

CSCS: grappling with economic performance

GTI Securities Research

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CSCS PLC

NASD Symbol: SDCSCSPLC

Listed on the NASD

Recommendation: BUY



Key Statistics

Fair Value	₦6.79
Current Price	₦6.10
Outlook	Neutral
Industry View	Positive
Market Cap	\$301.51Mn
Exchange Rate [\$]	₦197

Price-Earnings [P E]

2014 Trailing	6.27X
2015F	7.78X
2016F	7.18X
ROE	22.46%
ROA	20.03%
Outstanding Shares	10Bn

INVESTMENT HIGHLIGHT

9 Months 2015: Market decline scrapes earnings

Central Securities Clearing System (or the “Company” or “CSCS”) Plc, released its unaudited Financial Statement for the period ended September 30, 2015 in October 2015. Total revenue declined by 7.58% to ₦5.68 billion (\$28.83mn) from ₦6.14 billion (\$31.42mn) Year-on-Year (YoY). Profit after tax (PAT) also declined by 10.83% to ₦3.36 billion (\$17.05mn) from ₦3.77 million (\$19.13mn) YoY. The Company battled with expenses which rose by 16.17% leading to a decline of 18.76% in profit before tax. Expense to revenue ratio grew to 28.31% in Q3 2015 compared to 22.52% in previous year. Cost to revenue ratio also grew in the period under review.

Trading activities on the Nigerian Stock Exchange reduced significantly YoY with total deals reducing from 936,697 deals to 771,706 deals (17.61% decline). Q3 2015 YTD showed value of trades at ₦829.21 billion as against ₦1.021 trillion (18.82% decline) for comparative period in 2014.

Interest income grew by 25.38% compared to same period in 2014 while the Company’s operating profit margin declined to 71.69% compared to 77.48% in 2014.

We have reviewed our two years forecast (2015 and 2016) which reflects decline in 2015 due to reduced trades in the capital market and slowing economic performance.

VALUATION ANALYSIS

Based on our analysis, CSCS Plc is currently undervalued. It is trading at a discount to our estimated fair value of ₦6.79 with a 12Month investment horizon. In arriving at our fair value for the stock, we focused on the historical financial performance of the stock and our expectation for FY 2015.

Our fair value for CSCS shares was calculated using the Dividend Discount Model (DDM) comprising our expected dividend consideration for the Company and GTI Securities customized tweak to adjust for the risk of investing in Nigerian. Our Required Rate of Return (RROR) factors in a risk premium of 12.50% and the yield for the most recently issued 20-Year FGN Bond was applied as the risk free rate of return.

We have placed a **BUY** rating on the stock of CSCS Plc.

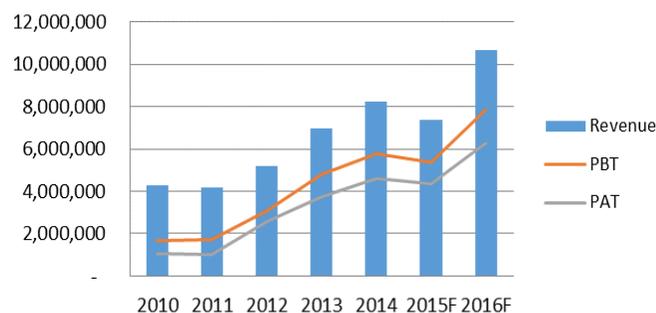
FORECASTS

Our FY 2015 revenue forecast for CSCS has been reviewed downward by 23.17% to ₦7.36 billion (\$37.36mn) representing a 10.68% decline relative to FY 2014. Profit after tax estimate for FY 2015 was also reviewed downward by 21.01% to ₦4.36 billion (\$22.13mn); a 5.80% decrease from FY 2014. This yields an EPS of ₦0.87 and a forward P/E of 7.78X.

The Company was hit by the Securities and Exchange Commission (SEC) policy which ensures that 10% of transactions fee income is remitted to Investment and Securities Tribunal (IST) based on directive from the regulator.

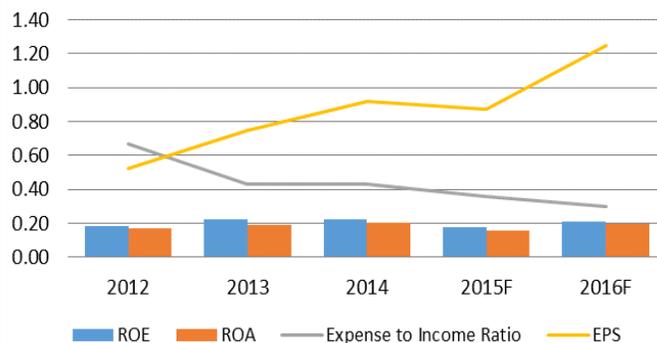
The Company is on the verge of reviewing its 5-year strategy for growth in Nigeria and West Africa. We expect a more stable FX rate regime in the country hence a reduction in losses accrued to FX variances.

Growth History & Projection



Revenue and profit after tax is projected to decline this year by 10.68% and 13.47% respectively. Earnings will improve in the year 2016 due to perceived improvements in general economic performance.

Financial Indicators



Financial indicators have been stable over the years with a projected slight decline in 2015. Earnings Per Share (EPS) is projected to decline in FY 2015 as a result of decline in net profit.

INVESTMENT CONCLUSION/OUTLOOK FOR CENTRAL SECURITIES CLEARING SYSTEM PLC

The shares of CSCS Plc currently trade at 10.16% discount to our fair value estimate of ₦6.79

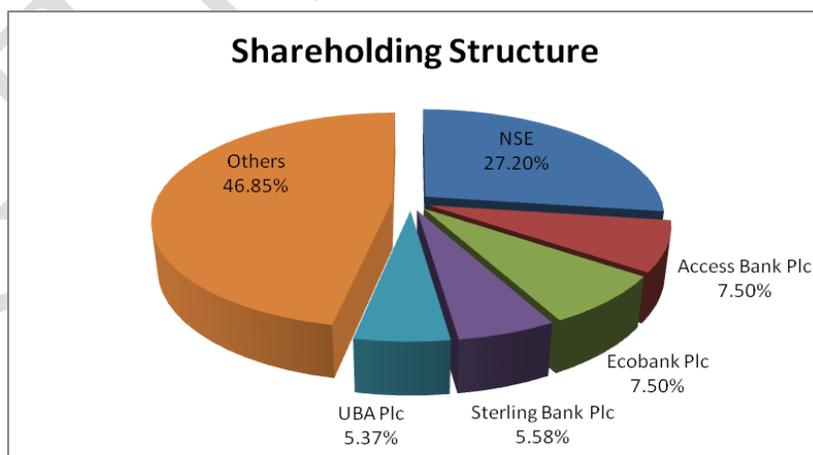
The earnings of CSCS Plc was largely distorted by the remittance of 10% transactions fee income to Investment and Securities Tribunal (IST) based on SEC directive. Also, the value traded on the Nigerian Stock Exchange has reduced by more than 18.82% in the period under review. However, the new SEC rules regarding trading and transfer of shares of unlisted public companies has helped maximize profit for CSCS with an increase of 2088% in NASD transaction fees for 2015 compared to 2014. We expect that turnover on the NASD trading platform will continue to grow as the market expands.

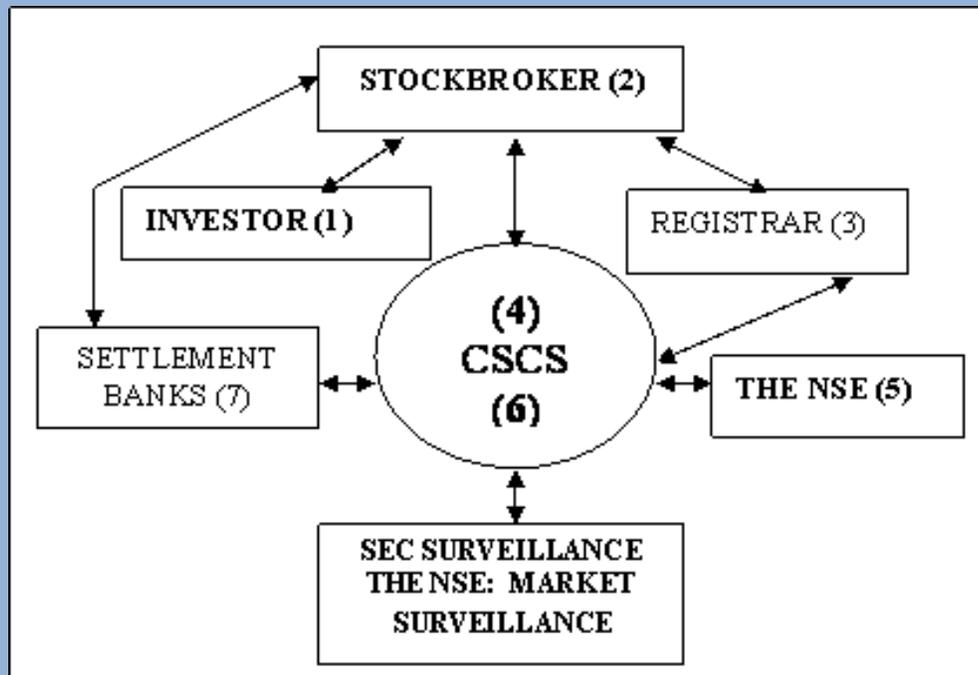
CSCS is partnering with Africlear, African Development Bank and others to develop a platform that will enable investors attend general meetings electronically and vote online real-time as a way to improve market integration through collaborative approaches designed to harmonize post-trade processes and procedures. This will help CSCS move up the value chain, offer new services and establish links to new markets, both domestic and international.

Our analysis clearly shows a slowed growth in CSCS owing to losses due to FX variances and several ongoing projects. Major expense heads that contributed to earnings decline include software licenses (17.66%), computer/IT maintenance (123.41%), and travelling expenses (57.90%), etc. all showing YoY increases.

We expect the Company to pay a dividend of ₦0.30 (a growth of 11.11% from previous dividend) for FY 2015.

We have a BUY recommendation on the shares of CSCS Plc.





FINANCIAL SUMMARY AND FORECAST, 2015 AND 2016

CSCS	2011	2012	2013	2014	2015F	2016F
	N'000					
Revenue	4,193,971	5,172,244	6,887,603	8,241,938	7,361,699	10,674,464
Profit Before Tax	1,730,377	3,094,174	4,824,283	5,759,951	5,371,432	7,839,557
Profit After Tax	1,000,900	2,577,847	3,738,297	4,622,045	4,361,535	6,271,646
Share Capital	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Earnings Per Share**	20.02	51.56	74.77	92.44	87.23	125.43
Dividend Per Share**	10.00	15.00	22.00	27.00	30.00	39.00
**in kobo value						

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