Ghana Oil Company Ltd. – Initiating Coverage Report

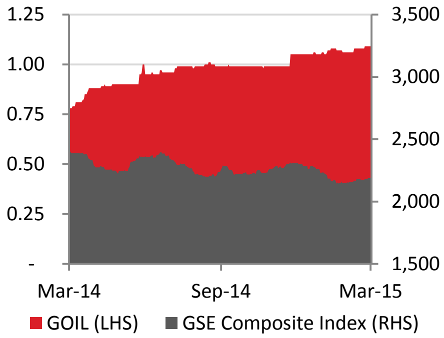
Rating: BUY

Ghana Oil Company Ltd. (Ticker: GSE: GOIL, BLOOMBERG: GOIL GN)

As on 16th March 2015	
Current Price	GHS 1.09
Target Price	GHS 1.26
Upside/(downside) potential	15.8%
Expected Dividend Yield	2.1%
Total Potential Return	17.8%

As on 16th March 2015	
Bloomberg Ticker	GOIL GN
Primary Exchange	Ghana Stock
Share Price (GHS)	1.09
52 Week Range (L-	0.77-1.09
One year returns	39.7%
Shares	252.2
Market Cap (GHS	274.9
Market Cap (USD	75.9
P/E - 2015F	9.5x
P/B – 2015F	2.8x
USD/GHS	3.6200

Relative Share Price Performance



INITIATION OF COVERAGE

Improvement In Profitability Coupled With Stable Sales Hold The Key

We initiate coverage on Ghana Oil Company Limited (GOIL), a leading player in Ghana's downstream petroleum industry, with a **BUY** rating and 1-year forward P/E based target price of **GHS 1.26 per share.** We have a positive view on the gross profit expansion in FY 2015 driven by the increase in marketer and dealer margins by the petroleum regulator, National Petroleum Authority (NPA). We also envisage improvement in gross profit from increased exposure to unregulated products such as aviation fuel and marine fuel. Besides, negative cash conversion cycle, strong free cash flows and a robust balance sheet bodes well for the company's growth plans. In addition, our bullish view is also driven by relatively stable sales volume expectation despite prevailing macro-economic concerns and intensifying competition.

- **Improving profitability.** GOIL's gross profit per litre of equivalent fuel products sold has increased by 223.3% during FY 2009-14 period, in-line with the increase in the NPA decided margin for marketer and dealer for regulated products which constitute a large part of the total sales. We have factored in a hike of 30% in the gross profit per litre for GOIL in FY 2015 in-line with the average hike of 27.8% by NPA for FY 2015 for the regulated products. We also foresee marginal improvement in gross profit from increased exposure to relatively less competitive and unregulated markets of automobile lubricants, bitumen and aviation fuel.
- **Low working capital requirement.** The company has managed to sustain its operations with low working capital requirement and cash conversion cycle has even turned negative since FY 2012 resulting in release of cash from working capital with increase in its scale of operations. It has helped the company in generating strong cash flow from operations and a large part of the capital spending requirement was funded from the internally raised cash. We expect the cash conversion cycle to remain negative and the working capital requirement for increased scale of operations will remain muted.
- **Strong sales growth in a tough environment.** Petroleum product demand is largely driven by the economic activity in the country and Ghana's GDP growth is expected to remain subdued in the current year. Despite the prevailing tough economic environment, we expect the impact on GOIL sales volume will be moderate, mainly due to subdued fuel prices, company's extensive distribution network and its increasing exposure to new product lines within the petroleum industry. The company aims to increase sales of bitumen, automobile lubricants, aviation and marine fuels to shore up its top line. Consequently, we expect GOIL's sales volume to expand by 5.8% and 5.0% in FY 2015 and FY 2016 respectively.
- **Valuation and Risks.** We value GOIL at GHS 1.26 per share based on 1-year forward price to earnings multiple of 11.0x and FY 2015 earnings estimate of GHS 28.9 million. Our target multiple is in-line with the average multiple of the company in the last three years. Downside risks to our valuation are less than expected increase in marketer and dealer margin by NPA, increased fuel cost with rising pump price, fall in sales volume and supply disruptions.

Summary Table (in GHS million except per share data)

	2010	2011	2012	2013	2014	2015F	2016F
Net Revenue	472.3	609.3	791.3	1,005.6	1,547.6	1,493.5	1,873.1
Gross Profit	27.7	33.8	45.0	56.1	77.0	105.9	127.8
Net Profit	6.3	7.9	9.4	13.8	18.9	28.9	36.9
EPS (GHS / sh)	0.03	0.04	0.05	0.06	0.07	0.11	0.15
DPS (GHS / sh)	0.01	0.01	0.02	0.02	0.02	0.03	0.04
P/E	9.6x	8.5x	13.9x	16.3x	14.0x	9.5x	7.5x
P/B	1.8x	1.7x	2.8x	3.8x	3.5x	2.8x	2.2x

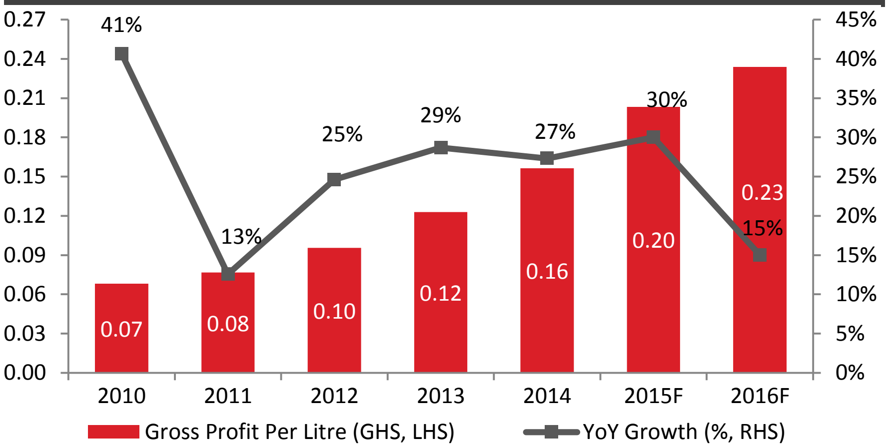
INVESTMENT THESIS

Investment Rationale

Gross profit per litre equivalent of fuel for GOIL is likely to continue its upward trend and expected to drive the company's profitability going forward

- **Improving gross profit per unit volume:** GOIL's gross profit per unit volume of petroleum product sold has increased from GHS 0.07 per litre equivalent in FY 2010 to GHS 0.16 per litre equivalent in FY 2014. We believe that the increase in the company's per litre profit was driven by the increase in the NPA decided marketer and dealer margin for regulated products such as Gasoil and Gasoline and high margin in unregulated products of lubricants, bitumen, and aviation fuel. NPA increased the dealer and marketer margin by 27.8% YoY in its last annual review in Feb-15 to factor in the increased costs. Therefore, we expect an increase of 30.0% in the company's gross profit per litre in FY 2015 over the previous year due to higher dealer and marketer margin for regulated products and contribution from unregulated products. Thereafter, we expect the GOIL's gross profit per litre to increase by 15.0% in FY 2016 as we assume further increase in margins by NPA, in-line with the moderate inflation expectation going forward. Our assumption of gross profit per litre also factors in GOIL's increased focus on new product lines with higher margins and improved operational efficiencies from reconditioning and rebranding of its existing storage tanks and pumps. We forecast GOIL's gross profit per litre fuel to increase to GHS 0.20 and GHS 0.23 in FY 2015 and FY 2016 respectively.

GOIL Gross Profit Per Litre and YoY Growth



Source: National Petroleum Authority, Company Reports, RocSearch Research

We have also performed a sensitivity analysis using our forecast and valuation model with regards to gross profit per litre growth assumption. We believe that the company's performance is more dependent on gross profit per litre growth rather than the gross margin (% of revenue) which may be distorted by sharp movement in the oil prices. We have factored in a 30% hike in the gross profit per litre from the prevailing levels in FY 2015 and by 15% and 10% in FY 2016 and FY 2017 respectively. Our estimate is on the conservative side compared to the historical average hike of 27.7% during the FY 2012-14 period and factors in the softening international crude oil prices and expected decline in inflation. Besides, the current share price of GOIL is factoring in a 22.4% hike in gross profit per litre, below the already decided level of NPA and substantiates our BUY rating.

Sensitivity Analysis

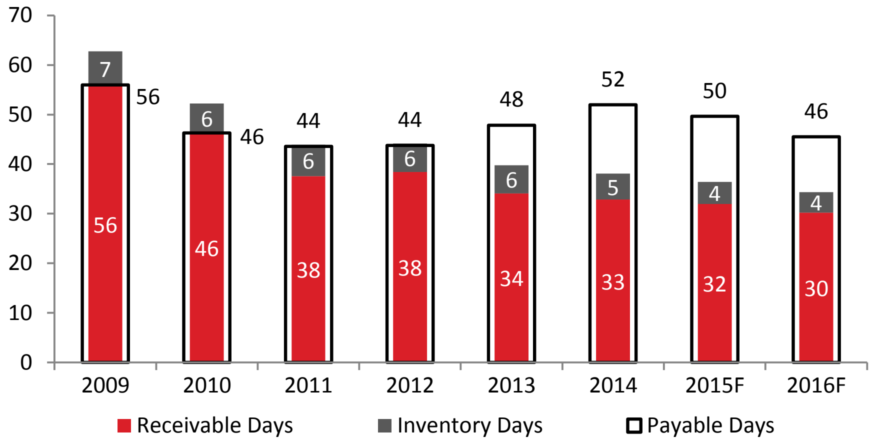
Deviation of increase in Gross Profit per litre from our estimate	Net Profit (GHS mn)			Fair Value (GHS/sh)
	FY 2015F	FY 2016F	FY 2017F	
5.0%	31,861	39,626	54,987	1.39
2.5%	30,384	37,782	52,845	1.33
0% - Base Case	**28,906**	**35,938**	**50,702**	**1.26**
-2.5%	27,428	34,094	48,560	1.20
-5.0%	25,951	32,251	46,417	1.13

Source : RocSearch Research

GOIL has maintained low working capital requirement with long credit period from BDCs, resulting in strong cash flow from operations

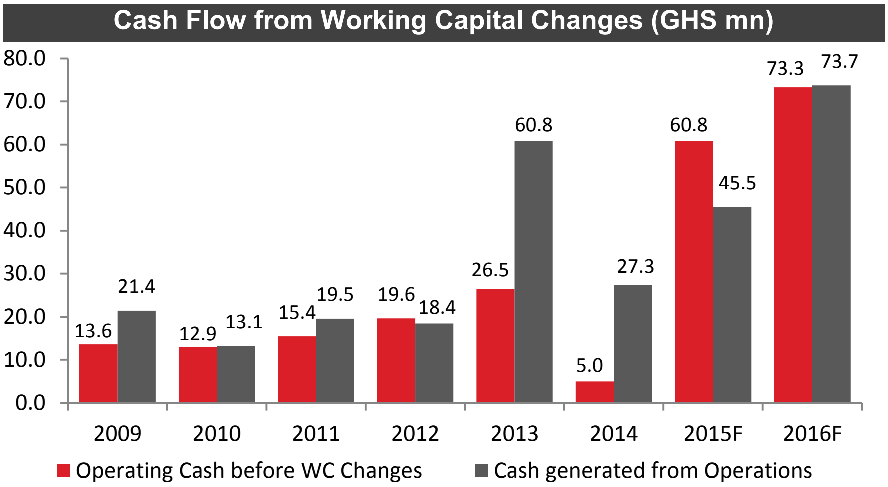
- **Lower working capital requirement:** The working capital requirement is a key operational metric for GOIL as it is engaged in the business of marketing and distribution of petroleum products and operates at thin operating margins. However, the company has maintained low working capital requirement largely attributable to the long credit period granted by bulk distribution companies (BDCs). Given the intense competition among 23 BDCs that are operational in Ghana, they offer longer credit period of up to 90 days to OMCs for their purchases. In FY 2014, GOIL has run its operations with average payable days of 52, significantly higher than the receivable days of 33 for the same year. Apart from that, the company has also been maintaining low inventory of just 5 days resulting in negative cash conversion cycle. NPA intends to lower the credit period granted by BDCs to around 45 days going forward to improve their financial performance. However, we do not foresee any material impact on GOIL as it is already operating at similar levels of payable days. Given that the company's Cash Conversion Cycle (CCC) is negative, we expect the company's working capital position to remain comfortable.

Break-up of Cash Conversion Cycle



Source: Company Reports, RocSearch Research

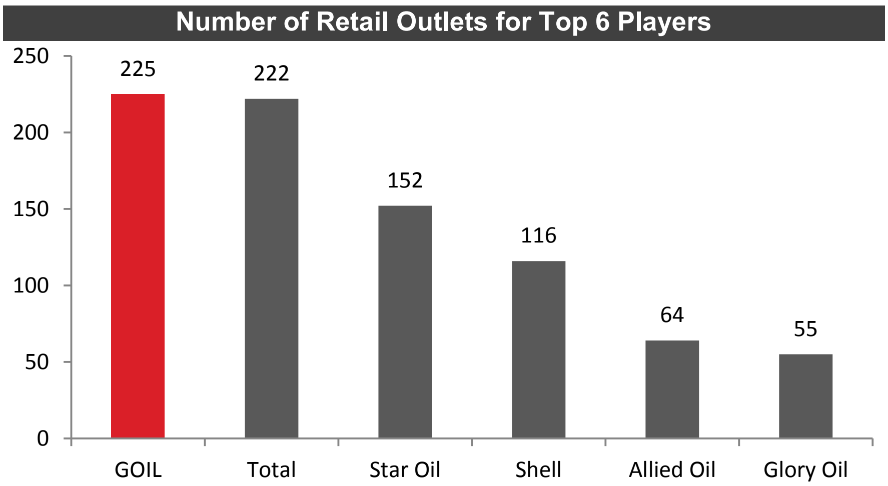
GOIL has been consistently able to generate cash inflows from its working capital during FY 2009-13 period, with the exception of FY 2012 when higher increase in receivables resulted in cash outflow of GHS 1.2 million in working capital investment. The generation of cash from working capital can be mainly attributed to the short CCC, which turned negative in FY 2013. This along with the rising fuel prices and increased scale of operations resulted in cash inflow of GHS 34.3 million and GHS 22.4 million in FY 2013 and FY 2014 respectively. As a result of cash inflows from working capital, the company reported strong operating cash flow of GHS 60.8 million and GHS 27.3 million in FY 2013 and FY 2014 respectively. We expect that the falling oil prices will result in lower receivable and payables in FY 2015. Since the company has a negative cash conversion cycle, the decline in payables will be higher than the decline in receivables. Therefore, we expect cash outflow of GHS 15.3 million in FY 2015. We expect that GOIL will be able to maintain negative cash conversion cycle going forward as well and may not require further working capital investment for increase in scale of operations.



Source : Company Reports, RocSearch Research

Largest retail network and presence across products lines and key touch-points provides a competitive advantage to GOIL.

- **Largest distribution network:** According to the downstream petroleum industry regulator National Petroleum Authority (NPA), GOIL has the largest distribution network comprising 225 company owned and joint venture retail outlets/pumps spanning all the ten regions of Ghana, followed closely by Total which has 222 outlets, with other players having a considerably smaller retail network. The company has established many retail outlets through JV arrangement allowing the company to expand its reach at a faster rate with reduced capital requirement while retaining part of the dealer margin. We believe that it has provided the company a competitive advantage over other players and has helped in mitigating the impact of heightened competition. The company has also started operating convenience shops in its retail outlets to improve profitability of these outlets. In addition, GOIL also has distribution depots located in Tema, Takoradi, Kumasi, Tamale, Buipe and Accra with zonal offices in Tamale, Kumsai, Takoradi and Accra. The company also operates a storage facility at Tema Port and is also constructing another facility at Takoradi port to supply marine lubricants and fuel for ships. In the aviation fuel market, the company operates storage tanks at Kotoka International Airport and Ghanaian Air Force base in Takoradi. GOIL is also focussing on mining sector customers and has started establishing outlets and stations at targeted locations. GOIL's comprehensive coverage is a major advantage that ensures customer reach, which will be a major factor in differentiating itself from the competition.



Source : National Petroleum Authority

The diversification plan to foray into unregulated products and better utilization of retail outlets to enhance the company profitability in the long-term

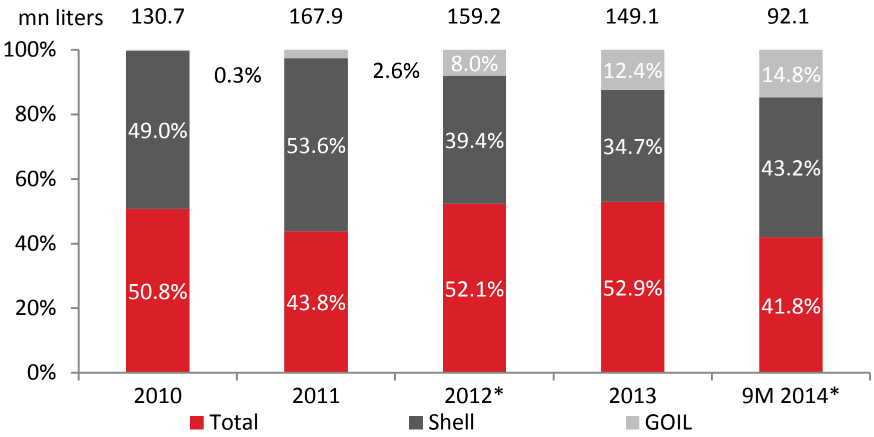
- **Diversifying revenue stream:** GOIL plans to diversify its revenue stream with increased focus on bunkering services (marine fuel) and non-fuel products such as lubricants, bitumen and engine oil. GOIL is the largest and only indigenous Ghanaian company offering bunkering services through Ghana Bunkering Services (GBS) which was acquired in 2004. The company aims to leverage the opportunities offered by the off-shore oil exploration companies to expand its bunkering services. GOIL is also expanding its fuel storage facilities, particularly in the Western Region to complement its bunkering operations. The company is planning for capacity expansion of its storage facility at Tema from existing 10 million litres to 30 million litres. In addition, GOIL is also investing in construction of marine fuel-storage tanks at the Takoradi Port and rehabilitation work at GBS including reconditioning of tanks, pipelines and their accessories. GOIL has also intensified efforts towards entering the non-fuel product market including vehicle lubricants, engine oil and bitumen market. The company plans to construct a bitumen plant in the southern zone to serve the construction industry in Asia.

  GOIL is also diversifying into non-core activities such as opening up convenience stores at their retail outlets to boost their return by enhancing utilization of the space available. GOIL has started operating convenience shops at its fuel pumps, under the brand name “GOIL GO-CAFE” and aims to make it a standard feature at all its stations throughout the country. It is expected to further diversify the company’s revenues beyond petroleum products and also enhance the company’s profitability. The company spent GHS 77.6 million, compared to planned expenditure of GHS 100 million on these projects in FY 2014. Due to the prevailing subdued economic environment in the country, the company was not able to raise funds through rights issue which limited its capex spends during the year. However, we remain positive on these diversification plans with their potential to boost the company’s top line performance and earnings.

GOIL becoming a major player in the rapidly emerging aviation fuel market is likely to increase its profitability margins

- **Emerging aviation market to drive growth:** GOIL entered into aviation jet fuel market in FY 2009 with the acquisition of 33% stake in Joint User Hydrant Installation (JUHI). ATK market is a largely unregulated market, except licensing requirement, with price determination left to the market forces. However, the market is relatively less competitive with only three operational players, allowing greater pricing power to companies and higher margins. Currently, GOIL offers jet fuel through its strategically located storage tanks at Kotoka International Airport. Apart from that, in FY 2011 the company also entered into a strategic partnership with Ghana Air Force and Jubilee Field operators to set up a facility at the Takoradi Air Force base to provide aviation fuel. GOIL has been able to increase its market share from 0.28% to 12.36% during FY 2010-13 period, despite the predominance of Shell and Total in this market. Therefore, the company reported a decline of just 1.5% in annualised sales volume of jet fuel in the first nine months of 2014, against a decline of 17.6% in national jet fuel consumption. It led to further increase in its market share in aviation market to 14.77% by end of 9M 2014. We believe that the aviation jet fuel industry offers large growth potential as the Ghanaian economy attains middle income status, which is expected to spur demand for domestic and international air travel. Besides, we envisage higher profit margin in this segment due to unregulated nature of the industry which will eventually boost GOIL’s profitability.

National Jet Fuel Supply by OMCs



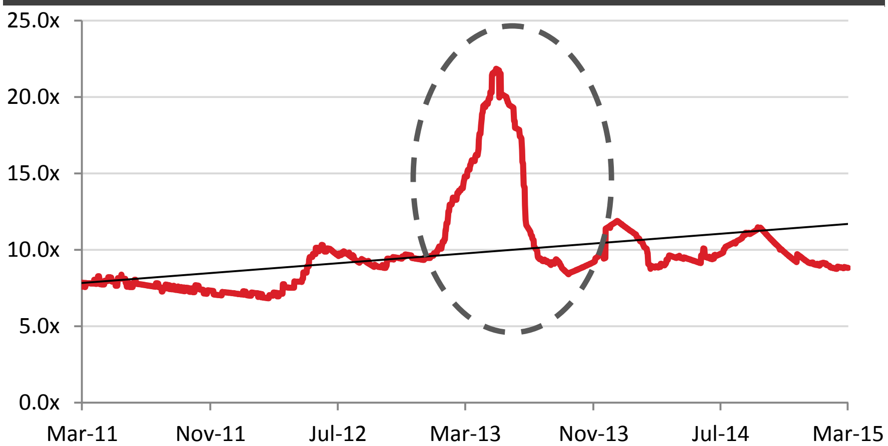
Source: National Petroleum Authority

**Note: Top Oil sold 0.8 million litre (0.5% of national consumption) while So Energy sold 0.2 million (0.2% of national consumption) of Jet Fuel in 2012 and 9M 2014 respectively, which have not been included in above chart*

The company share is trading below the last three-year average of one year forward price to earnings multiple, although it is a less risky stock in a tough business environment

- **Stable growth offers value:** Historically, GOIL's share has traded in the range of 1-year forward P/E multiple of 5.6x to 10.3x during FY 2010-12 period. Since FY 2013, the company's share price has more than doubled at the end of 2014 primarily due to the increase in marketer margin and dealer margin by 32.1% and 30.0% in FY 2013 and FY 2014 respectively. Apart from that, NPA has also abolished fuel subsidies and implemented a market-linked fuel pricing method. Subsequently, the company's share price rallied to an all-time high of GHS 1.50 per share in May 2013 while 1-year forward P/E multiple also went up to 21.8x. The share price movement was short-lived and it is currently trading at GHS 1.09 per share (up 3.8% on YTD basis till 16th March 2015) and 1-year forward P/E multiple of 8.8x based on our earning assumptions. This despite the fact that NPA has raised the marketer and dealer's margin by 27.8% on 1st February 2015 and softening crude oil prices which is expected to significantly increase its earnings going forward. Besides, the company is also a relatively safe investment opportunity due to its stable sales volume and gross profit. We have projected an increase of 53.2% YoY in the EPS to GHS 0.11 in FY 2015 over FY 2014 EPS of GHS 0.07. We expect the company stock to trade at one year forward price to earnings multiple of 11.0x marginally above its historical average in the last three years due to softening crude oil prices and significant increase in OMCs share in fuel retail prices.

GOIL 1-yr Forward Price to Earnings Multiple



Source : Company Reports, Bloomberg, RocSearch Research

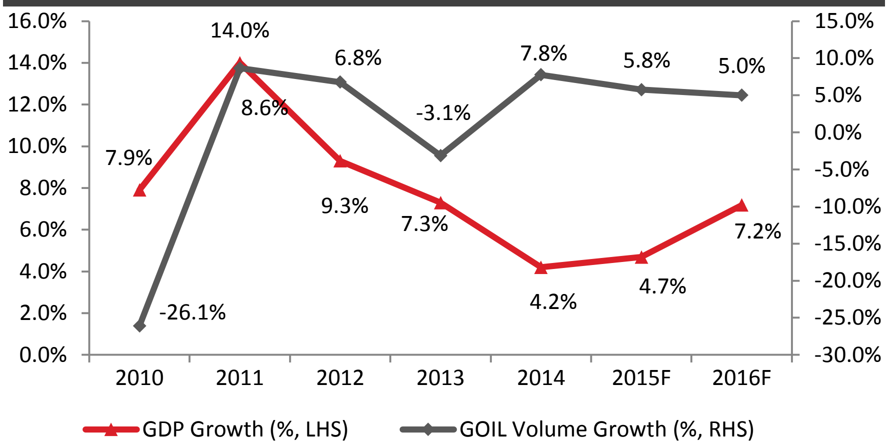
INVESTMENT RISKS

OMC's sales volume to be impacted by economic slowdown in the country, although the impact on GOIL may be limited due to low exposure to gasoil (mines) and extensive distribution network

- **Muted outlook on volume growth:** Petroleum consumption in an economy is largely dependent on its economic growth, particularly on heavy industries growth and automobile sales. Ghana's GDP growth has declined considerably from 14.0% in FY 011 to 4.2% in FY 2014 resulting in reduced sales volume for OMCs to 0.3% in FY 2014 from 25.3% in FY 2011. As per IMF's projections, Ghana's GDP is expected to grow at 4.7% in FY 2015 before increasing to 7.2% in FY 2016. Therefore, we expect sluggish growth in the automobile sales and mining industry in the country in FY 2015. As a result of which, we expect the industry's sales volume growth will remain sluggish in FY 2015 and will only pick up from FY 2016 onwards as gasoil and gasoline contribute more than 80% of the industry's total annual sales volume.

  Despite sluggish industry sales volume growth, GOIL has been able to maintain a relatively strong annualised volume growth of 16.0% YoY in FY 2014 which increased its market share by 174 bps to 12.8% in 9M 2014 from 11.1% in FY 2013. Going forward, we expect the company's sales volume growth to remain strong at 5.8% and 5.0% in FY 2015 and FY 2016 respectively and increase its market share further. However, our growth forecasts are based the assumption that GOIL will continue to outperform the industry driven by relatively lower exposure to mining industry, subdued fuel prices, expansion into new product lines and its largest distribution network. Any unfavourable change in the company sales volume compared to our forecasts poses a downside risk to our financial projections and valuation estimates.

GDP Growth and GOIL Sales Volume Growth

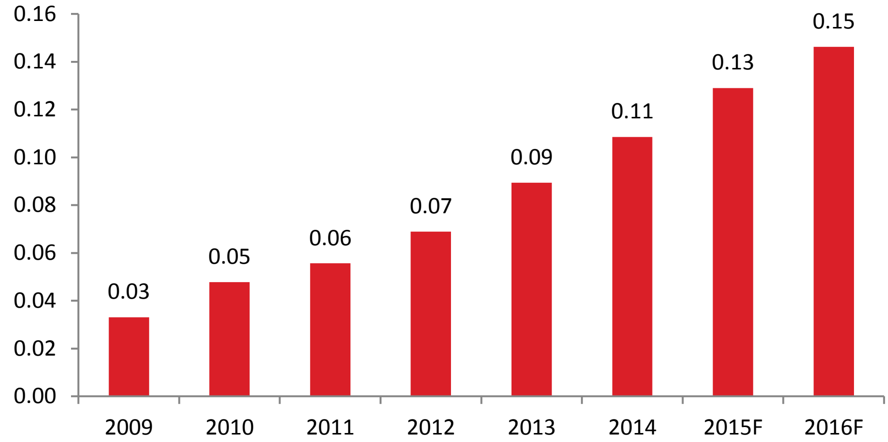


Source: Ghana Statistical Service, National Petroleum Authority, IMF, RocSearch Research

SG&A costs to accelerate with increasing fuel costs and inflation

- **Fuel price movement and inflation to impact selling costs:** GOIL's selling, general and administrative (SG&A) expenses per litre of sale volume posted almost fourfold increase to GHS 0.11 per litre in FY 2014 from GHS 0.03 per litre in FY 2009. It can be largely attributed to the persistently high inflation rate, depreciating Ghanaian cedi and increased transportation cost due to removal of fuel subsidies by the government. Fuel prices have increased by about 50.0% YoY in FY 2014 as the government abolished fuel subsidies, moved towards market-linked price determination and resisted from passing-on the benefit of reduced international prices to consumers. Also, the inflation averaged at 15.5% while the currency has depreciated by 32.5% during FY 2014 increasing GOIL's SG&A expense considerably from GHS 0.09 per litre in FY 2013 to GHS 0.11 per litre in FY 2014. Also, since the marketer and dealer margins per unit volume are decided at the beginning of every year, any significant adverse movement in fuel prices during the year could unfavourably impact GOIL's profitability. Recently, the international crude prices have softened due to subdued global economic environment while the Ghanaian cedi has stabilised due to the successful Eurobond issue, higher syndicated cocoa loan, fiscal consolidation path envisaged by government in FY 2015 budget and negotiations with IMF for a bailout program. Consequently, we have forecasted restrained growth in the SG&A expenses to GHS 0.13 per litre and GHS 0.15 litre in FY 2015 and FY 2016 respectively. Given that GOIL's operating performance remains highly susceptible to the fuel price changes, currency movement and inflation rate, any unfavourable movement in these factors pose a significant downside risk to our earnings and valuation estimates.

GOIL's Selling, General and Administrative Expense (GHS Per

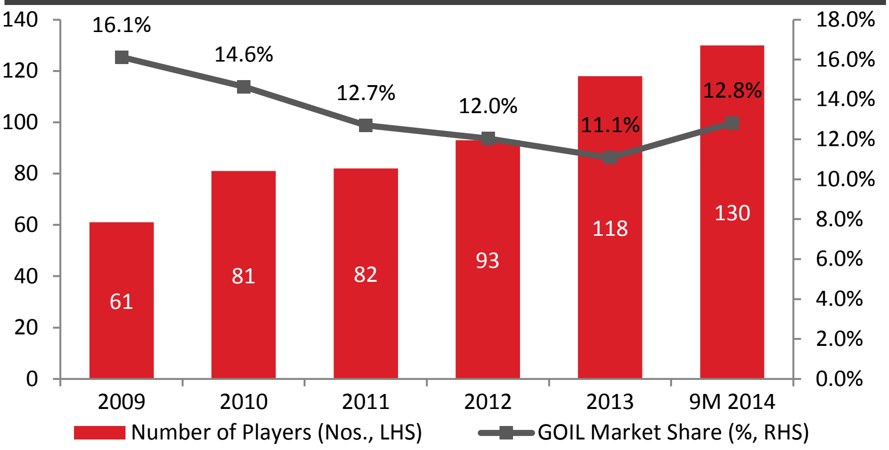


Source: Company Reports, National Petroleum Authority, RocSearch Research

Emergence of small indigenous Ghanaian OMCs present a massive challenge to GOIL's volume growth and market share.

- **High competitive intensity:** GOIL has been facing intense competition given the largely unregulated downstream petroleum market in Ghana. Also, the market has very limited entry and exit barriers for both domestic and foreign players since 2005. The primarily unregulated market has more than doubled the number of OMCs in the country to 130 as of September 2014 from 61 in FY 2009. As a result, GOIL's market share has declined by 329bps during the same period despite entry into number of new products like residual fuel oil, marine gasoil (foreign) and gasoil (rig). Since the marketer's margins are low and decided by NPA, GOIL mainly depends on sales volume growth and gross margin per unit volume to sustain its profitability. However, several new smaller companies have emerged over the period which has led to 3.7% drop in the annualised sales volume of GOIL in 9M 2014 compared to FY 2009 despite 21.1% increase in national volume during the same period. On the contrary, the cumulative market share of domestic companies including GOIL, majority of which are small companies, has increased from about 28% in 2001 to over 70% in 2013. The competition is particularly higher in gasoil, LPG and gasoline markets with relatively higher number of players. GOIL is a major player in all these three fuel products with lower share in industrial sales, resulting in higher impact of increased competitive intensity. The company's market share of LPG, gasoil and gasoline has declined by 365bps, 291bps and 173bps respectively during since FY 2010 to the end of September 2014 despite some improvement in the current year. Going forward, we expect the competitive intensity in the industry to remain high due to government's intent towards deregulation of industry and rising demand for petroleum products, which is likely to impact GOIL's sales volume growth and profitability.

Number of OMCs in Ghana and GOIL's Market Share

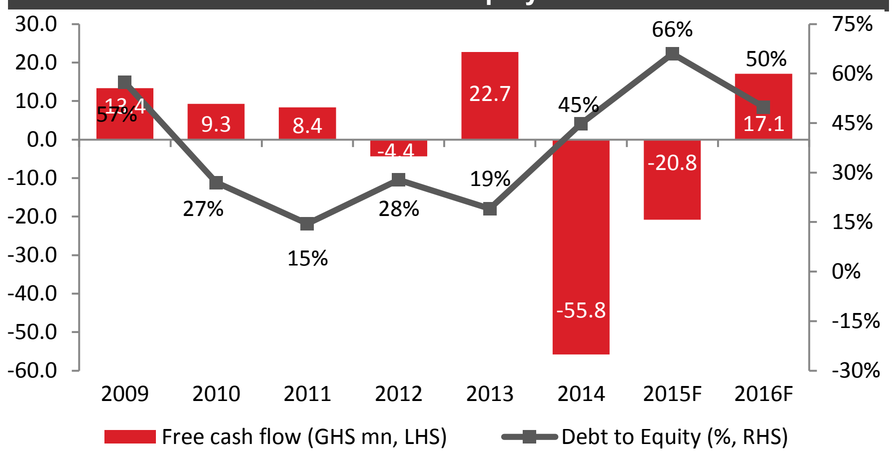


Source : National Petroleum Authority

Large expansion plans, non-occurrence of rights issue and thin operating margin increasing GOIL's financial leverage

- **Large expansion plans to increase leverage:** GOIL has historically been able to maintain a comfortable leverage position, with average debt to equity ratio of 22.1% and average interest coverage ratio of 9.3x during FY 2010-13 period. This was mainly on account of strong cash flow from operations which helps it fund the large capital expenditure plans. However, its leverage ratio has more than doubled to 44.8% during the last year due to r GHS 77.6 million expenditure on its expansion plans compared to an average spending of GHS 16.6 million during FY 2010-13 period. The company had planned to finance the short-fall in funds through a rights issue of over GHS 50 million, but unfavourable market conditions restricted the company's plans and forced it to raise debt. Given the subdued economic outlook, we do not expect the company to raise funds through rights issue in FY 2015 as well. Additionally, we believe that the cash flow from operations will not be sufficient to fund the capital spend estimate of GHS 55.4 million and GHS 43.1 million in FY 2015 and FY 2016 respectively. Therefore, it will increase its debt to equity ratio to a historical high of 66.0% in FY 2015 before decreasing to 49.9% in FY 2016 owing to the increased cash flow from operations. Given that company operates on extremely thin operating margin, higher fixed costs in the form of finance charge significantly increases GOIL's risk profile and can negatively impact its repayment capacity in case of any unfavourable change in operating environment.

GOIL Debt-to-Equity Ratio



Source: Company Reports, RocSearch Research

Contents

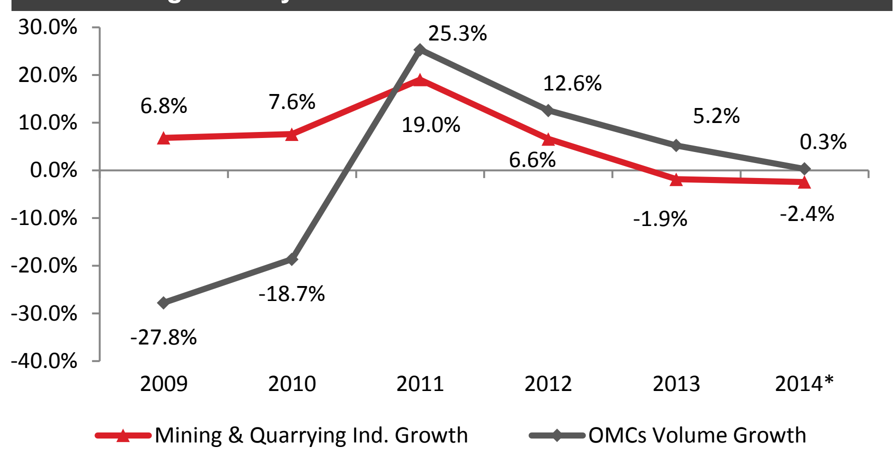
Industry Fundamentals

Petroleum product demand expected to be subdued till FY 2015 due to reduced growth in mining and quarrying industry and real disposable income

- **Slowing economy to impact fuel demand:** Petroleum product consumption growth in an economy is highly dependent on the country's GDP growth and the industrial sector growth. The petroleum products can be broadly classified in two groups based on the end user - industrial uses and retail uses. The consumption growth of industrial products is largely driven by growth in mining and quarrying industries while the demand of retail products is predominantly geared to the per capita disposable income. The growth in Ghana's mining and quarrying industry excluding crude oil industry has maintained a downward trend since FY 2011 and turned negative since FY 2013 due to slower GDP growth, erratic power supply, depreciating currency and high inflation rate. Apart from that, the declining commodity prices have also impacted the profitability of the mining companies in Ghana. This has impacted the downstream petroleum industry's sales volume in FY 2013 especially the sales of industrial products such as gasoil (mines). Besides, high inflation rate and slow economic growth has also resulted in reduced growth in real disposable income impacting the consumption of retail products unfavourably.

  As per IMF estimates, Ghana's GDP is forecasted to grow at a relatively moderate level of 4.7% in FY 2015 before expanding by 7.2% in FY 2016 impacting the heavy industry growth, automobile sales and general economic activity in the country. This is also expected to impact the personal disposable income in the country which drives the consumption of various retail fuel products such as Gasoline, LPG and ATK. Consequently we expect the petroleum product demand in Ghana to remain subdued in FY 2015 and anticipate improved demand from FY 2016 onwards.

Mining Industry Growth vs. OMCs Sales Volume Growth



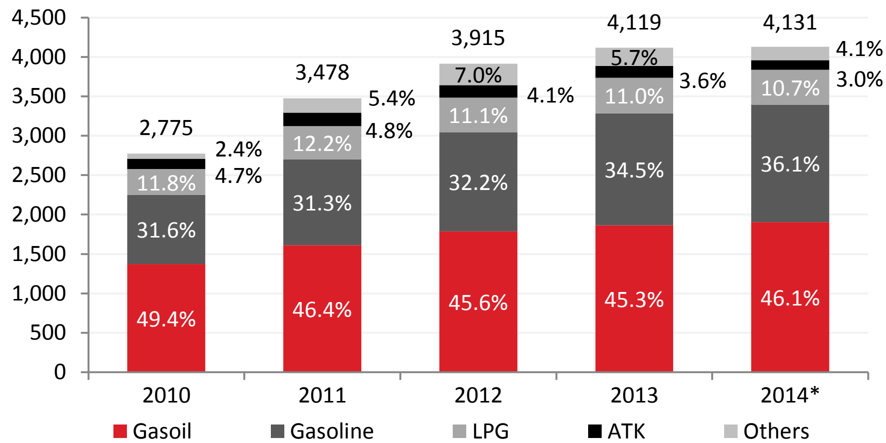
Source : Ghana Statistical Service, National Petroleum Authority
**OMCs national sales volume is available for 9 months and has been annualised to make it comparable*

Share of aviation fuel and marine fuel in Ghana's petroleum industry to go up

- **Aviation and marine fuel to drive national fuel demand:** Petroleum product demand has increased consistently during FY 2010-14 period, with the litre equivalent of total fuel products sold by OMCs increasing at a CAGR of 10.5%. Historically, the petroleum product demand was driven mainly by the transition of Ghana from low-income to middle-income country, along with higher growth in mining and manufacturing industries. Over the period, the consumption of gasoil and gasoline has dominated the national petroleum market with a share of over 80% of the fuel sales volume of OMCs. Moreover, the demand for Gasoline has increased at a relatively faster rate resulting in increased share from 31.6% in FY 2010 to 46.1% in FY 2014, consistent with rising vehicle ownership in the country.

Going forward, we expect that gasoil and gasoline will continue to be the major contributor to national fuel sales albeit at a slower rate driven by moderate new vehicle sales and sluggish mining sector growth. On the other hand, we expect the demand for aviation fuel and LPG to increase at a faster rate as Ghana shifts from low-income to mid-income economy. We also expect increase in demand for marine fuel with the government's intent to make Ghana a West African marine trade hub after the commencement of Takoradi port.

Fuel Products Sold by OMCs (in million litres equivalent)



Source: National Petroleum Authority

** Sales volume is available for 9 months and has been annualised to make it comparable*

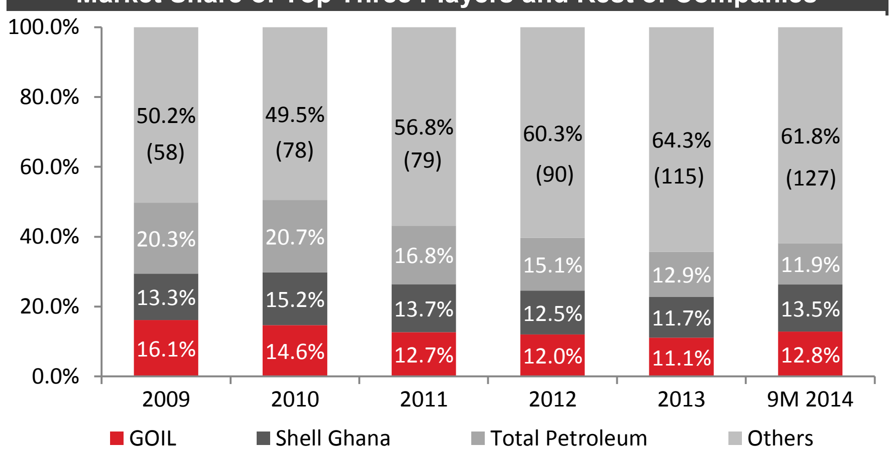
NPA intends to completely de-regulate the industry and leave the pricing to market forces, benefiting the larger players such as GOIL and Total

- **Deregulation to benefit large OMCs:** Ghanaian government and downstream industry regulator (NPA) have been taking steps to deregulate downstream oil industry since 2005. NPA had allowed both domestic and foreign players to operate in downstream petroleum industry with limited barriers such as a company is required to have an environmental clearance, three pumps and 50% ownership by a Ghanaian citizen to obtain an OMC license. Earlier, Ghanaian government was providing subsides on fuel prices. However, the government started to cut subsidies with rising crude oil prices, increasing fiscal deficit and pressure from IMF since 2012. In May 2013, the fuel prices were made market-linked to fully pass through the changes in international crude oil prices, exchange rates and operating costs of various participating entities. Currently, NPA employs an 'import parity method' to decide the maximum retail pump price for various products, using North-West Europe crude oil as the benchmark. Going forward, the NPA intends to fully deregulate prices, leaving the fuel pricing to market forces. Additionally, NPA also plans to liberalise the licensing requirement for BDCs and OMCs to provide easy entry and exit options for companies and allowing them to operate in cross-functional areas without restriction. We believe that these measures are likely to benefit large players such GOIL which can foray into bulk storage segment leveraging their financial strength. It will also help in scaling up their market share using the cost synergies and offer fuels at a competitive price to their customers. In a free market, we also expect consolidation in the industry with very small players finding it difficult to run their businesses due to intense competition and reduced profitability. It will enable large OMCs to vertically integrate their operations by venturing into other businesses, enhancing the value propositions for customers and investors.

Emergence of smaller domestic OMCs has made the industry highly competitive with reduced market share for top three companies

- **High competitive intensity:** Ghana's downstream petroleum industry is highly competitive with 130 companies vying for 4.1 billion litres equivalent of annual downstream fuel supply market. The number of oil marketing companies (OMCs) operating in Ghana has witnessed more than two-fold increase from 61 in FY 2009 to 130 in September 2014. The sharp increase in number of companies is primarily driven by the NPA's efforts towards deregulation and indigenisation of the petroleum downstream industry. NPA started deregularising the industry in 2005 and has allowed foreign as well as domestic companies to operate in the industry. The regulator has reduced the licensing requirements and has also moved towards subsidy rationalisation and more transparent and market driven fuel pricing. With the steep increase in the number of OMCs, the market share of the top three players has declined from 49.8% in FY 2009 to 38.2% in 9M 2014. The annual average litre equivalent of fuel sale per OMC has declined by 43.2% during since FY 2009 despite 21.1% growth in the national petroleum consumption. This we believe is due to the increase in number of players and, more specifically, the emergence of new smaller Ghanaian owned OMCs, which is reflected from the increase in the cumulative market share of domestic companies, including GOIL, from about 28% in 2001 to over 70% in 2013. In fuel product-wise segments, the competition is particularly higher in LPG, gasoline, gasoil and kerosene markets with relatively higher number of companies. Going forward, we expect the competitive intensity in the industry to remain high due to government's intent towards deregulation of industry including market determined pricing and margins and allowing companies to engage in different activities across downstream industry with limited licensing requirement.

Market Share of Top Three Players and Rest of Companies



Source: National Petroleum Authority

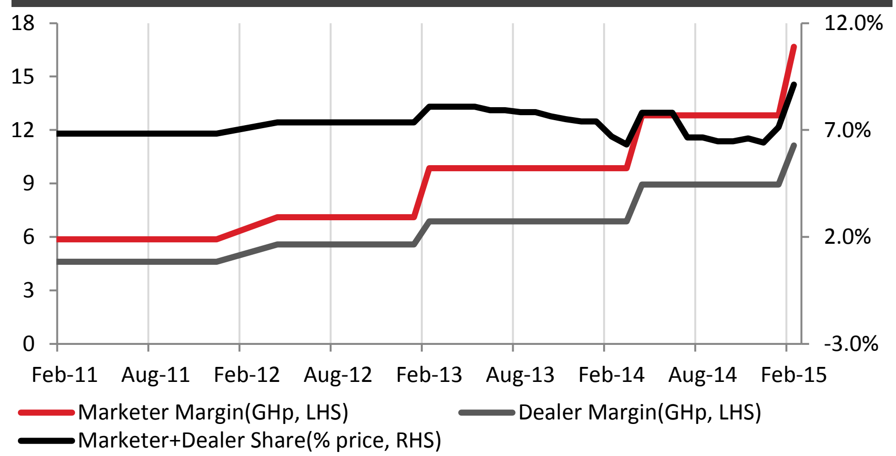
Note: The numbers in the bracket represents the number of companies in others category.

NPA decides gross margin for OMCs on an annual basis depending on the change in distribution costs

- **Steady rise in gross margin for OMCs :** NPA decides the marketer's and dealer's margin in the first quarter of every year based on the fuel prices and OMC's cost projections, to allow them to recover their full cost of operations. The maximum marketer's and dealer's margin in fuel's pump price has increased in absolute terms during FY 2012-15 period with an annual average hike of 27.7%. Since OMC's margins are pre-decided by the regulator, it becomes difficult for OMCs to run their operations profitably in case of any significant cost increase during the year as it happened in FY 2013 due to rising fuel prices and utility tariffs. This market structure forces OMCs to operate at thin margins, making them dependent on sales volume to drive their profitability and sustain their operations. It benefits the large players in the industry such as GOIL and Total. Going forward, we believe that NPA's intent to fully deregulate the industry and leave the fuel pricing and margin determination to market forces should benefit the large incumbent players because of their higher pricing power and potential to operate at scale which other companies will find hard to achieve.

The summation of marketer and dealer margins as a percentage of pump prices has remained relatively unchanged till June 2013. It has become relatively more volatile since then due to abolition of fuel subsidies and adoption of market based pricing for fuel prices. It led to frequent changes in fuel prices during the year while marketer and dealer's share remains unchanged in absolute terms, impacting the OMC's gross margin during the year. We have analysed the margins for gasoil in the chart below which remained at around 7.0% as a percentage of pump price of gasoil. However, recently in response to declining international prices, NPA had reduced the domestic fuel process by 10% in Jan-15 with further indication of downward revision going forward. Additionally, NPA has also increased the marketer and dealer's margin by 27.8% from previous level for 2015, which has increased the OMCs margin to 9.1% in Feb-15. As a result, we believe that gross profit margin is not a suitable indicator for analysing financial performance of OMCs in Ghana. Instead, the sales volume growth and change in OMC margin per unit volume of products are the key indicators for these companies.

Marketer and Dealer's Margin in Gasoil's Pump Price



Source : National Petroleum Authority

Repayment of debt owed to BDCs, stabilising cedi and reversal of restrictions imposed by central bank to ease supply constraints

- **Eased supply constraints:** Since FY 2013, the Ghanaian OMCs had been facing fuel supply shortages due to insufficient supply from BDCs in the face of increasing demand. The government of Ghana and OMCs had delayed the payment towards BDCs, pushing up the cumulative debt owed to BDCs above GHS 2 billion. BDCs had to rely on debt to continue their operations leading to increasing indebtedness. Additionally, banks also faced difficulty to source enough US dollar in the foreign exchange market due to foreign exchange controls imposed by Bank of Ghana in early 2014. These factors cumulatively restricted banks from offering funds to BDCs limiting the fuel supply in the country. This has impacted the sales volume of GOIL in various instances since end of FY 2013, which has even extended into weeks of deficient supply. However, going forward the foreign exchange liquidity has improved due to the Eurobond issue, cocoa loan syndication and reversal of restrictions imposed by central bank. The government has also repaid the majority of the debt owed to BDCs, which we believe will ease the fuel supply constraints in the country.

Apart from that, the BDCs are also in the process of rolling out a credit rating system that will determine the credit-worthiness of OMCs for deciding the terms of fuel product sales. Under the system, OMCs classified as tier-one and two will be extended credit for their purchases, while category three and four OMCs will have to purchase products on cash-and-carry basis. We expect GOIL to be classified amongst the highest ranks considering that the strong balance sheet of the company and payable days at 52 in FY 2014. We believe this will improve the performance of OMCs in the country and will benefit the larger and financially stronger companies such as GOIL and Total.

GHANA OIL COMPANY LIMITED: COMPANY OVERVIEW

Corporate Profile

GOIL is a leading oil marketing company in Ghana having the largest distribution network

- **Company overview:** Ghana Oil Company Limited (GOIL) is a leading Oil Marketing Company (OMC) operating in Ghana's downstream petroleum industry. The company is engaged in the marketing of petroleum and related products such as gasoil, gasoline, kerosene, aviation fuel (ATK), liquefied petroleum gas (LPG), automobile lubricants, bitumen, marine lubricants and bunker fuel. Among these products, Gasoil and Gasoline contribute over 70% of the total annual sales volume for GOIL. The company is a market leader in distribution of gasoil and bunkering services since 2002. GOIL has the largest retail network of over 225 outlets across the country closely followed by Total with 222 outlets. The company operates through five zonal offices with distribution depots spread across the country. It also has many consumer outlets and convenience shops across Ghana including companies, hospitals, schools, hotels, factories and banks. In addition, the company also operates a number of other retail outlets to market premix fuel and kerosene to rural areas and has also established LPG filling plants at some of its filling and service stations. Apart from that, the company also offers electronic prepaid and loyalty cards to its corporate, transporters and individual customers.

  GOIL had also acquired 33% stake in Joint User Hydrant Installation (JUHI) through which it offers aviation fuel from its storage tanks located in Kotoka International Airport. It also has 51.5% share in Ghana Bunkering Services (GBS) which provides marine lubricants and bunkering services from Tema and Takoradi depots. Going forward, the company plans to expand and diversify its operations by concentrating on aviation fuel, bitumen, automobile lubricants and bunkering services markets.

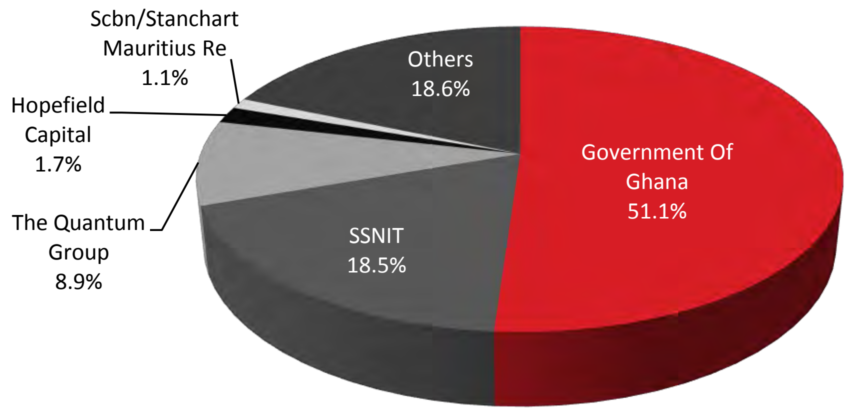
GOIL has transformed from being a private owned entity to a publicly listed company

- **History:** GOIL was incorporated as a private limited liability company on 14th June 1960 as AGIP Ghana Company Limited with the objective of marketing petroleum products and related products particularly fuels, LPG, lubricants, bitumen, and speciality products in Ghana. The company was initially owned by AGIP SPA of Italy and SNAM SpA. On the 16th December 1968, SNAM SpA transferred its 10% shareholding representing 95,000 shares to Hydrocarbons International Holdings of Zurich, Switzerland. In 1974, the government of Ghana acquired the shares of AGIP SPA and Hydrocarbons International Holdings in the company and by a special resolution in 1976 changed its name to Ghana Oil Company Limited. On 1st August 2007, shareholders passed a resolution to convert GOIL into a public limited company and subsequently the company was listed on the Ghana Stock Exchange on 16th November 2007. Between 2010 and 2012, GOIL underwent a transformation process to change its logo, station outlook and the corporate culture which was dubbed "Good Energy comes with a Smile" to improve its brand image, enhance customer service and develop customer loyalty. The company had also acquired two companies namely, Ghana Bunkering services in 2004 and Joint User Hydrant Installation (JUHI) in 2009 to foray into aviation fuel and marine fuel businesses respectively.

GOIL has issued just over 25% of its authorized capital with Government of Ghana as the largest shareholder having 51.1% stake in the issued capital

- **Top Shareholders:** GOIL listed on Ghana Stock Exchange in the year 2007 and is the second listed OMC in Ghana after Total Petroleum which was listed in the year 1991. The company has issued 25.2% of its total authorised share capital with the largest five shareholders owning 81.4% of the total issued capital. Government of Ghana is the largest shareholder with a majority stake of 51.1% followed by Social Security and National Insurance Trust (SSNIT) and The Quantum Group Limited with 18.5% and 7.8% stake respectively. As of 31st December 2013, the company had a total of 15,135 shareholders, out of which only 98 shareholders owned approximately 86.6% of the issued capital.

Top shareholders as on December 31, 2013



Source: Annual Report 2013

- **Management Team:**

Management Team	
Name	**Designation**
Prof. William Afiakwa Asomaning	Chairman
Patrick A.K. Akorli	Managing Director
Erasmus Ofori Sarkwa	Finance Manager
Joseph Brian Ansah	Administrative Manager
Alex Adzew	Fuels Marketing Manager
Anthony Twumasi	IT & Planning Manager
Stephen Yaw Gyabeng	Solicitor/Secretary
Mr Samuel Korboe	Chief Internal Auditor

Source: Company Website

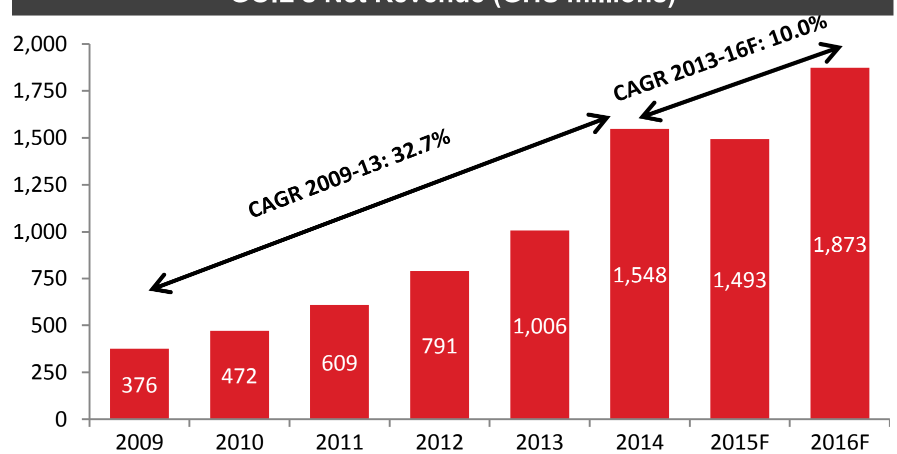
GHANA OIL COMPANY LIMITED (GOIL): FINANCIAL PROFILE

Price Driven Revenue Growth and Sustained Low Profitability

GOIL's revenue growth is largely driven by the increase in fuel prices

- GOIL's net revenue has increased at a CAGR of 32.7% during FY 2009-14 period despite a decline in the fuel sales volume from 550.2 million litre equivalent to 492.3 million. This reflects that the revenue growth has been mainly driven by the increase in the average price realised per litre equivalent of fuel product sold from GHS 0.7 per litre to GHS 3.1 per litre during FY 2009-14 period. This was primarily due to the combined impact of the depreciating cedi, increase in international crude oil prices and removal of fuel subsidies by the government. GOIL's net revenue posted an increase of 53.9% YoY in FY 2014 primarily driven by the increased pump prices for fuel products. FY 2015 onwards, international crude prices are expected to remain moderate due to the sluggish global growth owing to subdued economic outlook and excess supply from oil producing nations. Besides, we anticipate more stability in Ghanaian cedi driven by some improvement in macro-economic environment in Ghana and possible assistance from IMF. Consequently, we expect the average fuel prices to decrease by 8.7% YoY in FY 2015 which should drive the GOIL's volume growth by 5.8% in FY 2015. However, in FY 2016, we expect the fuel prices to increase by 19.1% YoY while the company's sales volume are expected to increase by 5.0% due to the improvement in economic scenario. Therefore, we forecast the company revenue to decrease by 3.5% YoY in FY 2015 before increasing by 25.4% YoY in FY 2016.

GOIL's Net Revenue (GHS millions)

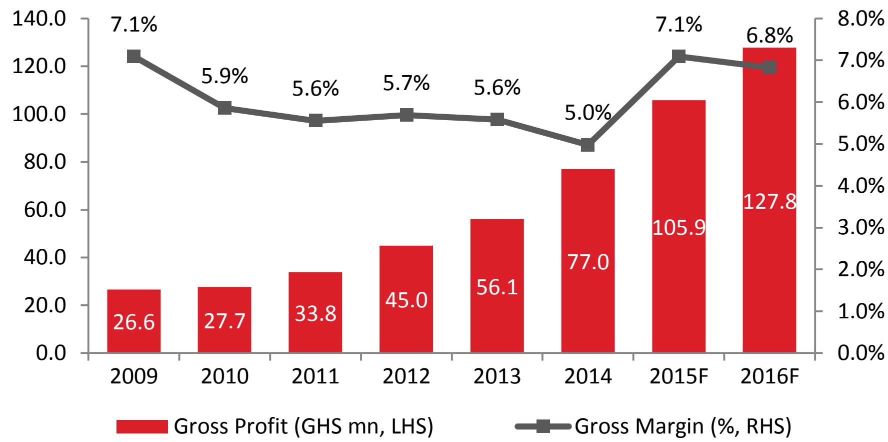


Source: Company Reports, RocSearch Research

GOIL's profitability is expected improve with the expected margin hike by NPA in FY 2015

- GOIL's gross profit is largely determined by the share of marketer and dealer in the pump price which is decided by NPA and the sales volume. The company's gross profit per unit fuel volume sold has increased from GHS 0.05 per litre equivalent in FY 2009 to GHS 0.16 per litre equivalent in FY 2014. The increase has been in-line with the hike in dealer margin and marketer margin by NPA during the same period. The last hike by the petroleum regulator was in February 2015 lifting the margins by approximately 27.8% YoY on almost all the fuels to compensate for high inflation and steep increase in fuel prices which has escalated the transportation costs for OMCs. As a result of increased sales volume and subdued fuel prices, we forecast the company gross profit to increase by 37.5% YoY to GHS 105.9 million in FY 2015. Given the recent moderation in international crude oil prices and stabilising Ghanaian cedi, we expect the fuel cost increase in FY 2016 to be relatively restrained. Besides, we also expect a gradual improvement in GOIL's gross profit margin due to its diversification plans into unregulated markets of bunkering services and aviation fuels. Cumulatively, we project 15.0% increase in gross profit per unit volume of fuel sold in FY 2016. This along with the sustained volume growth is expected to drive GOIL's gross profit by 20.8% YoY in FY 2016 to GHS 127.8 million. The strong increase in absolute gross profit for the company is expected to increase its gross margin to 7.1% in FY 2015, before decreasing to 6.8% in FY 2016 with strong revenue growth.

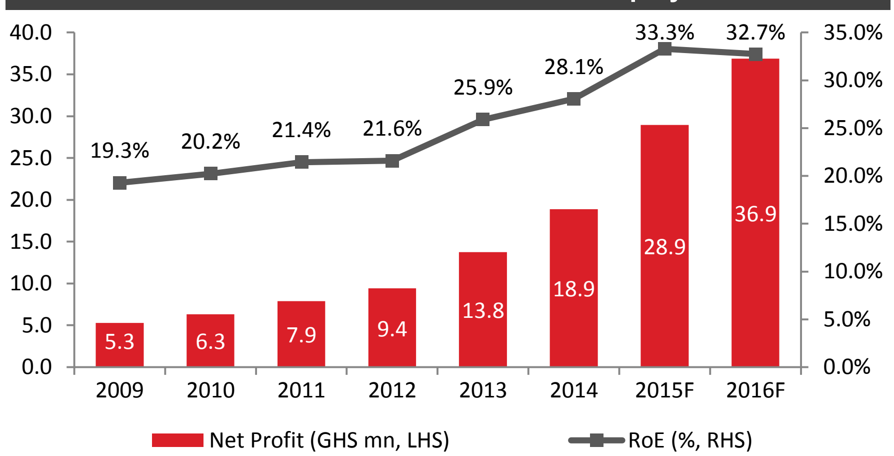
GOIL Gross Profit and Gross Margin



Source: Company Reports, RocSearch Research

Similarly, the company's operating profit per unit volume of fuel sold has almost tripled to GHS 0.06 per litre during FY 2009-14 period while operating margin has declined by 106bps to 1.8% in FY 2014. Going forward, we expect GOIL's operating margin to increase to 3.0% in FY 2015 and FY 2016 each due to the hike in marketer and dealer margin. Accordingly, we expect the company's net profit margin to increase to 1.9% and 2.0% in FY 2015 and FY 2016 respectively from 1.2% in FY 2014. Given the stable operating performance of the company, it continues to generate return on equity in excess of 20%. We expect the strong return for equity holders to continue and project 33.3% and 32.7% return in FY 2015 and FY 2016 respectively.

GOIL Net Profit and Return-on-Equity



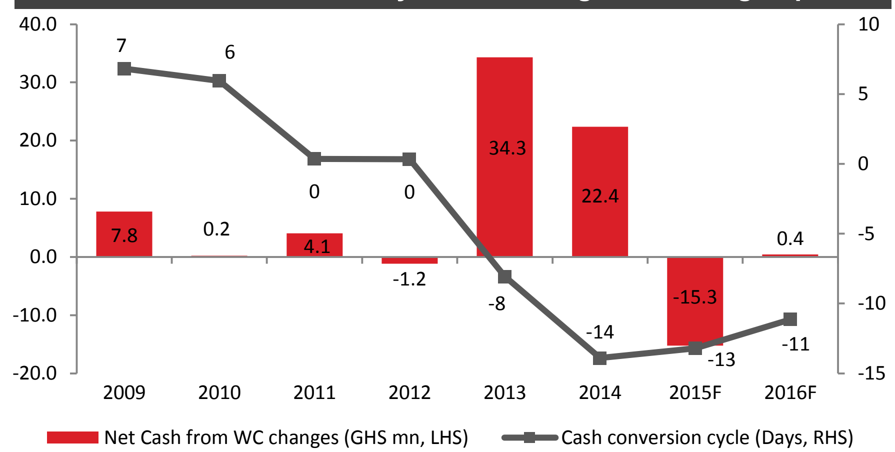
Source: Company Reports, RocSearch Research

Negative Cash Conversion Cycle

GOIL has maintained negative cash conversion cycle reducing the working capital requirement and resulting in strong operating cash flow generation

- GOIL has been running its operation with consistently low working capital requirement despite significant increase in the scale of operation. The cash conversion cycle for the company has remained below 10 days during FY 2009-11 period which turned negative since FY 2013. It can be largely attributed to the long credit period available from Bulk Distribution Companies (BDCs) resulting in increased payable days. The sharp increase in payable days in FY 2013 has led to cash inflow of GHS 34.3 million while in FY 2014 about GHS 22.4 million of cash released due to the significant increase in fuel prices and higher volume growth. It is also reflected in the cash conversion cycle which has contracted from negative 8 days in FY 2013 to negative 14 days FY 2014. Going forward, NPA intends to lower the credit period granted by BDCs to around 45 days to improve their financial performance, but this is not expected to impact GOIL significantly as it is already making payments to BDCs within similar timelines. Apart from that, we anticipate that the inventory days and receivable days will remain largely unchanged from the current level of 5 and 33 respectively. Therefore, we expect the cash conversion cycle of GOIL to remain negative but increase to negative 13 days and 11 days in FY 2015 and FY 2016 respectively. This along with expected decrease in fuel prices is expected to result in cash outflow of GHS 15.3 million in FY 2015. However, in FY 2016 we expect a cash inflow of GHS 0.4 million mainly due to the expected increase in fuel prices.

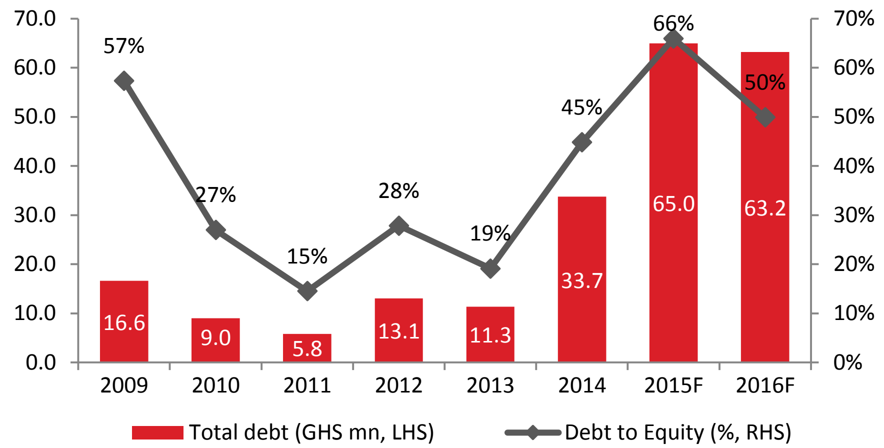
GOIL's Cash Conversion Cycle and Change in Working Capital



Source: Company Reports, RocSearch Research

Historically, GOIL has been able to maintain low leverage ratio mainly due to strong internal cash generation. In FY 2014, despite inflow of GHS 21.7 million from operating activities, the company registered negative free cash flow of GHS 55.8 million due to capital expenditure of GHS 77.6 million. It led to debt to equity ratio of 44.8% in FY 2014 compared to 19.1% in FY 2013. Going forward, we expect that the operating cash flows will be insufficient to fund GOIL's large capital expenditure requirement in FY 2015 and the company debt level will increase further. We have factored in capex spend of GHS 55.4 million and GHS 43.1 million in FY 2015 and FY 2016 respectively, significantly short of GHS 77.6 million spent in FY 2014. GOIL had planned for rights issue of not less than GHS 50 million in FY 2014, however it couldn't raise equity capital due to the weak investor sentiment in Ghana and we believe it is unlikely to happen in the short term as well. After accounting the lower capex and cash outflow due to working capital changes in FY 2015, we forecast significant increase in total debt position of the company to GHS 65.0 million in FY 2015 before declining to GHS 63.2 million. This is also expected to drive the company's debt to equity ratio to 66.0% and 49.9% in FY 2015 and FY 2016 respectively.

GOIL's Total Debt and Gearing



Source: Company Reports, RocSearch Research

GHANA OIL COMPANY LIMITED: RELATIVE VALUATION

We value Ghana Oil Company Limited (GOIL) at GHS 1.26 per share based on 1-yer forward Price to Earnings multiple of 11.0x and FY2015 Earnings estimate of GHS 28.9 million. The company's share has traded on the 1-yr fwd. P/E multiple in the range of 5.6x – 21.8x in FY 2010-14 period. Our target multiple is in-line with the average multiple of GOIL for last three years. Our target price implies an upside potential of 17.8%, after adjusting for the dividend yield of 2.1%, leading to our BUY recommendation.

1-yr Forward P/E multiple			
Year	Low	High	Average
2010	5.6x	9.9x	6.8x
2011	7.0x	8.7x	7.7x
2012	6.8x	10.3x	8.7x
2013	8.4x	21.8x	12.8x
2014	8.8x	11.9x	10.1x
2015 YTD	8.7x	9.2x	9.0x
Target P/E Mu		**11.0x**	

Target current 1-yr fwd. P/E Multiple	11.0x
FY 2015 Earnings (GHS mn)	28.9
Current Share Price (GHS/share)	1.09
Target Market Capital (GHS mn)	318.3
Target Share Price (GHS/share)	1.26
Potential Up/(down)side	**15.8%**
Expected Dividend Yield	2.1%
Total Potential Return	**17.8%**

GHANA OIL COMPANY LIMITED: DCF VALUATION

We have also validated our valuation using three-stage FCFF discounted cash flow model, valuing the equity at GHs 1.27/share. Our assumptions include cost of equity of 15.9% (risk-free rate 9.14%, adjusted beta 0.58x and equity risk premium 11.7%) and terminal growth rate of 3.0%. Our model values the stock at GHS 1.27 per share, 16.8% above the current share price.

Discounted FCFF Model	
Valuation Date	16-Mar-15
Next Year End	31-Dec-15

WACC	
Risk Free Rate	9.14%
Equity Risk Premium	11.7%
Beta (x)	0.58x
Cost of Equity (%)	**15.9%**
Tax Rate	25.0%
Cost of Debt	11.6%
After-tax Cost of Debt	**8.7%**
Market Value of Equity	274.9
Book Value of Debt	33.7
WACC	**15.1%**

Terminal Growth	
Long Term Growth Rate	3.0%

	High Growth Stage				Stable Growth Stage							Terminal
Year ending 31-Dec, (GHS millions)	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**Value**
Revenue	1,493.5	1,873.1	2,025.7	2,190.8	2,453.7	2,748.2	3,077.9	3,447.3	3,861.0	4,324.3	4,843.2	
EBIT	44.4	55.7	74.2	85.6	73.6	82.4	92.3	103.4	115.8	129.7	145.3	
EBIT (1-tax rate)	33.3	41.8	55.6	64.2	55.2	61.8	69.3	77.6	86.9	97.3	109.0	
Add:Depreciation and Amortisation	16.3	17.6	17.7	19.2	22.1	24.7	27.7	31.0	34.7	38.9	43.6	
Less: Change in Net Working Capital	-15.3	0.4	-1.7	1.9	-4.8	-5.3	-6.0	-6.7	-7.5	-8.4	-9.4	
Less: Capital Expenditure	-55.4	-43.1	-36.5	-32.9	-29.4	-33.0	-36.9	-41.4	-46.3	-51.9	-58.1	
Free Cash Flow to Firm (FCFF)	**-21.0**	**16.7**	**35.2**	**52.4**	**43.1**	**48.3**	**54.1**	**60.5**	**67.8**	**75.9**	**85.0**	
PV of FCFF	-18.3	12.6	23.1	29.9	21.3	20.7	20.2	19.6	19.1	18.6	18.1	
Terminal Value												723.5
PV of Terminal Value												153.9

Target Price Calculation	
Enterprise Value	338.9
Current Net Debt	17.8
Equity Value	**321**
Number of Shares	252
Fair Value per share	**1.27**
Current Share Price	**1.09**
Potential Up/(Down)side	**16.8%**

Sensitivity Analysis						
Fair		**Long Term Growth**				
Value	**1.27**	2.0%	2.5%	3.0%	3.5%	4.0%
	14.1%	1.38	1.41	1.44	1.48	1.53
	14.6%	1.30	1.33	1.36	1.39	1.43
WACC	15.1%	1.22	1.25	1.28	1.31	1.34
	15.6%	1.16	1.18	1.20	1.23	1.26
	16.1%	1.09	1.11	1.14	1.16	1.18

COMPARABLE ANALYSIS – FY 2014

	Country Name	Market Cap millions	EV millions	Revenue US$m	Net Profit US$m	Equity US$m	Net Margin	RoE	RoA	P/E	P/B	P/Sales	EV/Sales
Ghana Oil Co Ltd	Ghana	75.9	80.9	451.2	5.5	21.9	1.2%	28.1%	6.6%	13.8x	3.5x	0.2x	0.2x
Total Petroleum Ghana Ltd	Ghana	188.8	187.1	650.3	17.1	43.4	2.6%	37.5%	11.5%	11.0x	4.4x	0.3x	0.3x
Total Nigeria Plc	Nigeria	238.5	332.0	1,495.8	33.5	82.8	2.2%	43.5%	6.9%	7.1x	2.9x	0.2x	0.2x
Forte Oil Plc	Nigeria	1,007.7	1,293.1	804.2	31.4	81.2	3.9%	48.5%	6.8%	32.1x	12.4x	1.3x	1.6x
Kenolkobil Ltd Group	Kenya	161.0	236.5	1,274.2	6.5	77.2	0.5%	8.5%	1.8%	24.8x	2.1x	0.1x	0.2x
Mrs Nigeria Plc	Nigeria	64.4	88.6	551.3	2.4	122.7	0.4%	2.0%	0.6%	26.9x	0.5x	0.1x	0.2x
Conoil Plc	Nigeria	118.4	90.5	1,002.0	19.3	112.7	1.9%	18.2%	3.7%	6.1x	1.1x	0.1x	0.1x
Mobil Nigeria Plc	Nigeria	273.3	289.3	494.6	21.9	59.6	4.4%	43.2%	9.4%	12.5x	4.6x	0.6x	0.6x
		2,128.2	**2,597.9**	**6,723.6**	**137.6**	**601.5**	**2.0%**	**39.4%**	**6.8%**	**22.1x**	**3.5x**	**0.3x**	**0.9x**

Source: Company Reports, Bloomberg

SUMMARY FINANCIAL STATEMENTS

Income Statement (GHS million)	2009	2010	2011	2012	2013	2014	2015F	2016F
Gross Revenues	421.5	514.4	671.7	859.9	1,082.6	-	-	-
Customs Duties and Levies	46.0	42.0	62.4	68.6	77.0	-	-	-
Net Revenue	**375.6**	**472.3**	**609.3**	**791.3**	**1,005.6**	**1,547.6**	**1,493.5**	**1,873.1**
Cost of Sales	348.9	444.7	575.5	746.3	949.5	1,470.6	1,387.6	1,745.2
Gross Profit	**26.6**	**27.7**	**33.8**	**45.0**	**56.1**	**77.0**	**105.9**	**127.8**
Sundry Income	2.4	2.3	3.4	2.2	3.5	4.6	5.8	7.8
Depot and Station Expenses	4.9	5.5	6.2	9.0	13.5	-	-	-
General, Selling and Administrative Expens	18.2	19.4	24.6	32.5	40.8	53.4	67.2	79.9
Operating Profit before financing costs	**10.8**	**10.6**	**12.6**	**14.8**	**18.8**	**28.2**	**44.4**	**55.7**
Net Finance Expenses	4.0	2.4	1.3	0.6	0.2	3.0	4.6	5.2
Profit before Taxation	**6.8**	**8.1**	**11.3**	**14.2**	**18.6**	**25.2**	**39.8**	**50.4**
Income tax expense	1.6	1.8	3.5	4.8	4.8	6.3	10.9	13.5
Net profit attributable to equity holders	**5.3**	**6.3**	**7.9**	**9.4**	**13.8**	**18.9**	**28.9**	**36.9**
EPS	0.03	0.03	0.04	0.05	0.06	0.07	0.11	0.15
DPS	0.01	0.01	0.01	0.02	0.02	0.02	0.03	0.04

Balance Sheet (GHS million)	2009	2010	2011	2012	2013	2014	2015F	2016F
Assets								
Property, Plant and Equipment	26.0	26.1	32.7	46.8	71.8	137.7	176.8	202.2
Total Non-Current Assets	**27.3**	**30.3**	**37.8**	**53.2**	**82.6**	**152.8**	**191.9**	**217.4**
Stocks	5.9	8.9	9.9	12.4	17.1	26.5	13.6	28.0
Accounts Receivable	54.3	57.7	65.3	90.3	96.5	158.9	111.9	180.4
Short Term Investment	-	-	2.0	3.9	4.5	4.5	4.5	4.5
Cash and Bank Balances	12.2	6.8	6.5	4.0	21.2	11.5	11.6	13.0
Total Current Assets	**72.4**	**73.3**	**83.7**	**110.6**	**139.3**	**201.3**	**141.6**	**225.8**
Total Assets	**99.7**	**103.5**	**121.5**	**163.8**	**221.9**	**354.2**	**333.6**	**443.2**
Liabilities								
Stated Capital	11.8	11.8	11.8	11.8	31.8	31.8	31.8	31.8
Income Surplus	12.2	16.0	21.5	27.5	16.0	30.9	54.1	82.3
Capital Surplus	4.6	4.9	5.7	6.1	9.0	10.1	10.1	10.1
Total Equity	**29.0**	**33.4**	**40.1**	**47.0**	**59.3**	**75.3**	**98.5**	**126.7**
Non Current Term Loan	1.4	0.5	1.5	8.1	6.6	15.8	18.2	16.5
Total Non-Current Liabilities	**1.5**	**0.8**	**2.9**	**10.9**	**10.2**	**19.4**	**21.8**	**20.0**
Bank Overdraft	9.6	4.0	2.0	1.3	1.1	12.0	45.0	45.0
Accounts Payable	53.5	60.1	72.8	99.1	145.6	239.8	164.7	247.9
Short-term debt	5.7	4.6	2.4	3.6	3.7	5.9	1.8	1.8
Total Current Liabilities	**69.2**	**69.3**	**78.5**	**105.9**	**152.5**	**259.5**	**213.2**	**296.4**
Total Liabilities	**70.7**	**70.1**	**81.4**	**116.8**	**162.6**	**278.9**	**235.0**	**316.5**
Total Equity and Liabilities	**99.7**	**103.5**	**121.5**	**163.8**	**221.9**	**354.2**	**333.6**	**443.2**

Cash Flow Statement (GHS million)	2009	2010	2011	2012	2013	2014	2015F	2016F
Cash flow from operating activities								
Profit before tax	6.8	8.1	11.3	14.2	18.6	25.2	39.8	50.4
Depreciation and Amortisation charges	2.8	2.4	2.8	4.8	7.8	8.2	16.3	17.6
Operating Cash Before WC Changes	**13.6**	**12.9**	**15.4**	**19.6**	**26.5**	**5.0**	**60.8**	**73.3**
Increase in Stocks	1.6	-2.9	-1.1	-2.4	-4.7	-9.4	12.9	-14.3
Increase in Debtors	6.1	-3.4	-7.6	-25.0	-6.2	-62.3	47.0	-68.5
Increase in Creditors	0.1	6.5	12.8	26.3	45.2	94.1	-75.1	83.2
Cash generated from operations	**21.4**	**13.1**	**19.5**	**18.4**	**60.8**	**27.3**	**45.5**	**73.7**
Company Tax Paid	-1.5	-1.4	-1.5	-2.9	-3.8	-5.6	-10.9	-13.5
Net Cash Inflow from Operating activities	**19.9**	**11.8**	**18.0**	**15.5**	**57.0**	**21.7**	**34.6**	**60.2**
Interest and Dividend Received	0.5	0.6	0.3	0.7	1.2	0.3	1.1	1.1
Interest paid	-4.5	-3.0	-1.6	-1.3	-1.4	-3.0	-5.7	-6.4
Acquisition of Property, Plant and Equipm	-6.5	-2.5	-9.6	-19.9	-34.2	-77.6	-55.4	-43.1
Net Cash flows from Investing activities	**-10.5**	**-7.4**	**-10.7**	**-20.4**	**-34.3**	**-80.3**	**-60.1**	**-48.3**
(Decrease)/Increase in Term Loan	-10.1	-2.0	-1.2	7.9	-1.5	-3.5	-1.8	-1.8
Dividend paid	-1.8	-2.2	-2.4	-2.9	-3.2	-5.6	-5.7	-8.7
Net Cash flows from Financing Activities	**-10.6**	**-4.2**	**-3.6**	**5.0**	**-4.7**	**5.9**	**-7.4**	**-10.5**
Net Increase in Cash and Cash Equivalents	-1.2	0.2	3.7	0.1	18.0	-52.6	-32.9	1.4
Cash and Cash Equivalents at 1 January	3.8	2.6	2.8	6.5	6.6	56.6	4.0	-28.9
Cash and Cash Equivalents at period end	**2.6**	**2.8**	**6.5**	**6.6**	**24.6**	**4.0**	**-28.9**	**-27.5**

Source: Company Reports, RocSearch Research

RATIO ANALYSIS

	2009	2010	2011	2012	2013	2014	2015F	2016F
Growth								
Gross Revenue	-3.9%	22.0%	30.6%	28.0%	25.9%	-	-	-
Net Revenue	0.6%	25.8%	29.0%	29.9%	27.1%	53.9%	-3.5%	25.4%
Cost of Sales	-0.7%	27.4%	29.4%	29.7%	27.2%	54.9%	-5.6%	25.8%
Gross Profit	22.0%	3.9%	22.3%	33.0%	24.7%	37.2%	37.5%	20.8%
Net Operating Expense	15.2%	9.3%	20.9%	43.3%	29.8%	-4.0%	25.8%	17.5%
Operating Income	33.4%	-2.3%	19.4%	17.1%	26.9%	50.2%	57.7%	25.3%
Profit before tax	24.1%	19.4%	39.2%	25.1%	31.0%	35.4%	58.2%	26.7%
Net profit	47.5%	39.9%	49.7%	38.4%	92.8%	74.4%	106.5%	55.0%
Net Working Capital	-53.8%	-3.2%	-63.1%	48.3%	NM	-69.8%	28.1%	-1.1%
Total Assets	0.0%	3.8%	17.4%	34.8%	35.5%	59.6%	-5.8%	32.9%
Total Equity	13.1%	15.3%	20.0%	17.0%	26.3%	26.8%	30.9%	28.6%
Total Debt	-17.9%	-45.7%	-35.5%	124.4%	-13.2%	197.5%	92.6%	-2.7%
Profitability								
Gross Margin	7.1%	5.9%	5.6%	5.7%	5.6%	5.0%	7.1%	6.8%
Operating Margin	2.9%	2.2%	2.1%	1.9%	1.9%	1.8%	3.0%	3.0%
PBT Margin	1.8%	1.7%	1.9%	1.8%	1.8%	1.6%	2.7%	2.7%
Net Profit Margin	1.4%	1.3%	1.3%	1.2%	1.4%	1.2%	1.9%	2.0%
RoIC	31.2%	32.5%	37.4%	34.6%	41.7%	45.8%	40.2%	37.1%
RoA	5.3%	6.2%	7.0%	6.6%	7.1%	6.6%	8.4%	9.5%
RoE	18.2%	20.2%	21.4%	21.6%	25.9%	28.1%	33.3%	32.7%
Efficiency								
Fixed asset turnover (x)	13.8x	15.6x	16.1x	14.9x	12.2x	10.1x	7.8x	8.6x
Inventory turnover (x)	63.5x	53.4x	61.4x	63.9x	58.9x	58.3x	109.6x	67.0x
Receivables turnover (x)	6.9x	8.2x	9.3x	8.8x	10.4x	9.7x	13.3x	10.4x
Payables turnover (x)	6.5x	7.4x	7.9x	7.5x	6.5x	6.1x	8.4x	7.0x
Cash Conversion Cycle (days)	7	6	0	0	-8	-14	-13	-11
Debt to Equity Ratio (x)	57.3%	27.0%	14.5%	27.8%	19.1%	44.8%	66.0%	49.9%
Interest Coverage Ratio (x)	-2.4x	-3.5x	-8.1x	-11.7x	-13.8x	-9.3x	-7.7x	-8.7x
Per Share Data								
EPS	0.03	0.03	0.04	0.05	0.06	0.07	0.11	0.15
DPS	0.01	0.01	0.01	0.02	0.02	0.02	0.03	0.04
BVPS	0.14	0.16	0.19	0.22	0.28	0.30	0.39	0.50
Valuation multiples								
EV/Sales (x)	0.1x	0.1x	0.1x	0.2x	0.2x	0.2x	0.2x	0.2x
EV/Book Value (x)	1.4x	1.9x	1.6x	2.9x	3.5x	3.8x	3.0x	2.3x
P/E (x)	6.8x	9.6x	8.5x	13.9x	16.3x	14.0x	9.5x	7.5x
P/BV (x)	1.2x	1.8x	1.7x	2.8x	3.8x	3.5x	2.8x	2.2x
P/Sales (x)	0.1x	0.1x	0.1x	0.2x	0.2x	0.2x	0.2x	0.1x

Source: Company Reports, RocSearch Research