

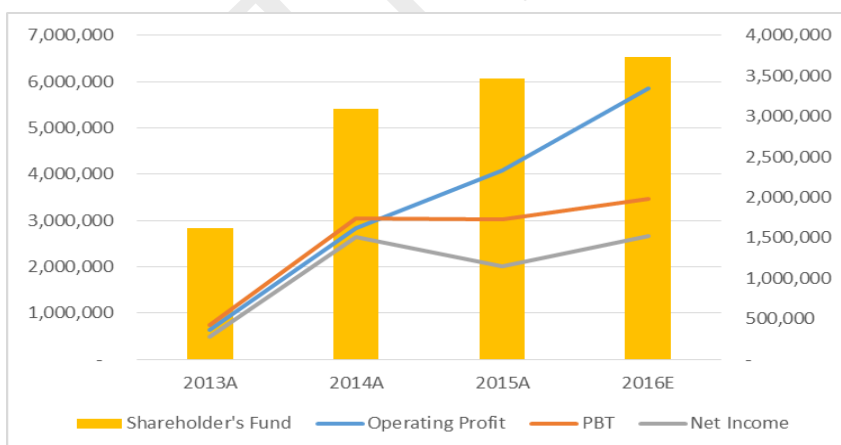
AFRILAND: the new kid on the block?

Investment Highlight

Full Year 2015: Revenue growth despite challenges

Afriland Properties (or the “Company” or “Afriland”) Plc, released its audited Financial Statement for the year ended December 31, 2015 with a dividend payment of 40 kobo per share. Total revenue grew by 24.10% to ₦1.35 billion (\$0.67mn) from ₦1.09 billion (\$0.54mn) Year-on-Year (YoY). Profit after tax (PAT) declined by 23.57% to ₦1.15 billion (\$0.57mn) from ₦1.51 billion (\$0.75mn) YoY. The Company recorded increases of 87.5% and 53.19% in rental income and fees and commission respectively; these were major drivers of total revenue. Administrative expenses declined by 35.25% compared to previous year (2014) to give an improved operating profit which grew by 44.20% YoY. Finance cost soared in 2015 as a result of the provision for the Falomo Shopping Mall project.

We have reviewed our two years forecast (2016 and 2017) which reflects moderate growth in 2016 due to the associated economic challenges in the period.



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Price Objective: BUY

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Stock Data

Price	₦2.32
Price Objective	₦3.29
Date Established	17-March-2007
Investment Opinion	Positive
Volatility Risk	Medium/Low
52-Week Range	₦2.10 - ₦2.57
Market Value (mn)	US\$14.56
Shares Outstanding (mn)	1,249.0
Average Daily Volume	45,768
Symbol / ISIN	SDAFRILAND / NGSDAFRLAND2
ROE (2016E)	23.27%
Net Debt to Equity (Dec 2015A)	108.3%
Est. 5-Yr EPS / DPS Growth	12% / 12.5%
Free Float	62.00%

Investment Report Summary

◆ Sustained FY 2015 Revenue Growth; Rev. + 24.10%; Buy

We moderated growth around revenue following a possible decline in project development income (-63% YoY) ahead of issues with Lagos State Government concerning the Falomo Shopping Mall project. Company made remarks to growing issues on the project earlier. However, key worry which include goodwill on the Falomo project (acquisition of Heirs Real Estate Limited) and rising finance cost attributable to the project was slowed by increasing rental income (+53% YoY). An EPS CAGR of 27.67% (FY15-16E) & creation of vehicles of future growth through the near completion status of Ughelli Power staff housing, renovation of Raymond House into a world class business office and other projects are potential triggers.

◆ Tangible Dividend Despite Slow Economy; DPS 40k

Company reported increase in operating profit (+45% YoY) amidst economic slowdown. Sustained dividend payment of 40k (2014: 40k) with dividend yield of 17.32% (price N2.32). Available for sale assets took amortization hit of N630 million as diminution in value of share investment. However, re-valuation gains on investment properties, rental income growth (+53% YoY) added to operating profit growth. Revised economic growth of 3.9% with significant investment in infrastructure (housing and power) are harbingers of future growth.

◆ Real Estate Hedge on Rapid Inflation Growth

Expenses were cut (-54.32% YoY) showing efficiency in operations to create value in bottom-line. CPI driven inflation tipped to 4-yr high (+120bps) in March to 12.8% following MPR reduction to 11% in Dec 2015 (Mar-2016: 12%). Company intends to increase market share from the N6.5 trillion market value targeted to grow at 15% over the next decade. We see improved profitability led by flawless execution – fees and commission +81%y-y, 15bps expansion in margins, and dividend from business N0.43 v/s N0.40.

Estimates and Valuation

Estimates (Dec)

(N)	2013A	2014A	2015A	2016E
Net Income	281,939	1,509,229	1,153,499	1,522,619
EPS	0.28	1.27	0.92	1.22
EPS Change YoY	833%	354%	-28%	33%
Dividend/Share	0.10	0.40	0.40	0.43
Free Cash Flow/Share	1.86	0.86	-1.33	6.31

Valuation (Dec)

	2013A	2014A	2015A	2016E
P/E (x)	7.09	1.92	2.51	2.70
Dividend Yield	5.00%	17.24%	17.24%	15.09%
Liquidity Ratio (x)	1.22	1.77	1.17	1.19
ROE	9.97%	27.92%	19.04%	23.27%
ROA	6.66%	18.42%	7.55%	7.12%

Price Objective Basis & Risk

Afriland Properties Plc (SDAFRILAND)

We have valued the business at ₦3.29 per share at a PER of 2.70x (2.51x) 1-year forward which is at 41.81pct premium to its current value. We have factored in the anticipated additional revenue streams which may potentially crystalize in the course of the year. Its potential BOT stake in the Falomo shopping Mall Project is valued at 18pct strategic premium to CMP at ₦0.43 per share.

Risks to Price Objective: Raw materials, Competition, Project execution, Macro-economic environment.

Downside Risks

Project execution: efficient execution of projects in the business portfolio will be very important from earnings perspective and delays could impact negatively on profitability.

Cash flow: proper monitoring of cash flow generation and robust method of collecting monies owed to the business will be very impactful on profitability.

Raw material price: the current FX regime which does not favor importation could affect near term earnings adversely although efforts are being made towards backward integration.

Macro-economic environment: change in government has slowed down economic growth and changed business operations since 2015 majorly having negative impact on businesses. Also, rising interest rate and commodities prices may adversely affect infrastructure projects due to sensitivity to interest rates.

AFRILAND PROPERTIES PLC	2013A	2014A	2015A	2016E
N'000				
Turnover	595,445	1,090,436	1,353,188	1,707,657
Profit Before Tax	424,747	1,744,958	1,726,259	1,985,456
Profit After Tax	281,939	1,509,229	1,153,499	1,522,619
Number of Shares	500,000	624,500	624,500	624,500
Earnings Per Share**	0.28	1.21	0.92	1.22
Dividend Per Share**	0.10	0.40	0.40	0.43
**Kobo				

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