

BUA FOODS PLC

SELL

Volume momentum to support FY'26 earnings

BLOOMBERG: BUAFOODS NL

 Target price: N638.23
 Ref Price: N734.20

BUA Foods Plc (BUAFOODS) in 9M'25 continued its positive momentum, reporting a 101.2% YoY growth in PAT to N405.3 billion. The earnings growth stems from a strong topline performance (+32.7% YoY) of N1.4 trillion. Furthermore, the almost complete elimination of foreign exchange losses (-99.8% YoY) and the material decline in net finance costs following the deleveraging efforts of the company during the review period strengthen our positive outlook on the company.

Following subsequent reviews of our models and conversations with management, we have reviewed our 12-month Target Price (TP) upwards to N638.23. Our stance is underpinned by an improving macroeconomic environment, management's strategic initiatives to expand production volumes, and continued focus on cost efficiency. We have also updated our valuation assumptions, reducing the risk-free rate to 16.4% (from 18.0%), and adjusting the equity risk premium to 13.8% (from 14.3%).

Stronger volumes and softer input costs to drive earnings upside

We have revised FY'25 revenue estimate to N1.9 trillion (vs N1.8 trillion previously) to reflect price increases and higher volumes in the Sugar (+5.0% YoY), Flour (+26.0% YoY), Pasta (+4.0% YoY), and Rice (+50.8x YoY) product lines as of 9M'25. We expect Q4'25 volumes to be relatively higher than prior quarters, reflecting festive-induced demand.

For FY'26, we see room for a continued revenue uptick (+20.8% YoY to N2.3 trillion), aided by improving macroeconomic conditions, which is positive for customers' purchasing power. Additionally, we expect ongoing capacity expansions, improving utilisation rates, and deepening market penetration (particularly in the rice segment) to support volume growth further and, by extension, topline.

On the cost front, we expect Cost of Goods Sold (COGS) growth to moderate in FY'25E, supported by lower raw sugar (-21.6% YtD) and wheat (-3.1% YtD) prices, coupled with the appreciation of the local currency. Consequently, we forecast COGS to grow by 22.9% YoY to N1.2 trillion, implying a gross margin of 37.0%.

Meanwhile, for FY'26E, we expect cost moderation to persist. Wheat prices are projected to remain soft amid sustained high output from major exporting regions, including the EU, Russia, and the Americas, with the World Bank forecasting record wheat production in the 2025/26 crop year. Similarly, the International Sugar Organisation projects a global sugar surplus of 1.625 million metric tons, which should keep prices subdued.

Kehinde Amodu

kehinde.amodu@cardinalstone.com

Tomiwa Adeniji

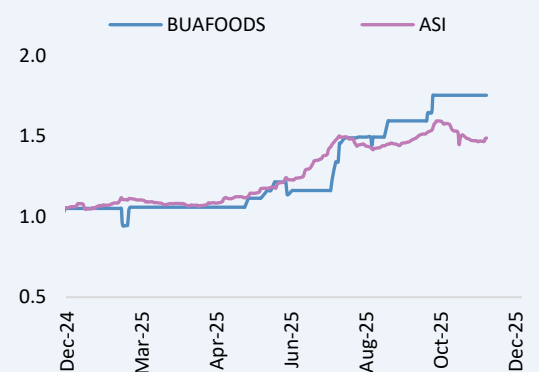
tomiwa.adeniji@cardinalstone.com

Kayode Eseyin

kayode.eseyin@cardinalstone.com

Market Data	BUAFOODS
Market Cap (N'Mn)	13,215,600.0
Last close price (N)	734.20
52-week high/low price (N)	734.20/373.50
Avg 3M daily volume (mn)	0.08

Rebased 1-year price movement



Source: Bloomberg, CardinalStone Research

Accordingly, we forecast COGS to grow at a slower rate of 19.8% YoY to N1.4 trillion, translating into a higher gross margin of 37.5% in FY'26.

EBIT margins are also likely to improve in FY'25 and FY'26, reflecting softer energy and distribution costs. Meanwhile, the expected moderation in inflation would likely bode well for packaging and other expenses. Hence, EBIT margin is expected to improve to 31.2% in FY'25E and 31.7% in FY'26E.

Finance cost to moderate on the back of declines in borrowings

For FY'25E and FY'26E, we expect finance costs to moderate materially, reflecting the deleveraging done in 2024 and the absence of additional borrowings. As such, we see potential for the interest coverage ratio to strengthen to 42.7x in FY'25E and 65.2x in FY'26E. This translates to an expansion in PBT margin to 30.8% in FY'25E and 31.5% in FY'26E (vs. 18.6% in FY'24). Furthermore, given the positive outlook for the currency, we do not foresee any FX losses in the coming year.

Figure 1: Revenue projections (N'billion)

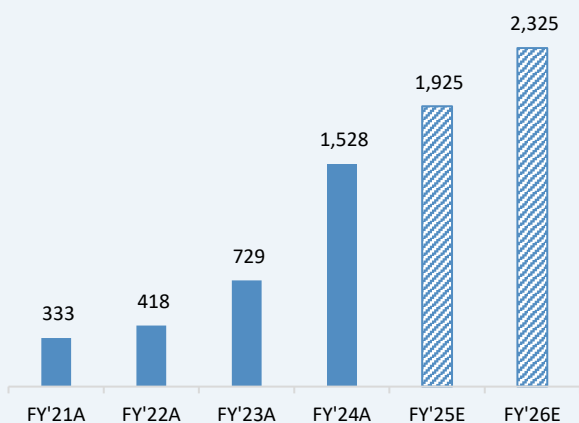


Figure 2: Raw material costs on a downward trend

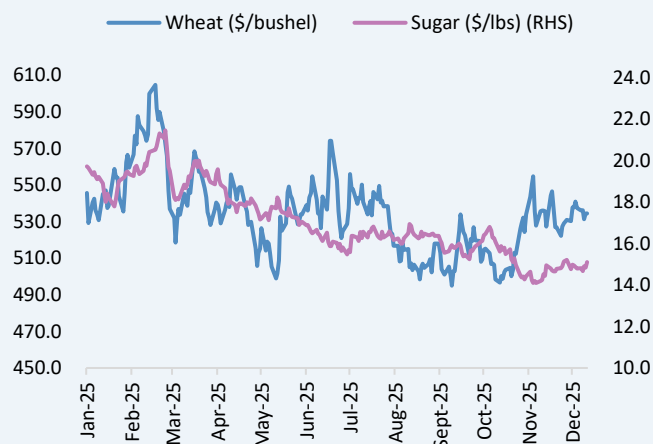


Figure 3: Borrowings to reduce in FY'26E (N'billion)

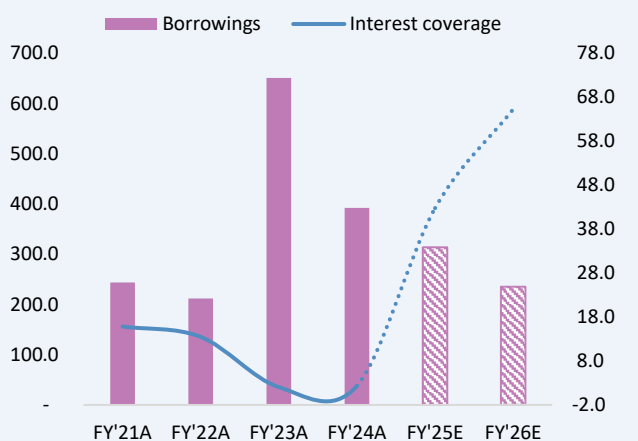
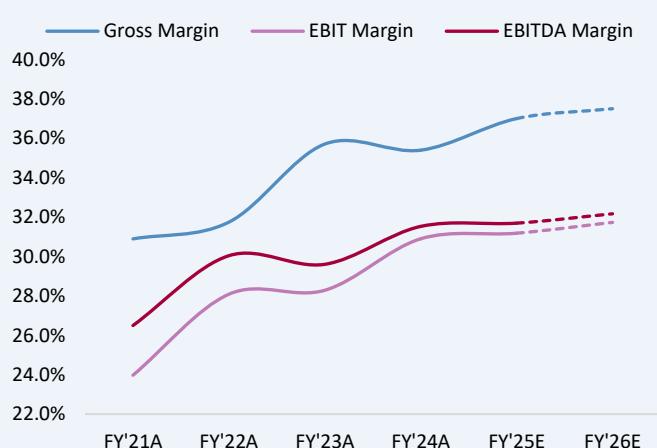
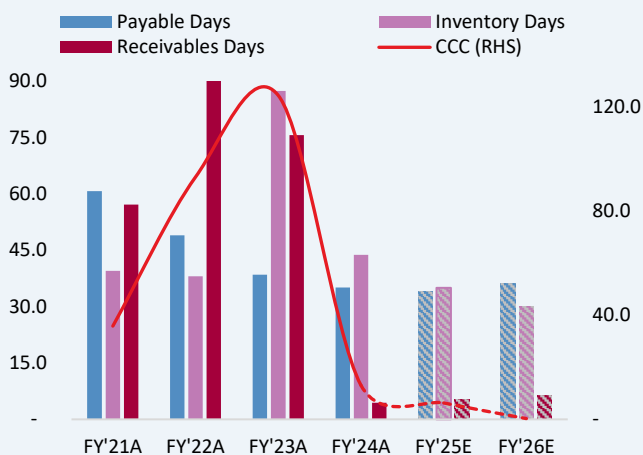


Figure 4: Margins to improve in FY'26E



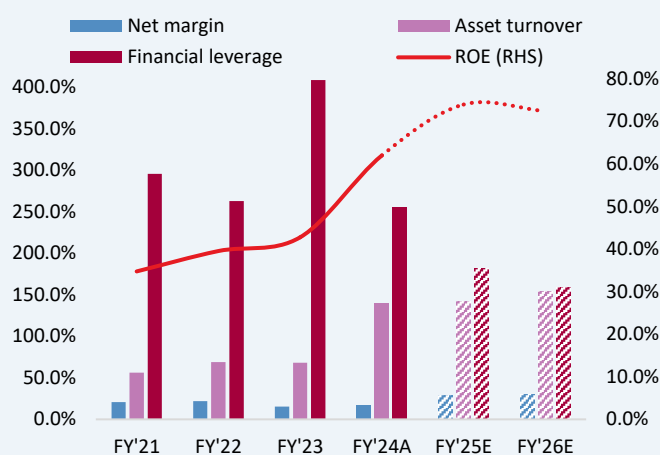
Source: Bloomberg, Company financials, CardinalStone

Figure 5: Operational efficiency creating leeway for declining CCC days



Source: Company financials, CardinalStone Research

Figure 6: Lower leverage to moderate ROE in FY'26E



Operational efficiency underscores cash conversion

BUAFOODS’ cash conversion cycle (CCC) is projected to strengthen meaningfully, declining to 6.9 days in FY’25E and further to 0.9 days in FY’26E. We expect inventory days to decline to 35.0 days in FY’25E and 30 days in FY’26E, given management’s intensified efforts to increase shipping of finished goods to customers- a trend to persist in FY’26E. For receivable days, we forecast an increase to 6.0 days in FY’25E and 7.0 days in FY’26E (vs 4.4 days in FY’24). Our forecast is supported by management’s strategic decision to frontload its raw materials and spares procurement through its parent company. Overall, these dynamics point to a more efficient operational cycle, which is supportive of improved financial flexibility and resilience against input price volatility.

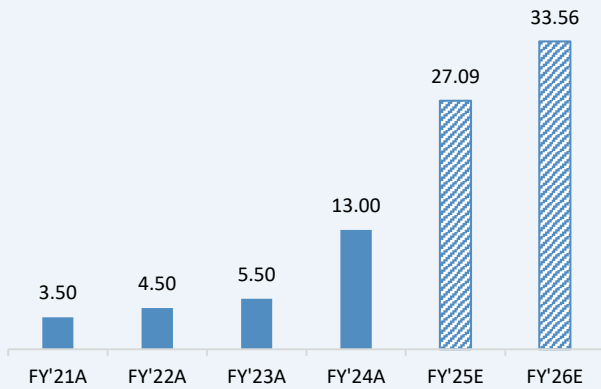
ROE to increase, stemming from increased margin and asset turnover in FY’25E

Ultimately, our projections imply an ROE of 74.0% for FY’25E, up from 62.0% in FY’24 and 72.4% in FY’26E. According to our DuPont analysis, for FY’25E, the increase in ROE is principally driven by stronger earnings leading to a higher net profit margin of 28.8% (vs 17.4% in FY’24) and an efficient asset utilisation. Meanwhile, in FY’26, ROE is expected to moderate marginally by 1.6ppts to 72.4%, owing to an expected further decline in financial leverage. The lower leverage is set to offset the impact of a better net profit margin and asset turnover in the new year.

Incremental Dividend Payments

BUAFOODS has remained consistent in its dividend policy over the past four years, paying out an average of c.88.8% of earnings as dividends to shareholders. In FY’23 and FY’24, the company declared dividends of N5.50 and N13.00, respectively, driven by an average growth in Earnings Per Share (EPS) of 80.0% across both years. For FY’25 and FY’26, we maintain a positive outlook, with forecast Dividend Per Share (DPS) of N27.09 and N33.56, respectively. This outlook is supported by robust profit-after-tax growth, solid operating cash-flow generation, and the maintenance of a high dividend payout ratio of 88.0%.

Figure 7: Higher dividend declarations per share (N)



Source: Company financials, CardinalStone Research

Valuation and Recommendation

Employing both discounted cash flow (DCF) and multiples-based valuation methodologies, we have raised our 12-month TP to N638.23 (vs N481.70 previously), indicating a potential downside of 13.1% from its current reference price of N734.20. The upward revision in our TP reflects our expectations of continued earnings growth in Q4'25 and FY'26. We have also updated our valuation assumptions, reducing the risk-free rate to 16.4% (from 18.0%) and adjusting the equity risk premium to 13.8% (from 14.3%). From the relative valuation standpoint, BUAFODS appears overvalued, currently trading at a P/E multiple of 26.5x, which is a premium to its peer average P/E of 14.7x. The company’s current EV/EBITDA (22.3x) also trades at a significant premium to that of its peers (10.1x).

Figure 8: Summary of financials

Income Statement (N'million)					Cash Flow Statement (N'million)				
	2024A	2025E	2026F	2027F		2024A	2025E	2026F	2027F
Revenue	1,527,919	1,925,178	2,324,652	2,807,018	Cash flow from operating activities	504,839	349,400	790,805	960,973
COGS	(987,104)	(1,212,862)	(1,452,908)	(1,747,369)	o/w Depreciation & amortization	9,608	9,836	10,144	10,530
Gross profit	540,815	712,316	871,745	1,059,649	o/w Changes in working capital	1,211,162	(222,838)	89,956	141,223
Other income	106	963	1,162	1,404	Cash flow from investing activities	(16,132)	(13,469)	(15,343)	(17,404)
OPEX	(68,818)	(112,987)	(135,270)	(161,935)	o/w Capital expenditure	(31,555)	(19,252)	(22,317)	(25,825)
EBIT	472,103	600,291	737,637	899,118	Cash flow from financing activities	(556,724)	(326,309)	(577,349)	(659,614)
Finance income	15,421	5,776	6,974	(140)	o/w Dividends paid	(99,000)	(234,000)	(487,638)	(604,009)
Finance cost	(203,201)	(14,043)	(11,305)	(8,561)	o/w Debt issued/(repaid)	(431,961)	(78,232)	(78,406)	(47,044)
PBT	284,323	592,023	733,306	890,417	Opening Cash and cash equivalents	99,328	31,310	47,137	245,250
Tax	(18,325)	(37,889)	(46,932)	(89,898)	Net change in cash	(68,017)	15,827	198,114	283,956
PAT	265,998	554,134	686,374	800,519	Closing Cash and cash equivalents	31,310	47,137	245,250	529,206
EPS	14.78	30.79	38.13	44.95					
DPS (N)	13.00	27.09	33.56	39.56					
Payout ratio	88.0%	88.0%	88.0%	88.0%					
Shares outstanding (m)	18,000	18,000	18,000	18,000					

Balance Sheet (N'million)					Ratio Analysis				
	2024A	2025E	2026F	2027F		2024A	2025E	2026F	2027F
Cash and cash equivalents	31,310	47,137	245,250	529,206	Gross margin	35.4%	37.0%	37.5%	37.8%
Accounts receivable	18,351	31,647	44,582	53,833	EBIT margin	30.9%	31.2%	31.7%	32.0%
Inventories	118,401	116,302	119,417	143,619	PBT margin	18.6%	30.8%	31.5%	31.7%
Other current assets	547,387	773,027	697,396	561,404	PAT margin	17.4%	28.8%	29.5%	28.5%
Current assets	715,450	968,112	1,106,646	1,288,062	ROE	62.0%	74.0%	72.4%	0.0%
PP&E	379,947	389,363	401,536	416,831	ROA	24.3%	40.8%	45.5%	47.0%
Right-of-use assets	107	100	100	100	ROIC	22.6%	39.6%	39.2%	35.4%
Total assets	1,095,504	1,357,576	1,508,282	1,704,992	ROCE	57.6%	70.6%	69.8%	67.3%
Short-term borrowings	391,062	319,180	240,941	193,992	OPEX/Sales	4.5%	5.9%	5.8%	5.8%
Payables	94,878	113,254	143,630	182,314	Net debt/Equity (x)	0.8	0.4	0.0	-0.3
Other short-term liabilities	147,454	139,824	139,824	139,824	Net debt/EBIT (x)	0.8	0.5	0.0	-0.4
Current liabilities	633,393	572,257	524,395	516,130	Sales/Assets (x)	1.4	1.4	1.5	1.6
Long-term debt	796	650	483	388	Assets/Equity (x)	2.6	1.8	1.6	1.5
Other long-term liabilities	32,258	35,476	35,476	35,476	Interest cover (x)	2.3	42.7	65.2	105.0
Total liabilities	666,448	608,384	560,354	551,994	Effective tax rate	6.4%	6.4%	6.4%	10.0%
Share capital	9,000	9,000	9,000	9,000	Revenue YoY growth	109.5%	26.0%	20.8%	20.8%
Reorganisation reserves	(943)	(943)	(943)	(943)	EBIT YoY growth	128.8%	27.2%	22.9%	21.9%
Retained earnings	421,000	741,133	939,870	1,144,941	EPS YoY growth	137.3%	108.3%	23.9%	17.9%
Total liabilities & equity	1,095,504	1,357,574	1,508,280	1,704,992					

Valuation				
	2024A	2025E	2026F	2027F
BVPS	23.84	41.62	52.66	64.06
P/E (x)	49.7	23.8	19.3	16.3
P/BV (x)	30.8	17.6	13.9	11.5
EV/EBITDA (x)	11.9	9.3	7.2	5.5
Dividend yield	1.8%	3.7%	5.2%	6.1%

Source: Company reports, CardinalStone Research estimates

Note: N in millions (except per-share data). Fiscal year ends in December. o/w - out of which

Disclosure

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Hold +0.00% to +14.99% expected share price performance

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A NEGATIVE WATCH is given to equities whose fundamentals may deteriorate significantly over the next six (6) months, in our view.

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Rating	Buy	Sell	Hold	Negative Watch
% of total recommendations	72%	11%	17%	0%
% with investment banking relationships	0%	0%	0%	0%

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