



Geregu Power Plc FY 2023 Results: Earnings Climb 74% as Production Increases Signal Growth.



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Global energy management and efficiency are increasingly critical aspects of competitive corporate advantage. Putting a clever energy plan in the mix of corporate strategy in 2024 will separate big winners from the others. Therefore, those that supply energy in a growing economy will reap notable benefits. The Nigerian economy is estimated to have grown between 2.54% and 2.60% in 2023 by Proshare macroeconomic projections and will likely pick up pace to grow between 3.1% and 3.2% in 2024. The rise in GDP growth would increase energy demand and support growth in gross earnings and operating profits of power companies like Geregu and Transcorp Power Company. The auguries appear bright for Nigeria's power companies in the new year, but headwind expectations exist.

The Nigerian power sector has operated below its potential, producing less than 5,000MW daily for a country with 212 million people compared to a 12,522MW installed plant capacity. The energy gap opportunities to scale production and demand. Geregu Plc boosted its production in 2023, leveraging improved gas accessibility to increase energy sold and capacity charge to earn a +74.11% growth in revenue to N82.91bn. The group drew additional income from foreign exchange gains valued at N502.27m and finance income of N7.80bn, lifting operating profit by +110.1% to N31.14bn in FY 2023, absorbing the +124.2% rise in operating expenses.

The power company's cash position improved in 2023 as cash and cash equivalent rose to a record high, complementing its ability to cover debt obligations with an acid test and liquidity ratio of 2.04 and 2.05 in FY 2023. The group maintained a low

inventory, suggesting growing demand to support future expansion. The company's leverage ratio was trimmed to 52.15% in the face of falling retained earnings and dipping reserves. The group has habitually paid out dividends above net income, suggesting an inclination to dip its fingers into retained earnings, which analysts believe is unsustainable.

Board of Directors.

Name	Position
1. Olufemi OTEDOLA	Chairman
2. Akin AKINFEMIWA	Executive Director
3. Julius OWOTUGA	Executive Director
4. Christopher ADEYEMI	Non-Executive Director
5. Olawunmi OTEDOLA	Non-Executive Director
6. Doron GRUPPER	Independent Non-Executive Director
7. John Robert LEE	Independent Non-Executive Director
8. Paul GBEDEDO	Independent Non-Executive Director

Auditors.

PricewaterhouseCoopers (PwC) Nigeria

Principal Banker.

First Bank of Nigeria

Investor Indicators.

1. Market Capitalization	N1.2trn
2. Recent Price	N517.80
3. P/E (12-month trailing)	123.5X
4. P/BV	28.67
5. P/S	24.20
6. EV/EBITDA	74.06
7. EPS (2023)	N4.60
8. Div Yield	5.37%
9. Industry average Div yield	4.7%
10. Payout ratio	1.74

Key Highlights.

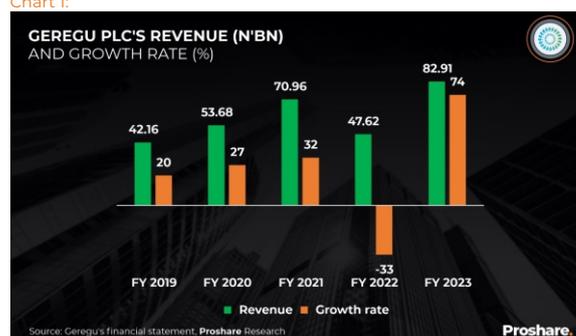
- Geregu Plc's revenue rose by +74.1% to N82.91bn in FY 2023 from N47.62bn as energy sold and capacity charge increased by +71.2% and +79.1%, respectively.
- The power company's profitability soared, with Pre-tax and Post-tax profits rising by +60.8% and +57.8% to N24.39bn and N16.05bn in FY 2023, respectively.
- The group's total assets grew by +4.6% to N182.04bn in FY 2023 from N174.03bn in FY 2022.
- Total borrowings declined by -15.8% to N63.63bn in FY 2023 from N75.56bn in FY 2023.
- Inventories rose by +26.3% to N639.07m in FY 2023 from N506.18m in FY 2022.
- The loan repayment nudged finance cost higher by +98.6% to N14.55bn in FY 2023, while finance income grew slightly by +1.6% to N7.80bn in FY 2023.

- Cost of sales inched up by +64.4% to N40.25bn in FY 2023 from N24.48bn in FY 2022.
- Despite the improved earnings, retained earnings declined by -8.2% to N43.92bn in FY 2023 from N47.87bn in FY 2022.
- Cash and cash equivalents improved by +36.1% to N70.26bn in FY 2023 from N51.63bn in FY 2022.
- Geregu Plc's Foreign exchange gain increased to N502.27m in FY 2023 from N157.25m in FY 2022.
- Earnings per share rose to N6.42k in FY 2023 from N4.07k in FY 2022.

Revenue.

The inelastic energy demand in the country has continued to drive growth in the power company's earnings, rising by +74.1% to N82.91bn in FY 2023 despite the crippling consumer disposable income. The revenue rebounded from the -33% drop in 2022 triggered by gas scarcity and lower production, while the improved gas supply in 2023 could scale up energy sold and capacity charge by +71.2% and +79.1% to N51.80bn and N31.11bn to drive revenue growth. The revenue growth rate was the highest in the past five years, enhanced by the modest performance in 2022. The group benefitted from the naira devaluation, making an additional income of N502.27m in FY 2023 from N157.25m in FY 2022. A larger portion of the group's revenue came from the core operations and should persist in 2024 without any technical disruptions (see chart 1).

Chart 1:



Profitability.

Despite the +173.2% rise in administrative expenses, Geregu Plc saw a leap in profitability, with PBT and PAT growing by +60.8% and +57.8% to N24.39bn and N16.05bn in FY 2023. The growth in administrative expenses was driven predominately by the +2901.5% spike in repair and maintenance of machinery, promotions (+557.7% growth) and a +447.9% rise in transport costs. These expenses weighed on the group's net profit

margin, moderating to 19.4% in FY 2023 from 21.4% in FY 2022, whereas gross profit improved to 51.46% from 48.60% in FY 2022. Analysts noticed the group accounted for N3.72bn in discount on trade receivables, raising the finance cost by +98.6% to N14.55bn in FY 2023 from N7.33bn in FY 2022, while finance income marginally grew by +1.6% to N7.80bn. The group's finance cost is expected to moderate in 2024, given the long-term bond (7 years) and lower loan acquisition (see chart 2).

Chart 2:



Financial Position.

Geregu Plc's total assets grew by +4.6% to N182.04bn in FY 2023 from N174.03bn in FY 2022, driven mainly by liquid assets such as a +36.1% growth in cash and cash equivalents, +26.3% in inventories and +284.7% in other current assets. The group's liquidity position, particularly cash, has improved to a 5-year high at N70.26bn as trade and other receivables dropped by -37.5% and trade and other payables rose by +69.7%, given that NBET ensures the flow of income to the power generating company despite payment irregularities by distribution companies (discos). On the liabilities side, loan repayment has reduced total borrowings by -15.8% to N63.63bn (including bond payables), but finance costs will rise in future, given the expected redemption of the company's 7-year bond and term loan. The group's retained earnings further shrunk in FY 2023, dropping to N43.92bn as the N20bn dividend payout exceeded the net income of N16.05bn or N8.00k DPS was larger than the N6.07k EPS. Geregu plc has historically paid dividends higher than net income over the past three years, raising its dividend payout ratio above 100%. The consequence has been reduced potential retained earnings and sustainable growth rate.



Table 1:

	FY 2022	FY 2023
Assets	174.03	182.04
Total Borrowings	32.99	21.16
Bond payable	42.57	42.78
Share capital	1.25	1.25
Retained Earnings	47.87	43.92
Shareholder's Equity	49.1	45.15

Cash Flow.

Geregu Plc generated higher cash from operating activities in 2023 than in 2022. The group's cash and cash equivalent as of December 31 rose by +36.1% to N70.26bn in FY 2023, a 5-year high driven by the +367.2% rise in net cash generated from investing activities and +559.7% growth in net cash from operating activities suppressing the cash used in financing activities. Hence, the group has stronger working capital to cover short-term liabilities and increase production in the face of rising demand (see table 2).

Table 2:

	FY 2022	FY 2023
Net cash generated from operating activities	8.42	55.57
Net cash flows from investing activities	1.14	5.32
Net cash generated from financing activities	37.96	-42.76
Cash and cash equivalent	51.63	70.26

Ratios.

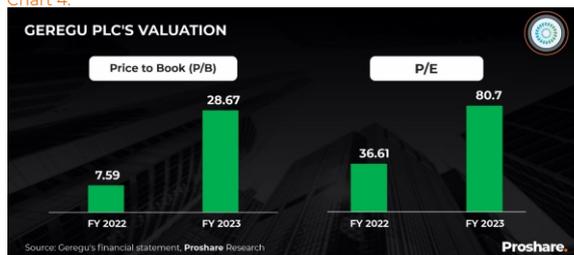
The power company's key ratios improved in FY 2023. The return on equity and assets rose to 35.6% and 8.6% in FY 2023 from 20.7% to 5.8% in FY 2022, indicating a better and more efficient use of shareholder funds and the company's assets. The gross profit margin increased to 51% in FY 2023 from 49% in FY 2022, reflecting that Geregu Plc is producing profit 50% ahead of its costs. However, the net profit margin compressed to 19.4% in FY 2023 from 21.4% in FY 2022 as the spike in operating costs ate into profitability. Under the financial position ratios, the group's leverage ratio improved to 52.15% in FY 2023 from 72.25%, while the liquidity and acid test ratios showed sufficiency despite marginally declining to 2.05 and 2.04 in FY 2023 from 2.81 and 2.80 recorded in FY 2022 (see table 3).

Table 3:

RATIOS	FY 2022	FY 2023
Leverage ratio	72.3%	52.2%
Liquidity Ratio	2.81	2.05
Return on assets	5.8%	8.8%
Return on equity	20.7%	35.6%
Gross profit margin	49%	51%
Net profit margin	21%	19%
Inventory turnover ratio	2%	2%
Acid test ratio	2.8	2.04

Source: Geregu's financial statement, Proshare Research

Chart 4:



Geregu's Share Price Movement.

Geregu's share price was bullish, rising from N149.00k on January 03, 2023, to N399.00k on December 29, 2023. The share price saw several flat trading channels in the year, such as in April, May, August, September, and October, but saw a bullish bounce in November to generate a +167.8% year-to-date (YTD) return on December 29, 2023. Analysts believe the high dividend payout pricked investor attention, which fed into a sustained bullish trend in early 2024 as the group announced a N8.00k dividend per share. The energy producer's dividend yield rose to 5.37% in FY 2023 from 1.54% in FY 2022 (see chart 3).

Chart 3:



Competitor Analysis: All About the Power.

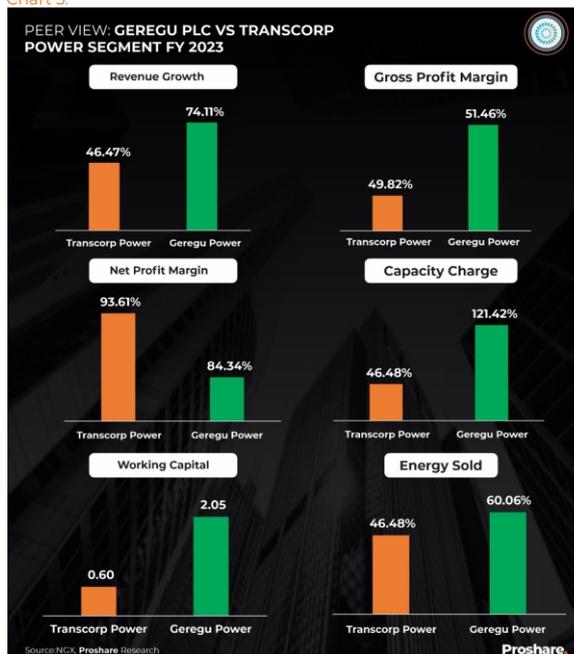
The harsh economic environment did not hinder energy companies' performance in 2023, with Transcorp Power and Geregu plc posting double-digit revenue growth from higher energy sold and capacity charges. During the period, Transcorp Power had higher energy sales valued at N60.50bn compared to Geregu Plc at N31.11bn, and capacity charge followed a similar pattern, with Transcorp leading in value at N90.75bn against Geregu at N51.79bn, driving revenue growth to address rising operating costs. Transcorp Power's profit before tax rose by +73.16% to N50bn, ahead of Geregu's, which grew by +60.80% to N24.39bn. However, Geregu plc had a higher gross profit margin of 51.46% relative to Transcorp power at 49.82% but reversed in the case of net profit margin as Geregu stood behind at 84.3% after Transcorp power at 93.61%.

Regarding liquidity, Geregu Plc's working capital ratio peaked at 2.05, suggesting adequate ability to meet short-term obligations (see chart 5).

Valuation.

The Nigerian equities market has defied all odds, remaining in a bullish run despite the depleting macroeconomic indicators. Many analysts have tagged the market to be overweight as share prices outrun companies' fundamental analysis. Geregu's fundamental valuation showed that the price-to-earnings ratio rose to 80.7x in FY 2023 from 36.61x in FY 2022, higher than the industry average of 31.2x. Similarly, the price-to-book value stood at 28.67x in FY 2023, higher than 7.59x in FY 2022. This suggests the market perception of the company might be ahead of its current fundamental performance (see chart 4).

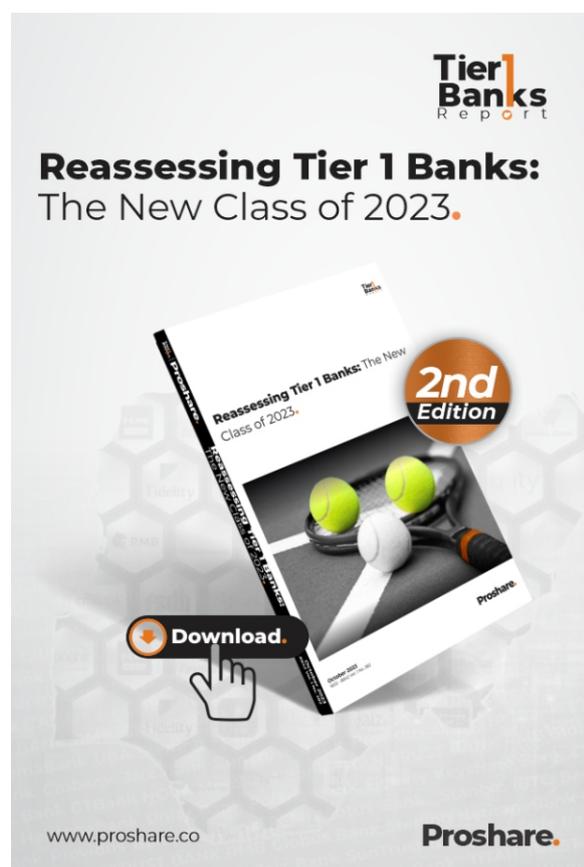
Chart 5:



Concluding Thoughts.

Nigeria's energy supply gap and milder input supply disruptions allowed Geregu to grow its topline and bottom-line earnings in 2023, lessening the impact of the country's deteriorating economic circumstances. However, sustainability could be threatened by the macroeconomic environment in 2024 as analysts' economic outlook for 2024 remains mixed, with an uncertain outlook for FX and higher inflation, affecting consumers' disposable incomes and effective demand. Additionally, risks such as high operating costs and anticipated new industry entrants might affect performance; nevertheless, analysts remain modestly optimistic about the power sector and Geregu's fortunes.

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