



Equity Analyst Report  
Issued on June 18, 2009

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## 1. The Operating Environment

**“The operating environment and landscape has changed fundamentally; tomorrow’s environment will be different, but no less rich in possibilities for those who are prepared.”**

*– Ian Davis, McKinsey’s Worldwide Managing Director, March 2009*

**“..We adapt to cope with change, in order to survive in the future. Survival may be environmental or economic, and they are increasingly interdependent. Survival is the bottom line when it comes to sustainability.”**

*– Harry Duynhoven 21 July, 2008- Speech to the Aviation Industry Annual Conference*

In 2007, the global aviation industry turned a profit since 2000, of approximately US\$5.6bn. This turnaround has been beset with new challenges thrown up by the global market downturn but this has seemingly not severely affected the Nigerian ground handling business which posted a 114% increase in volume of activities and an 86% increase in value of earnings.

We believe that a threshold has therefore been set below which, economic activities may not fall without dire consequences for other sectors and the Nigerian economy at large. This gives room for optimism for businesses in this industry and unless something catastrophic occurs, businesses in the sector;

### **THE 2009 MARKET REALITY**

The aviation sub-sector which, like most stocks, reached 2006 year lows in 2008/09 has begun the early phase of the changes needed in strategy, tactical operations and disclosures.

These changes can be gleaned from the following market realities firms in the sub-sector must confront:

- ① The Airline support service industry, despite being a relative small market, is still highly competitive, regulated and with restrictive opportunities.

- ❶ Growth opportunities in the industry is highly influenced by developments in the airline industry which is facing reduced margins and costs not easily passed to customers but to outsourced operations.
- ❷ Competition in the industry will get tougher as global players expand their horizon to compete in local markets like ours as a size and scope strategy for their survival.
- ❸ The time has come to move beyond the cut-throat business model to a more demanding but sustainable model to create a game-changer for the company.

### **MANAGING CHANGE - THE VALUE PARADIGM**

The market is uniquely poised to embrace a player with a leadership mindset focused on creating new value-linkages for customers at a lower cost of service than hitherto obtains. Events in the first half of the year provide an insight into how to determine such firms.

Such firms will have to make capital investment and funding decisions in 2009 to position for 2010 and beyond. This is expected to invariably impact on the results and returns permissible in the accounting year ended 2009. Some factors worth considering for the investor in this sector include players' response to the following:

1. The completion of the SAHCOL privatisation this year with a preferred bidder identified in a matter of weeks.
2. The options taken by Swissport, already with a licence, making its entry into the market through an acquisition or merger to reduce its capacity building curve.
3. Unregulated fringe operators who continue to grow and provide a 'market' for the customers coping with increasing cost of doing business and would welcome such 'price under-cuts'.
4. Declining activity and margins for 'core customers' leading to cost reduction measures which will be taken off firms providing outsourced services.
5. Entrance of new players with global alliances, licensing of new players and possible mergers of existing competitors.
6. Human resources challenges driven on two fronts by staff poaching and labour unrests.
7. Equipment replacement and funding issues.
8. Restricted market space within traditional definitions.

## 2. Fundamental Analysis

**The Objective:** To review the stock valuation by examining the company's financials and operations, especially earnings, growth potential, assets, debt, management, products, and competition through financial ratios arrived at by studying the balance sheet and profit & loss account over a number of years. This analysis is more effective in fulfilling long – term growth objectives of shares, rather than their short – term price fluctuations.

In the Nigerian Stock Market, this has traditionally been the key focus of most players and it remains a guiding beacon as to what could possible happen to a stock.

### THE 2007 PUBLIC OFFER

The company had raised N2.0bn through a hybrid offer i.e. Offer for Subscription and Rights Issue in 2007 to augment its shareholders fund at N17.50k & N16.50k respectively. This offer was successful.

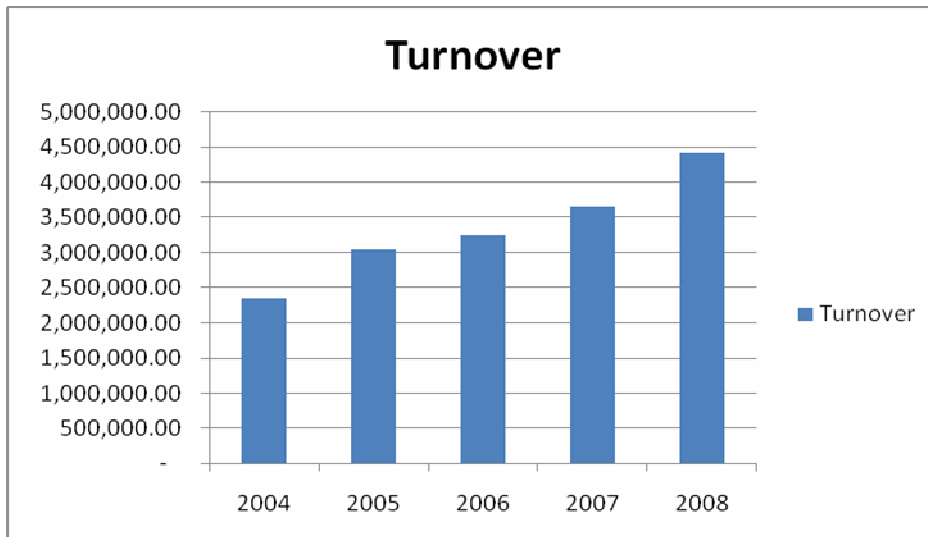
On its current outstanding shares in issue of 984.4 million units, it recorded Q1 2009 EPS of 82kobo. Its share price closed the week at a price of N10, a Year till Date depreciation of 10.31%, year high of N12.7 and low of N5.64.

NAHCo's un-audited Q1 result for the period ended 31st March, 2009 showed that its turnover increased by 31.63% to N1.44bn from N1.1bn while PAT increased by 101.15% to N419.61m from N208.6m in the comparable period. NPM increased by 52.81% from 28.97% from 18.96%.

### TURNOVER TREND

NAHCo has consistently improved on its turnover over the past five years. The company recorded a 5-year compounded annual growth rate (CAGR) of 13.58% in turnover from N2.34bn in 2004 to N4.43bn in 2008. After achieving annual turnover growth rate of 30.16% in 2005, the first ever in the past 5 years, the company's turnover growth rate nose-dived significantly to 6.4% in 2006 financial year.

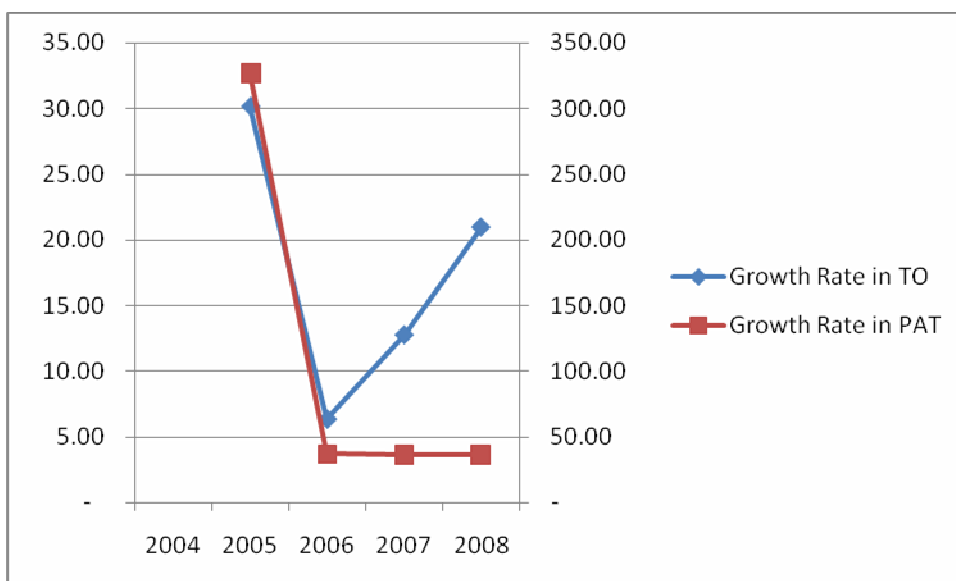
**As compared to 12.81% growth rate in Turnover in 2007, the company has annual turnover growth rate is 21% in 2008, 63.92% higher as compared to previous year.**



NAHCo’s Q1 results for the period ended March 31, 2009 revealed a higher growth rate of 31.63% as the turnover rose from N1.1bn in the corresponding quarter of prior year to N1.44bn.

**TREND IN EARNINGS GROWTH:**

NAHCo grew its after-tax profit from N74.48m in 2004 to N802.91m in 2008, thus translating to a 5-year CAGR of 60.90%. However, the company achieved after-tax profit growth rates of 326.55% in 2005 **but since 2005 growth rate in Profit after tax is approximately 36% with no significant improvement.**

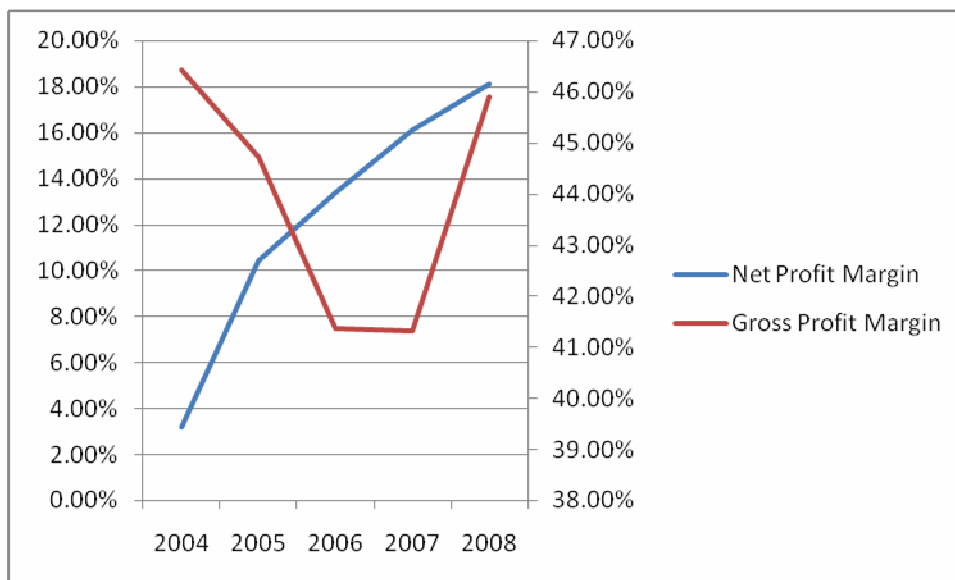


The analysis may suggest a slowed growth in earnings is due to non efficient utilization of funds raised from the Public Offer in year 2007 as well as the growing competition in the industry, mainly reinforced by the current strategic turnaround of its main rival SAHCOL, which is being transferred to private hands.

However, the company's results for the period ended Q1 2009 showed a higher profit growth (quarter-on-quarter) of 101.15% as it posted an after-tax profit of N419.61m against N208.6m reported over similar period in 2008.

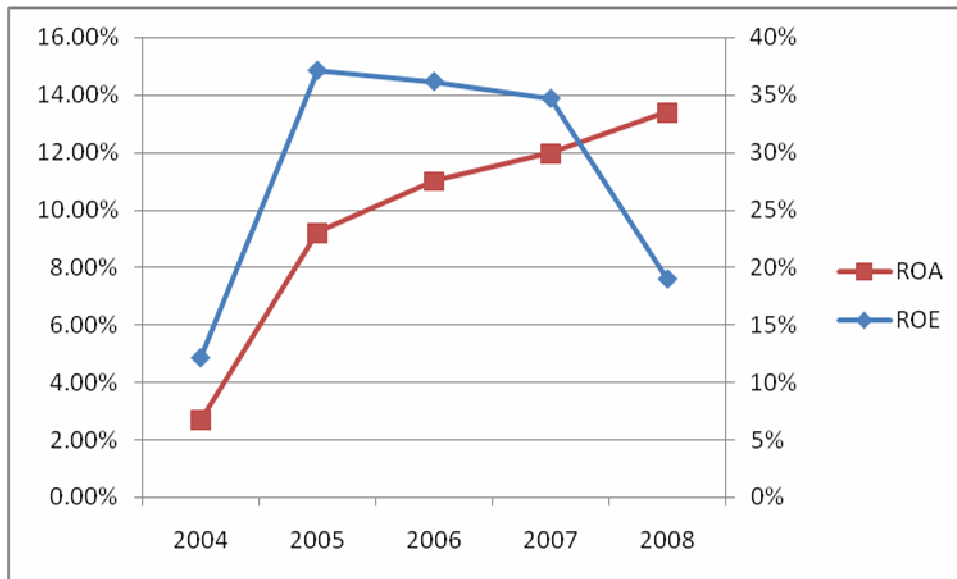
NAHCo's Gross profit margin which was constant since last 2 years at 41 % increased by 11.1% to 45.90% in the year 2008 and the company's net profit margin rose consistently from 3.18% in 2004 to 18.12% in 2008. A significant reason for this improvement could be seen in the cost management area where the company achieved an 11.5% increase compared to the corresponding increase of 21% in cost of operations.

The operating profit margin increased significantly from 6.38% in 2004 to 25.27% in 2008.



NAHCo's Return on Equity (ROE) averaged 28% between 2004 and 2008. **The Return on Equity has been reduced drastically by 45.15% from 35% to 19% per cent** as Shareholders funds of the company increased by 148.11%.

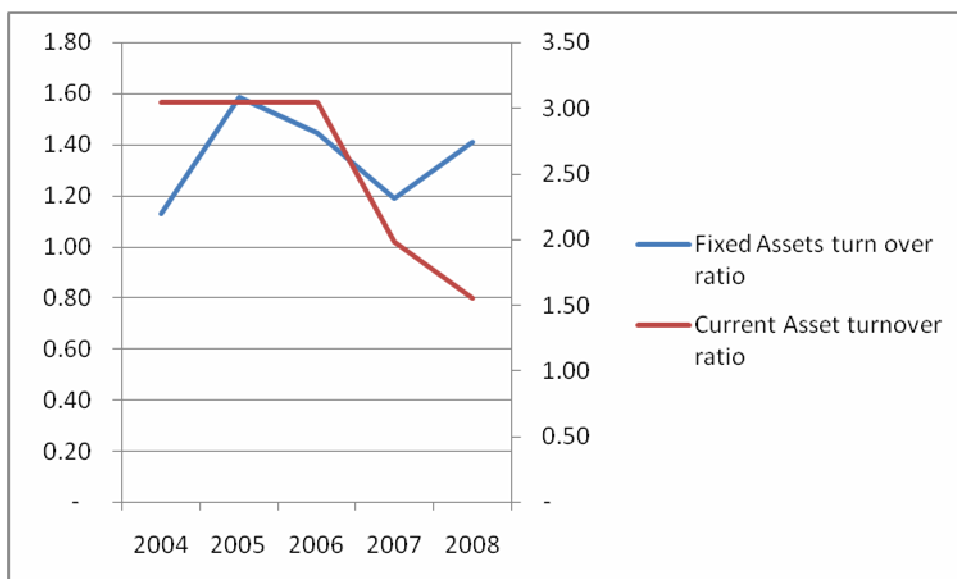
Moreover, the company's Return on Asset (ROA) which increased by 33.43% from 19.14% in 2007 to 25.54% in 2008.



### ASSET MANAGEMENT AND EFFICIENCY

NAHCo has maintained a stable level of efficiency in its asset utilization since last two years at 0.74x which has been reduced from 0.8x in the year 2006 and 2005.

The fixed assets turnover ratio has moved up from 1.19x in 2007 to 1.41x in 2008. But asset use efficiency in terms of the current asset turnover plunged from 1.98 x in 2007 to 1.56x in 2008, which suggest that **the company is less efficient in the deployment of its liquid assets.**



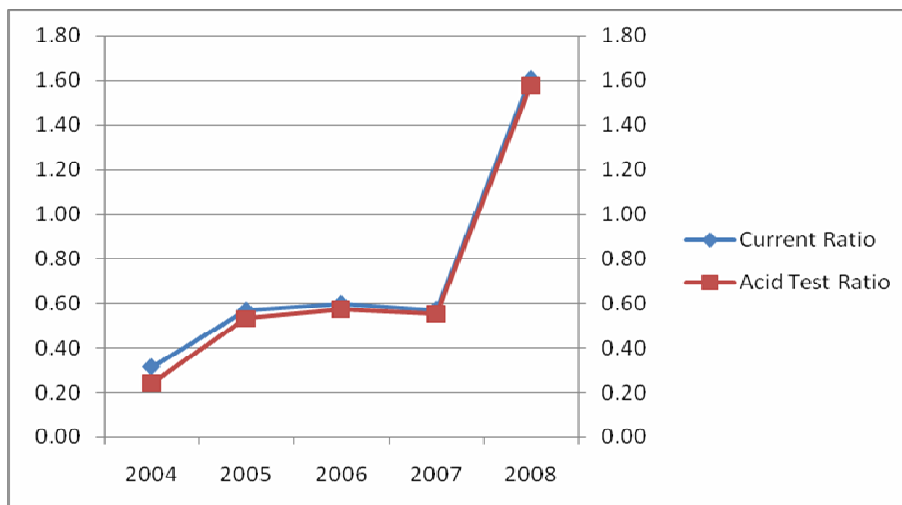
The growth in Operational Cost has been reduced by 10.4%, which is reflected in **cost efficiency as Operating Expenses to Sales (Opex-to-Sales) ratio plummeted from 58.69% in 2007 to 54.10% in 2008.**



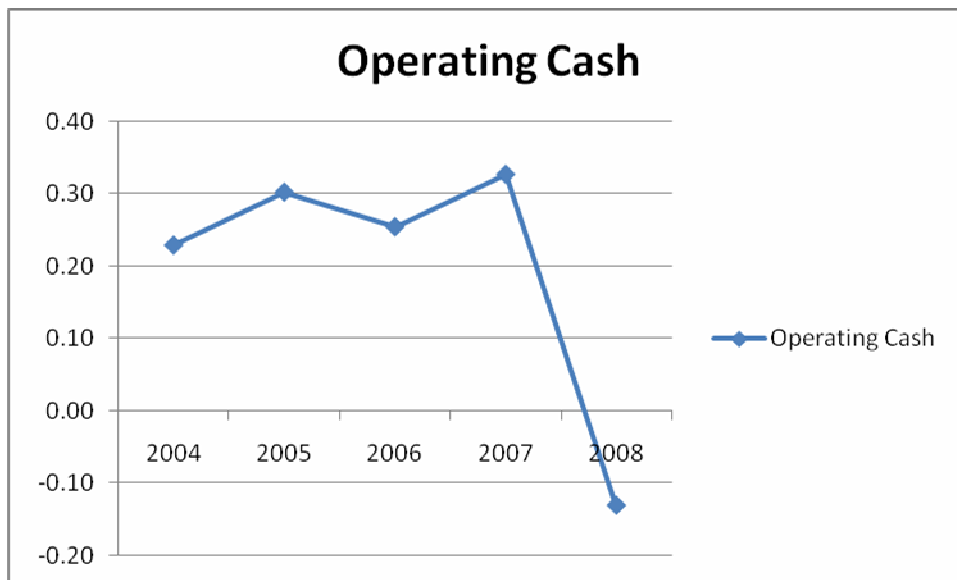
### LIQUIDITY AND SOLVENCY

In terms of liquidity, NAHCo has maintained a significant improvement as shown in the **upbeat recorded in its current ratio which moved from 0.99x in 2007 to 2.24x in 2008.**

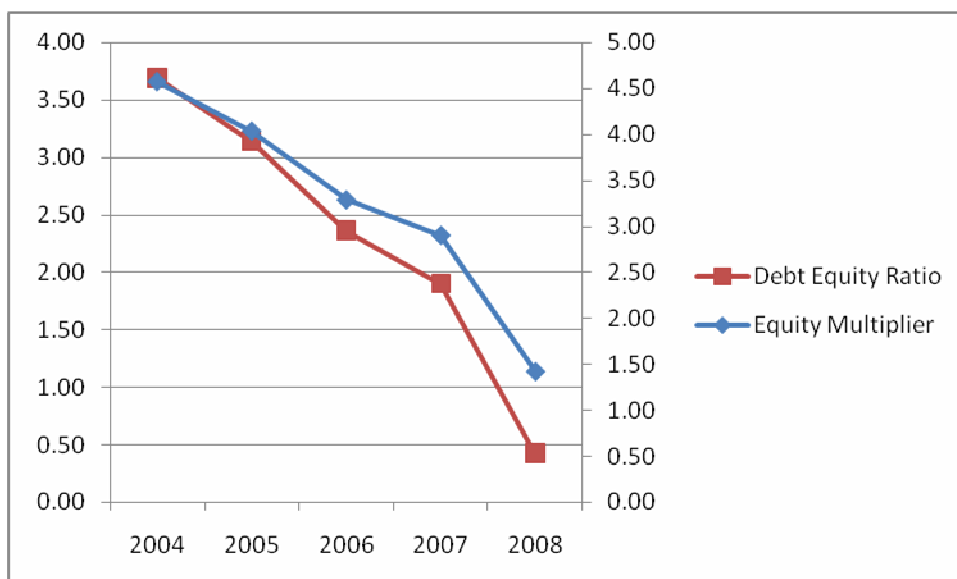
Similarly, trend in the company’s acid-test ratio in recent years portends stable liquidity position. **The company’s acid-test ratio later remains steady at 0.96 times in 2006 and 2007 financial years while in the year 2008 it has moved up to 2.19** which indicates that company’s readily realizable short-term assets now cover 219% of its total short-term liabilities. All these suggest a good liquidity status for a service oriented company like NAHCo.



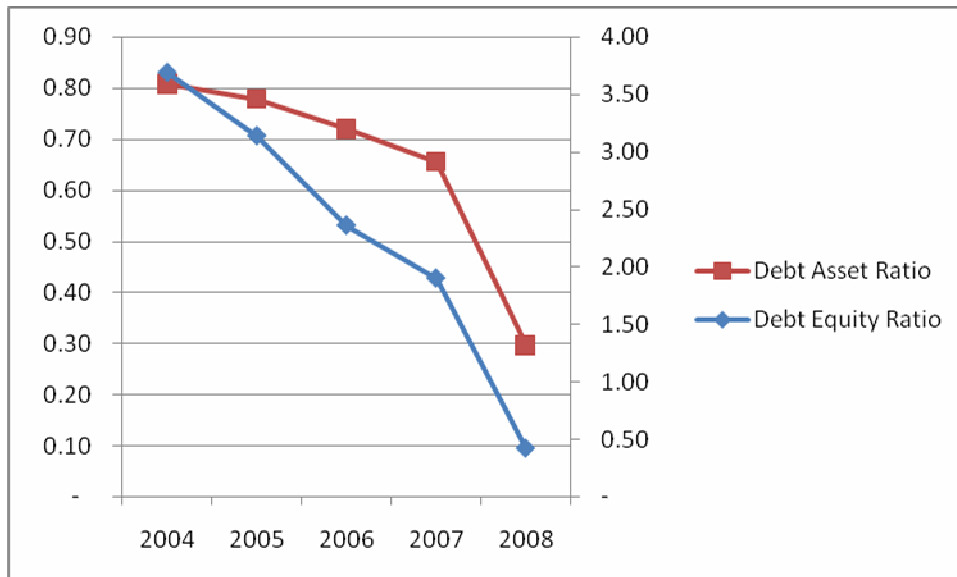
However, there has been observable deterioration in the quality of net cash generated from operations. This is decipherable from the downward trend of operating cash flow ratio (OCF) which nosedived from 0.57x in 2007 to -0.18x in 2008. This suggests a **weakening strength in the company's cash generating operations in covering its current liabilities.**



Measures of solvency and debt management revealed appreciable improvement. Equity multiplier fell precipitously from 2.90x in 2007 to 1.42x in 2008. This indicates a significant **reduction in financial leverage of about 51.04% as the company adjusted its capital structure by replacing part of its debt capital with equity.** The Debt Equity ratio has been reduced significantly reduced by 77.89% from 1.90x to 0.42x.



The company **long-term debt has been reduced and its total debt–asset ratio has declined** from 65.52% in 2007 to 29.58% in 2008. In the same vein total–debt-to-equity ratio declined from 190.02% to 42.01% in 2008.



### 3. Technical Analysis

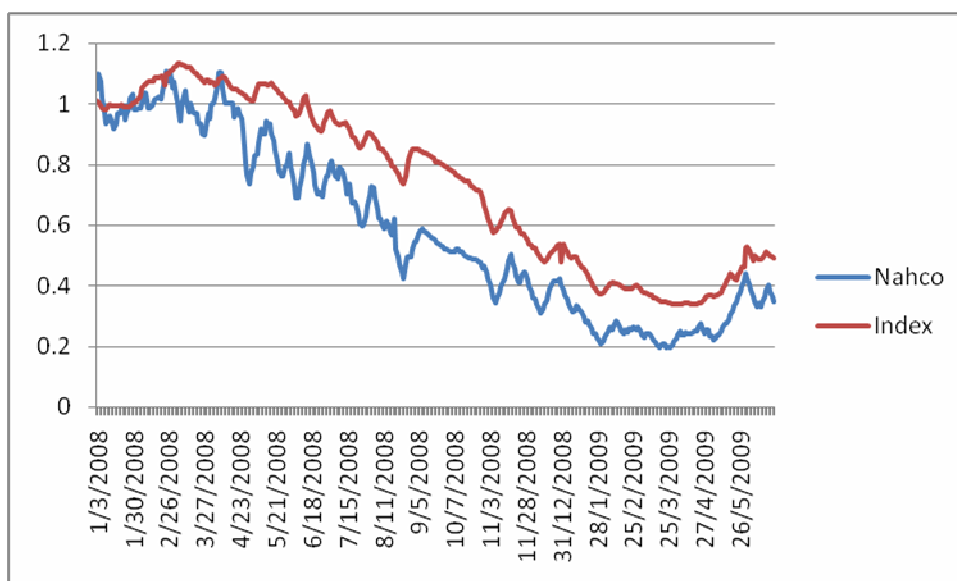
**The Objective:** To review the stock valuation by relying on the assumption that market data, such as charts of price, volume, and open interest, can help predict future (*usually short-term*) market trends. Unlike fundamental analysis, the intrinsic value of the stock is not part of the consideration here.

More and more investors are beginning to appreciate and rely on technical analysis in reviewing stocks on the Nigerian Stock Exchange because of the proven fact that market psychology influences trading in a way that enables predicting when a stock will rise or fall. For that reason, technical analysis are market timed based and predicated on the belief that technical analysis can be applied just as easily to the market as a whole as to an individual stock.

#### INDEX IS OUTPERFORMING NAHCO

If we compare the performance of NAHCO and Index from the year 2008, Index was outperforming the stock.

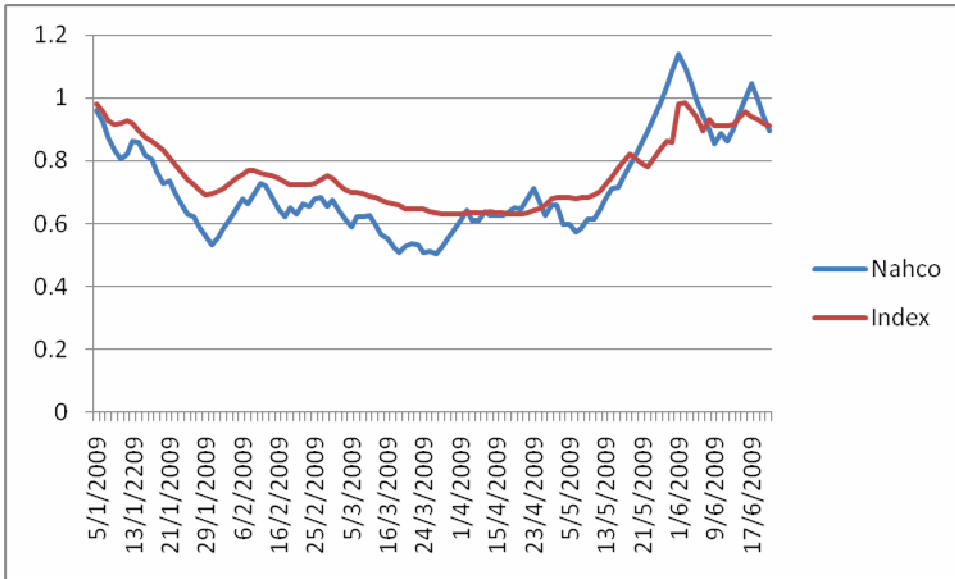
During the year Index lost 52.05% whereas the share prices of NAHCo dropped by 59.85% close the year at N 11.59 with a year's high and low of N32 and N8.89.



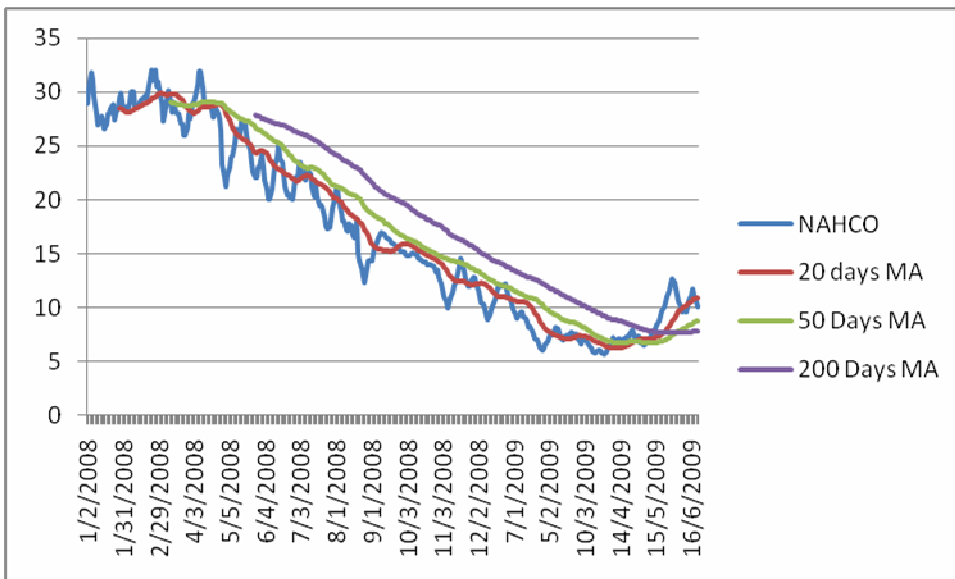
#### COMPARISON OF INDEX WITH NAHCO IN THE YEAR 2009

During the first quarter of the year, the stock was trading below the All-Share Index (ASI) but since mid May 2009, the stock gathered strength and outperformed the index for a period of 20 days.

After a sudden fall in the stock price in the first week of June of 24.4% from N12.7 to N9.6, the stock has picked up momentum and gained 21.25% in 5 days and achieved a closing price of N11.07 on June 18, 2009.



Currently, the stock is trading at N10; trading above its 20, 50 and 100 days moving average of N10.87, N8.84 and N7.85 respectively.





**NAHCO**  
NIGERIAN AVIATION HANDLING COMPANY PLC  
several beyond expectation

member of  
**FINANCE** **DISC** **ESG**

The Nigerian Aviation Handling company was incorporated in 1979 under the Nigeria Enterprise Promotion Decree. The federal government through the Federal Airport authority originally owned about 60 percent controlling shares in the company while foreign airline operators owned the remaining 40 percent. The company was privatized in 2005 and listed on the Nigerian Stock Exchange in 2006.

NAHCO controls over 75% of the aviation ground handling market in Nigeria, offering ground support services covering aircrafts handling, passenger/baggage handling, cargo handling and mail handling to a majority of about 40 airlines operating in the country. The company is a member of the international Alliance of Aviation Handlers. Due to the high degree of sensitivity of the aviation industry to policy changes, NAHCO's model could be negatively impacted by unexpected negative government

## A QUICK GLANCE

NAHCO

Key Company Data

Tricker:  
NAHCO

Gross Earnings: 4.43 Bln

### High Low Differentials

### Recent Stock Performance

COMPANY	NSE	Change
1 Week	16.71%	11.1
4 Week	38.92%	11.15
13 Week	-55.75%	12.7
52 weeks High		5.64
52 weeks Low		67.43%

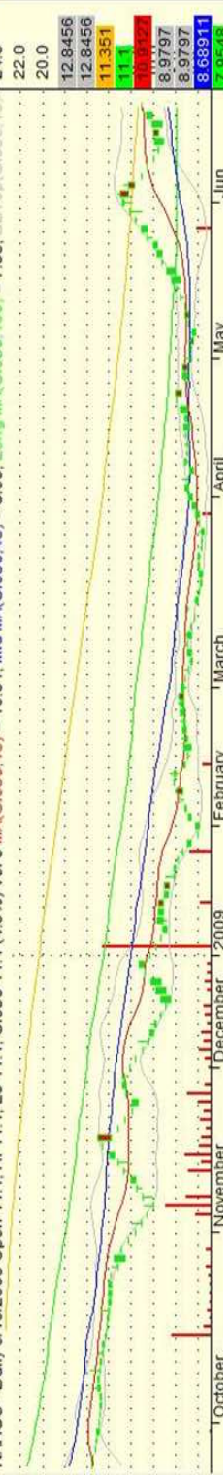
### Recent Quarterly Results min ( 1st Quarter)

Current Year	Previous Year	Growth
Turnover	1,448.00	1,100.00
PAT	419.61	208.60
Net Profit Margin	28.98%	18.96%
Dividend Payout Ratio		31.64%
Plough Back Ratio		101.16%
Dividend Yield		ROA
Earnings Yield		ROE
ROE		ROA
Net Assets Per Share		1.73
Price to Book Value		6.43

RECOMMENDATION: HOLD FOR LONG TERM AND SELL FOR SHORT TERM VALUATION PER SHARE: N 13.71 DISCOUNT TO VALUATION: 23.55 %

NAHCO (Daily) NAHCO (Daily)

NAHCO - Daily 6/16/2009 Open 11.1, Hi 11.1, Lo 11.1, Close 11.1 (4.9%) Vol 0 MA(Close, 15) = 10.91, Mid MA(Close, 45) = 8.69, Long MA(Close, 100) = 7.95, BBTot(Close, 15) = 12.8456



NAHCO - %K(15,3) = 36.24, %D(15,3,3) = 26.70

NAHCO - ADX(14) = 26.76, +DI = 37.41, -DI = 28.73

NAHCO - Momentum(Close, 10) = -1.17

NAHCO - RSI(14) = 61.38, EMA(RSI(14), 9) = 59.09

NAHCO - BBTot(Close, 15, 2) = 12.85, BBTot(Close, 15, 2) = 8.98

PAT Current Year

4,430,000,000

PAT Previous Year

3,661,000,000

DPS

55 Kobo

Bonus

8,689.11

Current EPS:

0.82

P/E Ratio x

13.61

Projected EPS

1.14

Projected PE

9.71

DISCLAIMER

## 4. The Analyst Outlook

**The objective here:** This is not an opinion on the stock but an overview of our observations about the company to enable investors make sense of the state of the business and the issues worthy of consideration in making an investment decision on the stock.

### **FUTURE OUTLOOK**

NAHCo declared a Profit after Tax of N802.91m, 0.25% removed from its projected PAT of N805m (as contained in their August 2007 offer document) for the year ending December, 2008.

Last year, Q1 PAT constitutes 25.97% of the actual declared result, an improvement over the average of 20.6% achieved in the last two years.

On the basis of this, we project PAT of N1.125bn for its next year end. This translates to 114k EPS which at a multiple of 12x gives its shares a fair value of N13.71, an undervaluation of 37.14% at its current price.

### **STRATEGIC OVERVIEW**

- NAHCo's deep and fundamental restructuring programme launched in April 2007, had four main pillars: simplify and right-size the business as well as re-skill and incentivise management and staff;
- The first year was largely focussed on tackling inherited unresolved internal issues, disruptions and culture & capacity challenges arising from privatisation and business repositioning imperatives in the plan;
- The company was able to deliver a good result in 2007 (N0.59bn, 16% of Turnover). The results were achieved based on a focus on cost reduction and a growth of revenue (-3.6% from target)/share of market;
- The relentless rise of the oil price affected carriers in the industry in a year where the focus for NAHCo shifted to improving customer service & operational efficiency to cope with cost cutting/price cutting in the market;
- NAHCo in 2008 achieved some landmark developments in operations that saw the company deliver a 21% increase in Turnover and 36% increase in PAT over 2007 results;

- ❶ The year 2008 held out its own unique challenges and disruptions that threatened its going concern. These included sustained industrial disharmony, problems with government, cargo clearing agents, negative press, sabotage, and unattained milestones;
- ❷ The 2009 operational reality reflects an improvement in the internal conditions under which NAHCo functions. The disruptions of 2008 revealed the need for a deepening of the capacity of the company to play successfully at the leadership level it desires;
- ❸ Externally, the company has been able to identify the variables it needs to manage in order to compete actively;
- ❹ We expect the current board to sustain its focus in the areas of competitive advantage it has or seeks to play in to continue delivering business results showing a deliver a sustainable business.

## CONCLUSION

Based on the information above and subject to the execution of the strategic imperatives pursued by the Board of Directors, we consider the stock a mid - long term interest, from a value perspective. It is growing company, albeit in a restricted “red ocean” market, with a lot of prospects for market leadership in those markets where it has value advantages.

We believe that the long term prospect of this stock is not impaired in any way by the developments in the market at this time.

The announcements for Q2 2009 should give us a better sense of the firm’s business and financial performance.

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