

TRANSNATIONAL CORPORATION PLC

Unveiling Value in a Diversified Conglomerate

BLOOMBERG: TRANSCORP NL

BUY

Target Price: N32.59

Ref Price: N14.00

In this report, we update our 12-month target price (TP) for Transnational Corporation Plc in line with our expectations for the power and hospitality businesses. For the former, the company's strategic positioning in power generation (7.0% of Nigeria's installed grid capacity and 10.0% of total output), export opportunity to other West African countries, and strategic alliances with DISCOs, eligible customers, and state governments are likely to be supportive in the near to medium term. See more [here](#).

On the latter, a steady rise in average daily rate (ADR) and improved occupancy rate should cascade into significant revenue accretion for the hospitality business.

The adoption of valuation by parts methodology on the constituent segments above resulted in a 12-month TP of N32.59 and an unchanged BUY recommendation on the stock.

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Market Data	TRANSCORP
Market Cap (N'm)	569,071.9
Last close price (N)	14.00
52-week high-low price (N)	20.88/1.76
Avg 3M daily volume (N'mn)	47.47

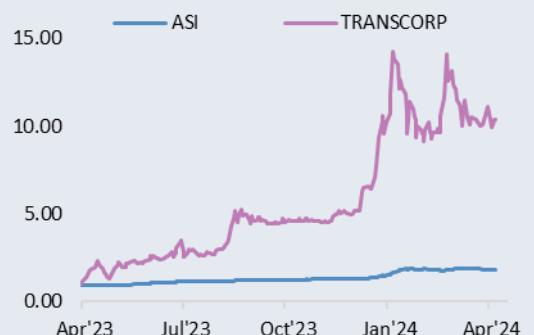
Sustained double-digit top-line growth for the hospitality business in the near to medium term

The hotel's occupancy rate should remain steady at c.80.0% over the next three years before spiking to 85.0% in FY'27E on the impact of general elections. This view is supported by historical surges in occupancy rates during periods of electioneering activities. In addition to this, we expect average daily rates (ADR) to rise by an average of 35.0% over the next five years on the impact of rising cost inflation and the premium occasioned by the hotel's brand positioning. The combined impact of the mentioned should drive a revenue CAGR of 36.6% over the forecast period.

Our medium to long-term expectations are also supported by the following:

1. The upgrade and relaunch of the hospitality tech platform, Aura, which has over 5,000 rooms and counting across different hotels and apartments nationwide.
2. Construction of the 5000-capacity Transcorp Event Centre, which, upon completion, will emerge as the largest conference and exhibition centre in Abuja.
3. The plan to construct a five-star hospitality destination on Glover Road, Ikoyi, Lagos State.

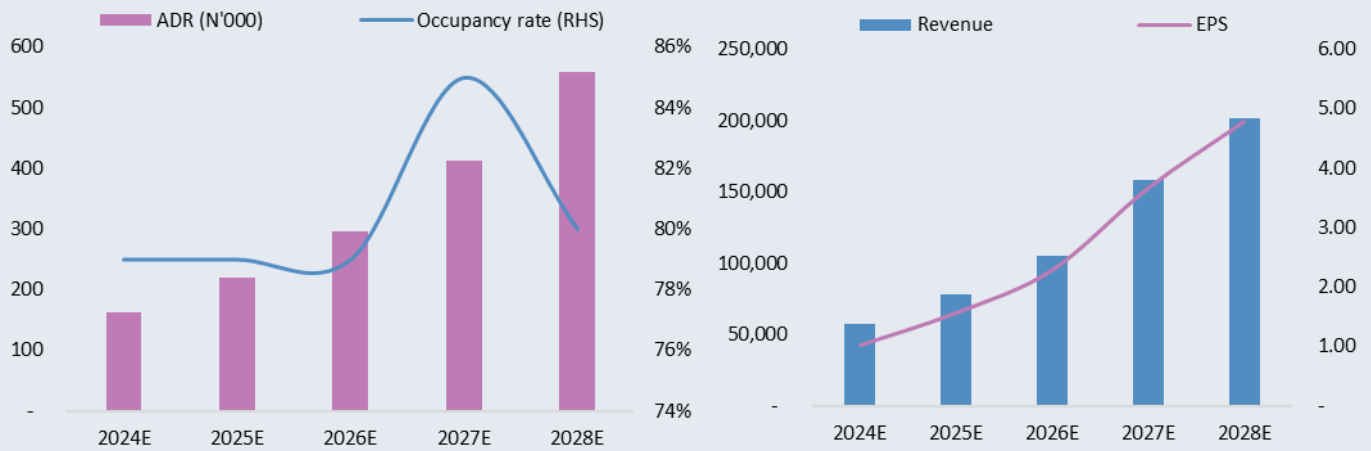
1-year price performance (rebased)



Source: NGX, CardinalStone Research

4. The plans for the construction and development of Transcorp Hotels Port Harcourt

Figure 1 & 2: Improving ADR and occupancy rates to support top and bottom line growths, N'billion



Source: CardinalStone Research

Regulatory support, capacity optimisation, and fair tariffs are positive for the power business

We expect TRANSPOWER to grow operating profits at a five-year CAGR of 45.4% between FY'23 and FY'27 (vs 25.2% between FY'19 and FY'23). Precisely, we see operating profit reaching N308.0 billion in FY'27 compared to the N61.7 billion reported in FY'23. This sanguine position reflects the expected improvement in capacity utilisation to 85.0% in FY'27 (vs 77.7% in FY'23), a projected surge in tariff rates on capacity and energy, and a continued favorable domestic gas pricing environment.

The view on greater capacity utilisation is primarily hinged on plans to leverage state partnerships on the eligible customer policy of the new electricity reforms and enter into a strategic partnership with AEDC (a pilot program to try bilateral agreements with discos) and, eventually, EKEDC and IKDC. Our view on increased capacity utilisation is also consistent with the company's strategic position as a member of the Executive Board of the West African Power Pool (WAPP), which it can leverage to expand revenue from exports to West African markets. See more [here](#).

Figure 3 &4: New electricity reforms to drive greater capacity utilisation and support revenue growth, N’billion



Source: CardinalStone Research

Valuation

We value TRANSCORP using a sum-of-the-parts valuation methodology, combining the company’s equity interests in the power and hospitality businesses.

For the power business, our DCF assumes a weighted cost of capital (WACC) of 21.5%, based on projected Naira free cash flows. This WACC reflects a cost of equity of 27.7% and a weighted average effective interest rate on debt of 17.0%. Similarly, our terminal value assumes a perpetuity growth of 6.0% in Naira cash flows. After discounting the terminal value and projected free cash flows by our WACC, we arrived at enterprise and equity values of N1.78 trillion and N1.80 trillion, respectively.

For the hospitality business, our DCF assumes a weighted average cost of capital (WACC) of 24.8%, based on projected Naira free cash flows. This WACC reflects a cost of equity of 25.2% and a weighted average effective interest rate on debt of 10.9%. Similarly, our terminal value assumes a perpetuity growth of 5.0% in Naira cash flows. After discounting the terminal value and projected free cash flows by our WACC, we arrived at enterprise and equity values of N156.34 billion and N149.36 billion, respectively.

Figure 5: Discounted cashflow main assumptions for Power business

Assumptions	
Equity beta	0.62
Risk free rate	18.0%
Equity risk premium	15.57%
Cost of equity	27.70%
Weighted avg. cost of debt	17.00%
Marginal tax rate	30.00%
After tax cost of debt	11.90%
WACC	21.51%

Figure 6: Discounted cashflow main assumptions for Power business

In N'million	2024E	2025E	2026E	2027E	2028E
EBIT	141,860.68	180,864.90	248,311.88	307,973.01	379,055.08
Cash Taxes	(42,558.20)	(54,259.47)	(74,493.56)	(92,391.90)	(113,716.52)
NOPAT	99,302.48	126,605.43	173,818.31	215,581.11	265,338.56
Depreciation	5039.00	5731.15	6665.76	7809.73	9210.83
Capex	(5,113.17)	(11,029.84)	(13,842.85)	(18,692.27)	(22,879.47)
Changes in NWC	50,880.34	19,835.73	19,962.06	23,930.33	136,196.45
Unlevered FCFF	150,108.65	141,142.48	186,603.29	228,628.90	387,866.37
Discounted Free Cashflow	99,637.92	104,079.08	113,366.50	117,559.52	167,748.25
Perpetual Growth Rate	6.00%				
Terminal Value	2,949,706.92				
Present Value of FCF	1,783,914.91				
Net Debt/(cash)	(11,610.57)				
Fair Value of Equity	1,795,525.48				
12-Month Equity Value	2,292,900.91				

Figure 7: Discounted cashflow main assumptions for Hospitality business

Assumptions	
Equity beta	0.46
Risk free rate	18.00%
Equity risk premium	15.57%
Cost of equity	25.16%
Cost of Debt	10.93%
Marginal tax rate	30.00%
After tax cost of debt	7.65%
WACC	24.81%

Figure 8: Discounted cashflow main assumptions for Hospitality business

In N'million	2024E	2025E	2026E	2027E	2028E
EBIT	18,358.27	26,026.50	36,842.73	57,984.28	74,975.84
Cash Taxes	(5,507.48)	(7,807.95)	(11,052.82)	(17,395.28)	(22,492.75)
NOPAT	12,850.79	18,218.55	25,789.91	40,589.00	52,483.09
Depreciation	2,593.07	2,750.17	2,965.40	3,289.59	3,701.52
Capex	(5,775.66)	(7,854.90)	(10,761.22)	(16,209.93)	(20,596.15)
Changes in NWC	3,651.33	5,021.92	8,367.87	10,419.40	11,953.23
Unlevered FCFF	13,319.53	18,135.74	26,361.96	38,088.06	47,541.69
Discounted Free Cashflow	8,857.23	12,414.03	14,226.43	16,903.77	16,496.44
Perpetual growth rate	5.00%				
Terminal Value	251,939,413				
Present Value of FCF	156,343.44				
Net Debt/(cash)	6,988.19				
Fair Value of Equity	149,355.24				
12-Month Equity Value	186,936.31				

Source: CardinalStone Research

Figure 9: Valuation Summary

TRANSCORP Valuation - Sum of the parts			
	12-month equity value (N'million)	TRANSCORP share of subsidiary (as of FY'23)	Transcorp Share (N'million)
Transcorp Hotel	186,936.31	76.16%	142,370.69
Transcorp Power	2,292,900.91	51.57%	1,182,448.99
Sum	2,479,837.22		1,324,819.69
Weighted number of shares outstanding ('000)			40,647,990
12-month Target Price			32.59

Source: CardinalStone Research

Upside risks to expectations

- Effective revenue contribution from other Transcorp subsidiaries.

Figure 10: TRANSPOWER Summary of Financials

Income Statement (N'000)					Cash Flow Statement (N'000)				
	2022A	2023A	2024E	2025E		2022A	2023A	2024E	2025E
Revenue	90,349,386	142,122,364	310,197,913	393,981,980	Cash flow from operating activities	21,418,802	38,157,382	152,556,883	159,198,418
COGS	(48,147,009)	(66,700,227)	(141,760,446)	(178,867,819)	o/w Depreciation & amortization	3,472,313	4,757,058	6,337,195	7,014,021
Gross profit	42,202,377	75,422,137	168,437,467	215,114,161	o/w Changes in working capital	(15,158,160)	(28,265,803)	41,990,589	18,200,946
Other Income	189,109	597,949	837,534	1,063,751	Cash flow from investing activities	(3,749,156)	(1,873,169)	(34,121,770)	(9,596,715)
OPEX	(6,521,875)	(11,394,944)	(21,847,090)	(25,531,174)	o/w Capital expenditure	(4,326,546)	(4,883,077)	(37,223,750)	(13,536,535)
EBIT	35,869,611	64,625,142	147,427,911	190,646,738	as % of sales	4.8%	3.4%	12.0%	3.4%
Net Interest	(7,250,634)	(11,861,440)	(3,431,874)	(1,769,115)	Cash flow from financing activities	(23,714,585)	(32,617,273)	(75,880,842)	(109,097,074)
PBT	28,618,977	52,763,702	143,996,038	188,877,623	o/w Dividends paid	(12,950,053)	(2,322,472)	(65,518,197)	(99,160,752)
Tax	(11,335,571)	(22,530,171)	(43,198,811)	(56,663,287)	o/w Debt issued/(repaid)	(6,923,825)	(17,167,626)	(10,362,645)	(9,936,322)
PAT	17,283,406	30,233,531	100,797,226	132,214,336	Opening Cash and cash equivalents	8,746,571	2,701,632	6,368,572	48,922,843
EPS	218.36	92.25	13.44	17.63	Net change in cash	(6,044,939)	3,666,940	42,554,271	40,504,629
DPS (NGN)	216.88	3.13	8.74	13.22	Closing Cash and cash equivalents	2,701,632	6,368,572	48,922,843	89,427,472
Payout ratio	99.3%	3.4%	65.0%	75.0%					
Weighted Avg. shares outst. (m)	79	328	7,500	7,500					

Balance Sheet (N'000)					Ratio Analysis				
	2022A	2023A	2024E	2025E		2022A	2023A	2024E	2025E
Cash and cash equivalents	2,701,632	6,368,572	48,922,843	89,427,472	Gross Margin	46.7%	53.1%	54.3%	54.6%
Accounts receivable	94,558,786	145,206,225	211,883,821	248,262,618	EBIT Margin	39.7%	45.5%	47.5%	48.4%
Inventories	4,314,347	1,760,790	3,742,272	4,721,853	PBT Margin	31.7%	37.1%	46.4%	47.9%
Current assets	101,574,765	153,335,587	264,548,936	342,411,943	Net Profit Margin	19.1%	21.3%	32.5%	33.6%
PP&E	54,702,571	57,979,878	88,866,434	95,388,948	ROE	48.0%	63.1%	133.5%	120.6%
Intangible assets	9,701,191	9,701,191	9,701,191	9,701,191	ROA	10.3%	13.5%	27.6%	29.4%
Investment	2,208,918	2,373,892	2,373,892	2,373,892	ROIC	11.9%	14.9%	26.4%	26.8%
Total assets	168,187,445	223,390,548	365,490,453	449,875,974	ROCE	23.7%	31.2%	78.1%	83.3%
					OPEX/Sales	7.2%	8.0%	7.0%	6.5%
Short-term borrowings	13,104,504	7,559,011	6,783,345	5,926,928	Net debt/Equity (x)	1.1	0.5	-0.2	-0.5
Payables	76,306,380	98,835,833	209,485,499	265,044,824	Net debt/EBIT (x)	1.1	0.5	-0.1	-0.3
Other short-term liabilities	5,789,349	20,181,722	20,181,722	20,181,722	Sales/Assets (x)	0.5	0.6	0.8	0.9
Current liabilities	95,200,233	126,576,566	236,450,566	291,153,473	Assets/Equity (x)	4.4	3.9	3.9	3.6
Long-term debt	29,967,161	29,753,262	26,700,138	23,329,168	Interest cover (x)	4.2	4.3	23.5	34.6
Other long-term liabilities	5,056,075	9,198,374	9,198,374	9,198,374	Tax Rate	39.6%	42.7%	30.0%	30.0%
Total liabilities	130,223,469	165,528,202	272,349,079	323,681,016					
Share Capital	40,108	3,750,000	3,750,000	3,750,000					
Share premium	34,967,736	44,385,019	44,385,019	44,385,019					
Retained earnings	2,956,132	9,727,327	45,006,355	78,059,939					
Total liabilities & equity	168,187,445	223,390,548	365,490,453	449,875,974					
BVPS	479.65	176.54	12.42	16.83					
Net debt/(cash)	40,370,033	30,943,701	(15,439,360)	(60,171,376)					

Source: CardinalStone Research

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

Figure 11: TRANSCO HOT Summary of Financials

Income Statement (N'000)					Cash Flow Statement (N'000)				
	2022A	2023A	2024E	2025E		2022A	2023A	2024E	2025E
Revenue	31,441,914	41,455,877	57,756,634	78,549,023	Cash flow from operating activities	11,468,586	14,163,202	17,116,769	26,843,715
COGS	(9,052,257)	(11,670,493)	(16,599,495)	(22,536,039)	o/w Depreciation & amortization	2,621,821	2,599,439	2,634,076	2,797,783
Gross profit	22,389,657	29,785,384	41,157,139	56,012,984	o/w Changes in working capital	1,136,969	(503,584)	711,080	5,099,139
Other Income	969,243	1,605,855	1,732,699	2,356,471	Cash flow from investing activities	(6,908,033)	(3,532,072)	(5,544,637)	(7,537,827)
OPEX	(14,699,120)	(18,247,038)	(24,527,909)	(32,337,749)	o/w Capital expenditure	(6,585,550)	(3,700,123)	(5,775,663)	(7,854,902)
EBIT	8,659,780	13,144,201	18,361,929	26,031,705	as % of sales	20.9%	8.9%	10.0%	10.0%
Net Interest	(4,132,776)	(3,662,148)	(3,060,876)	(2,415,330)	Cash flow from financing activities	(4,744,541)	(7,576,985)	(9,940,949)	(10,825,980)
PBT	4,527,004	9,482,053	15,301,053	23,616,375	o/w Dividends paid	(716,977)	(1,331,529)	(3,534,543)	(5,455,383)
Tax	(1,909,109)	(3,228,087)	(4,590,316)	(7,084,913)	o/w Debt issued/(repaid)	(717,032)	(3,562,625)	(3,056,747)	(2,562,522)
PAT	2,617,895	6,253,966	10,710,737	16,531,463	Opening Cash and cash equivalents incl. Bank O/D	5,367,085	5,924,433	8,978,578	10,609,761
EPS	0.26	0.61	1.05	1.61	Net change in cash	(183,988)	3,054,145	1,631,183	8,479,908
DPS (NGN)	0.13	0.20	0.35	0.53	Closing Cash and cash equivalents	5,183,097	8,978,578	10,609,761	19,089,670
Payout ratio	50.9%	32.8%	33.0%	33.0%					
Shares outstanding (m)	10,243	10,243	10,243	10,243					

Balance Sheet (N'000)					Ratio Analysis				
	2022A	2023A	2024E	2025E		2022A	2023A	2024E	2025E
Cash and cash equivalents	5,183,097	8,978,578	10,609,761	19,089,670	Gross Margin	71.2%	71.8%	71.3%	71.3%
Accounts receivable	3,220,475	4,312,727	5,175,272	6,158,574	EBIT Margin	27.5%	31.7%	31.8%	33.1%
Prepayments	1,062,154	1,005,188	1,532,568	2,067,798	PBT Margin	14.4%	22.9%	26.5%	30.1%
Inventories	616,624	645,564	912,972	946,514	Net Profit Margin	8.3%	15.1%	18.5%	21.0%
Current assets	10,082,350	14,942,057	18,230,574	28,262,555	ROE	4.2%	9.4%	14.5%	19.4%
PP&E	107,971,345	107,814,320	110,996,973	116,101,765	ROA	2.2%	5.0%	8.1%	11.2%
Intangible assets	2,133,612	139,601	156,293	184,289	ROIC	2.8%	6.5%	10.5%	13.9%
Assets held for sale	-	2,898,863	2,898,863	2,898,863	ROCE	2.9%	6.6%	10.8%	15.3%
Investment	300,075	300,075	300,075	300,075	OPEX/Sales	46.8%	44.0%	42.5%	41.2%
Total assets	120,487,382	126,094,916	132,582,778	147,747,547	Net debt/Equity (x)	0.3	0.2	0.1	0.0
Short-term borrowings	7,846,378	7,065,025	6,541,883	5,589,288	Net debt/EBIT (x)	2.2	0.9	0.4	-0.2
Payables	20,125,594	22,530,829	24,899,243	31,550,455	Sales/Assets (x)	0.3	0.3	0.4	0.5
Other short-term liabilities	1,333,541	2,316,457	2,316,457	2,316,457	Assets/Equity (x)	1.9	1.9	1.8	1.7
Current liabilities	29,305,513	31,912,311	33,757,583	39,456,200	Interest cover (x)	3.4	5.5	9.3	15.7
Long-term debt	16,113,199	13,589,678	11,056,073	9,446,145	Tax Rate	42.2%	34.0%	30.0%	30.0%
Other long-term liabilities	12,279,057	13,397,694	13,397,694	13,397,694					
Liabilities on asset held for sale	-	398,863	398,863	398,863					
Total liabilities	57,697,769	59,298,546	58,610,213	62,698,902					
Share Capital	5,121,264	5,121,264	5,121,264	5,121,264					
Share premium	12,548,859	12,548,859	12,548,859	12,548,859					
Retained earnings	45,207,010	49,314,490	56,490,684	67,566,764					
Other reserves	-	(37,850)	(37,850)	(37,850)					
Non-controlling interest	(87,520)	(150,393)	(150,393)	(150,393)					
Total liabilities & equity	120,487,382	126,094,916	132,582,778	147,747,547					

Valuation				
	2022A	2023A	2024E	2025E
P/E (x)	382.25	160.01	93.43	60.53
P/BV (x)	15.94	14.98	13.53	11.77
EV/EBITDA (x)	90.37	64.75	47.99	34.57
Dividend Yield	0.13%	0.20%	0.35%	0.55%

Source: CardinalStone Research

Note: N in thousands (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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TRANSNATIONAL CORPORATION PLC	A

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