

Executive Summary

Livestock Feeds Plc is a prominent Nigerian company established in 1963, specializing in the production and marketing of animal feed products. The company manufactures a diverse range of feeds for poultry, cattle, fish, and swine, operating through two strategically located plants in Ikeja and Aba, with additional operations in Onitsha and Jos.

The Nigerian animal feed market, one of the largest in Africa, is experiencing significant growth due to the rising demand for animal protein driven by a growing population and increased urbanization. Livestock Feeds Plc faces challenges such as high production costs, dependency on imported raw materials, and competition from other market players. However, the company benefits from its established brand, diverse product range, extensive distribution network, and support from its parent company, UAC of Nigeria.

In 2022 and 2023, Livestock Feeds Plc reported financial losses due to factors such as increased operational costs, foreign exchange challenges, supply chain disruptions, and competitive pressures. However, the first half of 2024 showed a notable improvement in financial performance, driven by cost management, efficiency improvements, better supply chain management, and strategic initiatives.

Despite these positive developments, the company's financial health is strained by high debt levels, and the stock remains significantly overvalued. Given these circumstances, a recommendation of "STRONG SELL" has been made, reflecting the need for caution in light of the company's financial challenges and overvaluation concerns.

Company Overview

Livestock Feeds Plc is a leading animal feed manufacturing company in Nigeria, primarily engaged in the production and marketing of livestock feed products. Established in 1963, the company has grown to become a major player in the Nigerian agricultural sector, providing high-quality feed solutions for poultry, cattle, fish, and other livestock.

Key Products:

Livestock Feeds Plc produces a wide range of animal feed products tailored to different types of livestock, including:

Poultry Feed: For broilers, layers, and chicks.

Fish Feed: For catfish and other fish species.

Cattle Feed: For dairy and beef cattle.

Swine Feed: For pig farming.

Livestock Feeds Plc operate two owned plants which are strategically located in Ikeja and Aba with a joint production capacity of well over 35mt/hr and other operations in Onitsha and Jos (Livestockfeedplc.com).

Industry Analysis

Nigeria Animal Feed Market is one of the largest in Africa, and it is growing at an impressive rate. With a population of over 200 million people and a large livestock population, Nigeria has huge potential for the animal feed industry. The increasing demand for meat and dairy products has led to an increase in the number of farms, which in turn has resulted in a high demand for animal feed. The government has also taken steps to support the Nigeria Animal Feed Market Growth by establishing policies to improve the quality of animal feed and by providing incentives to farmers to expand their operations.

According to 6Wresearch, the Nigeria Animal Feed Market size is expected to grow at a CAGR of around 7.8% during the forecast period of 2024-2030. One of the key drivers of the market is the growing demand for animal protein due to the country's increasing population. Another driver is the government's support for agriculture, which includes incentives and subsidies for farmers who produce animal feed. The Nigeria animal feed industry is experiencing several trends, including a shift towards using more local ingredients in animal feed production as locally produced feed is cheaper and more accessible than imported feed. Additionally, there is an increasing demand for high-quality, nutritious feed that can improve animal health and productivity. GMO-free feed is also becoming more popular, as consumers become more conscious of the potential health risks associated with genetically modified organisms.

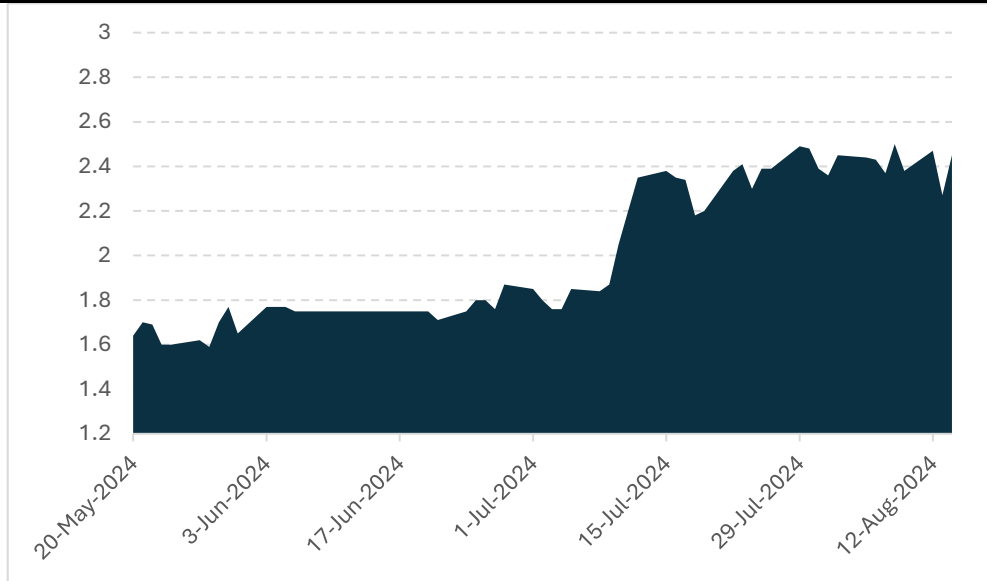
However, the Nigeria animal feed industry faces numerous challenges, including a lack of funding for animal feed research and development, inadequate infrastructure for feed production, and poor-quality control. Additionally, the high cost of imported ingredients and irregular power supply make it difficult to produce feed at a competitive price, making it difficult for local animal feed producers to compete with their foreign counterparts.

The leading players in the animal feed industry in Nigeria, including Olam Nigeria Limited, Livestock Feed Plc, and Premier Feed Mills Company Limited, have played a crucial role in transforming the sector and providing high-quality feed to farmers in the country. With the support of these players, the animal feed sector in Nigeria is poised for further growth in the coming years.

Poultry is the dominant segment in Nigeria animal feed market. The growth in this segment is mainly due to the high per capita consumption of chicken and eggs in Nigeria. Ruminant animal feed is the second-largest segment, focusing on animals that digest feed by fermenting it.

Financial Analysis

Stock Price over the last 90 days



Source: NGX Group

Financial comparison between 2024 H1 and 2023 H1

	Gross Earning	Net Profit	Margin	Price	EPS
2024 H1	15,489,039	436,870	2.82%	1.87	0.15
2023 H1	9,741,094	37376	0.38%	1.89	0.013

Source: NGX Group

	ROE	ROA	Margin	Gross Earning	Net Profit/(Loss)	Total Assets	Equity
2024 H1	23.15%	3.90%	2.82%	15,489,039	436,870	11,196,613	1,887,109
2023	-15.86%	-1.72%	-1.13%	20,409,702	-230,018	13,376,466	1,450,239
2022	-48.93%	-11.03%	-5.01%	16,410,221	-822,218	7,457,705	1,680,257
2021	17.17%	3.97%	2.94%	14,640,268	429,697	10,827,735	2,502,475
2020	24.28%	7.77%	4.50%	11,179,328	503187	6,474,140	2,072,778

	Price	D/E	EPS	BVPS	PE	PBV	Mkt. Cap
2024 H1	1.87	2.22	0.15	0.63	12.84	2.97	5,609,998
2023	1.85	7.08	-0.08	0.48	-24.13	3.83	5,549,998
2022	1.09	2.13	-0.27	0.56	-3.98	1.95	3,269,998
2021	2.15	2.98	0.14	0.83	15.01	2.58	6,449,997
2020	1.39	0.96	0.17	0.69	8.29	2.01	4,169,998

Source: NGX Group

SWOT Analysis

Strengths:

Established Brand: Livestock Feeds Plc has been a prominent player in the Nigerian animal feed industry since 1963, giving it a strong brand presence and customer loyalty.

Diverse Product Range: The company offers a wide variety of animal feed products, including poultry, pig, and cattle feeds, catering to different market needs

Extensive Distribution Network: With an installed capacity of 40 MT/hour and a network of 12 franchise millers, Livestock Feeds Plc has a robust distribution system

Parent Company Support: Being a subsidiary of UAC of Nigeria provides financial stability and strategic support

Weaknesses:

High Production Costs: The company faces high operational costs, particularly in sourcing raw materials, which can impact profitability

Dependence on Imported Raw Materials: Reliance on imported raw materials makes the company vulnerable to foreign exchange fluctuations and supply chain disruptions

Opportunities:

Growing Demand for Animal Protein: Increasing population and urbanization in Nigeria drive the demand for animal protein, creating opportunities for growth in the animal feed market.

Government Initiatives: Supportive government policies aimed at boosting local production and reducing import dependency can benefit the company

Technological Advancements: Adoption of new technologies in feed production can improve efficiency and product quality

Threats:

Economic Instability: Economic challenges, such as inflation and currency devaluation, can affect consumer purchasing power and operational costs

Insecurity: Rising insecurity in grain-producing regions can disrupt the supply of raw materials

Competition: The presence of other established players in the market increases competition, which can impact market share

Management and Ownership

Ownership: Livestock Feeds Plc is a subsidiary of UAC of Nigeria, which acquired 73% of it in 2013.

Leadership: The company is led by a highly experienced and competent board, chaired by Joe Dada. Notable board members include:

1. Adegboyega Adedeji: Managing Director and Chief Executive Officer.
2. Abayomi Adeyemi: Independent Non-Executive Director.
3. Rose Hamis: Company Secretary.

Conclusion and Recommendation

Reasons for poor financial years in 2022 and 2023

Livestock Feeds Plc recorded losses in 2022 and 2023 due to several key factors, as indicated in the company's financial statements and market reports:

Reasons for the Losses

1. **High Operating Costs:** The company experienced significant increases in operational costs, including the cost of raw materials and energy. These rising costs were partly due to inflationary pressures in Nigeria, which impacted the company's ability to maintain profitability.
2. **Foreign Exchange Challenges:** Livestock Feeds Plc, like many companies in Nigeria, relies heavily on imported raw materials for production. The depreciation of the Nigerian Naira against major foreign currencies increased the cost of imports, further squeezing profit margins.
3. **Supply Chain Disruptions:** Global supply chain disruptions, particularly due to the COVID-19 pandemic and subsequent economic challenges, affected the availability and cost of raw materials. This led to inefficiencies in production and higher overall costs.
4. **Competitive Pressure:** The company faced stiff competition from other local and international feed producers. This competition may have limited its ability to pass increased costs onto customers, impacting revenue and profitability.
5. **Market Conditions:** The overall economic environment in Nigeria, marked by sluggish growth, affected consumer purchasing power. This, in turn, may have led to lower demand for livestock feed products, impacting sales volumes.

Possible reasons for better performance in 2024 H1

Livestock Feeds Plc's improved financial performance in the first half of 2024 can be attributed to several factors that contrast with the challenges they faced in 2022 and 2023:

1. **Cost Management and Efficiency Improvements: Streamlined Operations:** The company likely implemented cost-cutting measures and optimized its operations, leading to better control over expenses. This would have helped mitigate the impact of high operating costs that previously eroded profitability.
2. **Improved Supply Chain Management:** By addressing supply chain disruptions that had previously caused inefficiencies, Livestock Feeds Plc may have reduced costs and improved production consistency.
3. **Currency hedging:** If the company managed to hedge against currency risks more effectively, the burden of higher import costs could have been alleviated. This would have contributed to the improved financial results in 2024.
4. **Industry Growth:** The livestock industry may have experienced growth, increasing the demand for feed products and benefiting companies like Livestock Feeds Plc.
5. **New Product Lines or Markets:** The company might have introduced new products or expanded into new markets, contributing to revenue growth. Strategic initiatives aimed at diversifying income sources and reducing reliance on volatile segments would be crucial here.
6. **Improved Pricing Strategies:** Adjusting pricing strategies to better reflect costs and market conditions could have helped the company improve margins despite competitive pressures.
7. **Debt Restructuring or Reduction:** If the company managed to restructure its debt or reduce its debt levels, this could have resulted in lower interest expenses and improved net earnings.
8. **Focus on Profitability:** A strategic shift towards enhancing profitability, rather than just revenue growth, could have driven better financial outcomes in 2024.

These factors collectively suggest that Livestock Feeds Plc has taken significant steps to address the issues that led to losses in previous years, resulting in a stronger financial performance in the first half of 2024

Qualitative Factors

1. Industry Position:

Livestock Feeds Plc holds a significant position in the Nigerian livestock feed industry, though its exact market share fluctuates due to competitive pressures and market dynamics. The company is one of the key players in the sector, alongside other major producers. However, competition remains intense, especially from other local manufacturers and international companies entering the market.

Competitive Advantages:

Brand Recognition: Livestock Feeds Plc has a long-standing reputation in the Nigerian market, which gives it a competitive edge.

Established Distribution Network: The company benefits from a well-established distribution network across Nigeria, ensuring widespread availability of its products.

Competitive Disadvantages:

Dependency on Imported Raw Materials: The reliance on imports exposes the company to foreign exchange risk and global supply chain disruptions, which have been significant challenges in recent years.

2. Management and Strategy:

The management of Livestock Feeds Plc has been focusing on cost optimization and strategic initiatives to improve profitability. In response to the financial challenges of 2022 and 2023, the company has likely implemented various strategies to enhance operational efficiency, manage costs better, and reduce dependency on imported raw materials.

Effectiveness:

Strategic Focus on Efficiency: The improved financial performance in H1 2024 suggests that these strategies are starting to pay off.

Adaptation to Market Conditions: The company has shown resilience by adapting to the challenging economic environment in Nigeria, although there is still room for further improvement in strategic execution.

3. Economic and Market Conditions:

The broader economic environment in Nigeria remains challenging, with inflationary pressures, foreign exchange volatility, and sluggish economic growth affecting many sectors, including agriculture. However, there has been some stabilization in the market in 2024, which may have contributed to Livestock Feeds Plc's improved performance.

Impact on the Company:

Demand Fluctuations: Economic conditions have a direct impact on the purchasing power of consumers, which in turn affects demand for livestock feed.

Cost Pressures: Inflation and currency depreciation continue to impact the cost of raw materials and production.

4. Regulatory Environment:

Livestock Feeds Plc operates in a highly regulated environment, with various government policies affecting the agriculture and manufacturing sectors. In recent years, regulatory changes related to agriculture, import restrictions, and exchange rate policies have had significant impacts on the company's operations.

Risks:

Import Restrictions: Any tightening of import restrictions could further complicate the company's ability to source necessary raw materials.

Regulatory Compliance Costs: Compliance with local regulations adds to operational costs, which the company needs to manage effectively.

Opportunities:

Government Support for Agriculture: Any government initiatives aimed at boosting local agricultural production could benefit Livestock Feeds Plc by reducing its reliance on imports and stabilizing costs.

Recommendation:

The stock has been significantly overvalued for an extended period, as indicated by its Price-to-Book Value (PBV) and Price-to-Earnings (P/E) ratios. Additionally, the company took on more debt in 2023, which will require ongoing financing. This is reflected in their unhealthy Debt-to-Equity (D/E) ratio of 7.08, highlighting the financial burden of the increased debt. While their market price has risen from ₦1.87 at the end of June 2024 to ₦2.27 as of today, 14th August 2024, and they continue to report steadily increasing gross earnings, these positive developments are overshadowed by the financial strain of their debt, I recommend a STRONG SELL.