth, while its lubricants operations rose 11% q/q.

Furthermore, gross margin trended 5ppts lower, in Q3'21 but remained unchanged at 7% for the 9M period (9M'20: 7%). Gross margin for the quarter printed at 4% (Q3'20: 9%, Q2'21: 9%), as higher costs relative to revenue growth weighed in on margins. This brought gross profit to a 5-quarter record low of ₦2.2 billion. On a positive note, operating expense margin improved to 4% (Q3'20: 6%, Q2'21: 6%), just as operating expenses declined 12% y/y. Nonetheless, this was not enough to boost operating profit, as the decline we saw in gross profit had a trickle-down effect on the line item. In all, operating profit came in at ₦124.7 million for the quarter, down 91% y/y and 90% q/q. We would like to note that the company incurred a one-off cost (₦193.3 million), related to its acquisition of ENYO; this, coupled with weak profitability margins, dragged bottom line to a ₦487 million loss for the quarter.

Also, Ardova recorded a net operating cash outflow of ₦47 million (H1'21: ₦805 million), largely a reflection of lean margins in fuel operations, that have continued to strain working capital.

As we approach the end of the year, we expect to see increased demand in the fourth quarter, given the customary festive period. Thus, revenue from the company's fuel business is expected to print at ₦166.2 billion (up 1% y/y). Similarly, turnover from the company's lubricant operations is expected to come in at ₦26.4 billion (up 55% y/y). This brings total revenue for FY'21 to ₦193.4 billion (FY'20: ₦181.7 billion). However, given that its profitability margins have suffered a hit, we revise our estimate for its full year bottom line performance; thus, we expect net income to come in at ₦2.3 billion (FY'20: ₦2.0 billion). That brings our full year EPS estimate to ₦1.75 (FY'20: ₦1.58). All in, we have revised our target price to ₦23.60 and maintain our BUY rating on the stock.

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BUY

Target price **₦23.60**

Company Statistics

Price (₦)	13.55
Market Cap (₦Mn)	17,648
Total Assets (₦Mn)	72,766
Debt to Assets	17%
Shares Outstanding (Mn)	1,302
NSE	ARDOVA
Bloomberg	ARDOVA.NL
Reuters	ARDOVA.LG

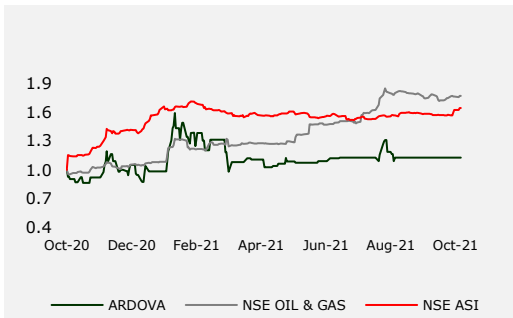
Ownership Structure

Ignite Investments and Commodities Ltd	74.06%
Others	25.94%

Share Price Performance

30 days	-13.00%
YTD	-0.37%
365 days	7.00%

Price Movement (Rebased)



Business Description

Ardova PLC. (ARDOVA) is a foremost Nigerian integrated energy group. The Company changed its name to Ardova Plc in 2019 upon restructuring and rebranding, with Ignite Investments and Commodities Limited as its major shareholder. Headquartered in Lagos, Nigeria, Ardova's products mix includes refined petroleum products and lubricants.

Vetiva Capital Management Limited

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	9M'21	9M'20	Y/Y Change	Vetiva Estimate	Deviation
Income statement (N'mil)					
Revenue	135,676	128,179	6%	132,823	2%
Cost of sales	126,393	119,232	6%	121,779	4%
Gross profit	9,283	8,948	4%	11,044	-16%
Operating expenses	(6,512)	(6,702)	-3%	(7,747)	-16%
Other income	131	672	-81%	570	-77%
Operating profit	2,707	2,917	-7%	4,302	-37%
Net finance income/(charges)	(582)	(497)	17%	(547)	6%
Profit before taxation	2,063	2,421	-15%	3,494	-41%
Taxation	(701)	(533)	32%	(1,074)	-35%
Profit for the year	1,362	1,888	-28%	2,420	-44%
Gross margin	7%	7%		8%	
Operating margin	2%	2%		3%	
Net margin	1%	1%		2%	



Income Statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
	N'mil	N'mil	N'mil	N'mil	N'mil	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil
Turnover	176,551	181,664	193,388	210,517	223,100	576	479	510	555	589
Cost of Sales	(165,269)	(169,558)	(181,180)	(193,986)	(202,823)	(539)	(447)	(478)	(512)	(535)
Gross Profit	11,282	12,107	12,208	16,531	20,277	37	32	32	44	54
Operating Expenses	(10,674)	(9,241)	(7,736)	(10,526)	(10,374)	(35)	(24)	(20)	(28)	(27)
Other Income	4,317	1,472	400	404	408	14	4	1	1	1
EBIT	4,924	4,338	4,873	6,409	10,311	16	11	13	17	27
Net Finance (Expenses)/Income	(270)	(1,138)	(1,609)	(1,781)	(1,636)	(1)	(3)	(4)	(5)	(4)
Profit Before Tax	4,654	3,199	3,263	4,629	8,675	15	8	9	12	23
Taxation	(739)	(1,136)	(979)	(1,389)	(2,603)	(2)	(3)	(3)	(4)	(7)
Profit After Tax	3,915	2,063	2,284	3,240	6,073	13	5	6	9	16
Balance Sheet	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Property, Plant & Equipment	11,117	10,160	9,538	8,930	8,330	36	27	25	24	22
Investment Property	1,507	1,481	1,455	1,429	1,403	5	4	4	4	4
Inventories	12,834	14,536	14,531	15,413	16,115	42	38	38	41	43
Trade and Other Receivables	16,678	31,271	37,088	38,305	41,690	54	83	98	101	110
Cash and Cash Equivalents	1,984	2,993	8,378	6,893	6,529	6	8	22	18	17
Assets classified as held for sale	0	0	0	0	0	0	0	0	0	0
Total Assets	47,019	62,443	72,969	72,926	76,001	154	165	193	192	201
Trade and Other Payables	22,823	35,435	35,740	34,545	33,341	75	93	94	91	88
Loans and borrowings	0	0	4,100	4,300	4,500	0	0	11	11	12
Bank Overdraft	117	3,547	10,548	8,548	6,548	0	9	28	23	17
Medium Term Bond	5,212	2,848	0	0	0	17	8	0	0	0
Share Capital	655	655	655	655	655	2	2	2	2	2
Share Premium	8,072	8,072	8,072	8,072	8,072	26	21	21	21	21
Retained Earnings	8,830	10,893	12,852	15,701	21,318	29	29	34	41	56
Non-controlling interests	0	0	0	0	0					
Shareholders' Funds	16,163	18,227	20,185	23,035	28,651	53	48	53	61	76
Total Equity & Liabilities	47,019	62,443	72,969	72,926	76,001	154	165	193	192	201
Cash Flows Statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Operating Activities	5,683	1,283	33	3,539	4,644	19	3	0	9	12
Investing Activities	12,651	79	(967)	(1,053)	(1,115)	41	0	(3)	(3)	(3)
Financing Activities	(8,128)	(3,773)	6,318	(3,971)	(3,892)	(27)	(10)	17	(10)	(10)
Cash and Cash Equivalents	1,984	2,993	8,378	6,893	6,529	6	8	22	18	17



GROWTH RATES	2019A	2020A	2021E	2022F	2023F
Turnover growth	31%	3%	6%	9%	6%
Growth in EBITDA	63%	-22%	4%	43%	44%
Growth in EBIT	67%	-12%	-7%	58%	54%
Growth in PBT	352%	-31%	-32%	107%	80%
Growth in PAT	520%	-47%	-26%	107%	80%

PROFITABILITY	2019A	2020A	2021E	2022F	2023F
Return on Equity	26%	12%	8%	15%	23%
Return on Assets	7%	4%	2%	4%	8%

MARGINS	2019A	2020A	2021E	2022F	2023F
Gross Margin	6%	7%	7%	8%	9%
EBITDA Margin	4%	3%	3%	4%	5%
EBIT Margin	3%	2%	2%	3%	4%
Pretax Margin	3%	2%	1%	2%	4%
Net Margin	2%	1%	1%	2%	3%

PER SHARE DATA	2019A	2020A	2021E	2022F	2023F
Earnings per Share	3.01	1.58	1.18	2.43	4.38
Dividend per Share	1.15	0.19	0.25	0.30	0.35



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Company	Disclosure
ARDOVA PLC	g, h, j

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