

Analysts Report

COST PERFORMANCE REPORT & 2015 ANALYSTS FORECAST ON BERGER PAINTS NIGERIA PLC

Fulfilgate Forecasts Berger Paints to defy Industry Odds.....to grow revenue by 10% in 2015

Lagos Nigeria, October 5, 2015: *With the current micro and macro- economic indices hindering the growth of Nigerian manufacturing companies in 2015 and growing contraction in consumer spend during the year, analysts at Fulfilgate forecast a decline in the paint manufacturing sales volume by 5% in 2015 from N48.5b to N46.1b. However, Berger Paints Plc is predicted to defy all industry odds and have positive sales growth of 10% during the year 2015 from N3b to N3.3b. This is hinged on the aggressiveness, marketing innovations and corporate restructuring embarked upon by the management, which now yield good dividends. This forecast is however lower than the 14% growth in revenue the company recorded in 2014.*



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Our analysis of the Paint industry shows that whilst industry's cost grew year-on-year between 2012 and 2014, Sales growth was flat at 9% during the period, resulting in the industry's profit growth shrinking from 33% in 2013 to 19% in 2014. The industry's ratio of Cost of Sales to Revenue dropped from 56% to 54% and 52% in 2012, 2013 and 2014 respectively while the ratio of other costs to revenue was 30% in 2012, dropped marginally to 29% in 2013 and remained flat at that rate in 2014. Industry's Cost of Sales grew year-on-year in volume by 3% in 2013 from 2012 figures and by 6% in 2014, while other costs grew by 4% in 2013 and 10% in 2014. Total Expenses grew by 3% and 7% in 2013 and 2014 respectively.

Reviewing Berger Paints' 3 year average, it spent N0.58 on raw materials and packaging to generate N1 of sales but spent N0.94 as total cost to generate N1 of sales as against the industry average of N0.54 and N0.83 respectively. Whilst the industry spent N0.29 in Other Costs apart from Cost of Sales to generate N1 of sales and which has remained flat in the 3 year period being reviewed, the company's spend in this category was N0.36 to generate N1 of sales.

In line with the industry's trend of rising Total Expenses year-on-year, Berger Paints Plc is forecasted to record increase in its Total Expenses by 9% to N3.153b in 2015 and thereafter by 11%. Analysts at Fulfilgate therefore opined that if the current trend is allowed to continue by the management of the company, even though, the company is estimated to grow revenue by 10%, its profitability is not likely to improve as the ratio of Operating Profit to Sales is projected to be at 10% in 2015 and is further forecasted to drop to 7% by 2019.

The company is however advised to take bold and strategic decision to radically embark on and implement Cost Optimisation Programme that will see it more efficient in spending and achieving enhanced value for its stakeholders.