The Analyst™ Note.

Thomas Wyatt Nigeria: No Way to Paper Over Cracks.

Issue Date:
Monday, June 17, 2024

A Market Intelligence and Strategic Advisory Group Report

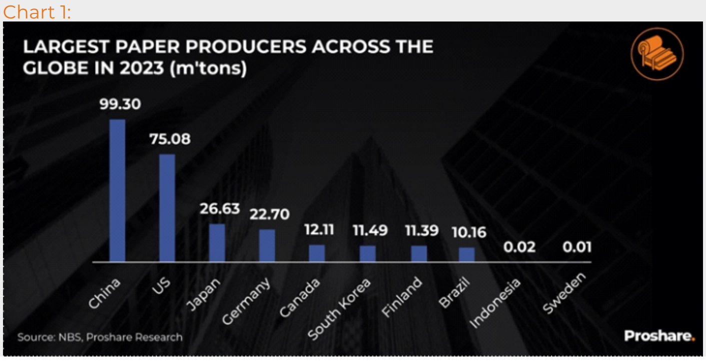
Production:
Proshare Graphics.

"*The ship may be sinking on the Nigerian paper industry waters, but opportunities to thrive glare at those who glare back and have what it takes to seize it.*" - The Analysts.

This is an initial coverage of the paper industry in Nigeria to situate and examine the continuous viability of **Thomas Wyatt** Nigeria, a company that remains an attractive investment opportunity and ensures the pitch deck is properly positioned (*a subject of our full coverage report*).

As technology advances and the digital era unfolds, the spectre of obsolescence looms over various industries. Amidst this evolution, the imperative of sustainability, championed by climate enthusiasts, resonates louder than ever, demanding attention and action. Among the sectors navigating this transformative landscape is the paper industry, which, while maintaining relevance in today's global economy, is undergoing its own evolution (*see chart 1*).

Chart 1:

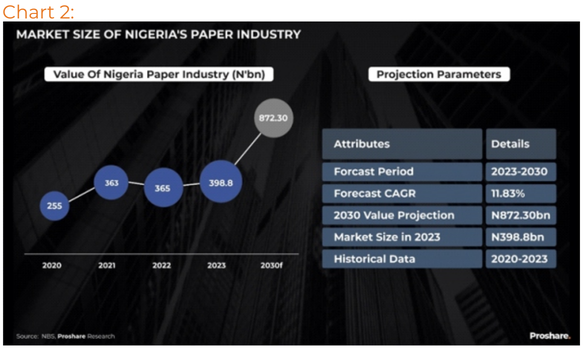


Nigeria's Paper Industry: **Surviving or Dying?**

Nigeria's current paper demand is estimated at over 3 million metric tons (mmt), offering a vast market to paper conversion companies in Nigeria. However, experts in the paper industry believe that even if the once three prominent mills in Nigeria were still in operation at 100% capacity, the industry would still have a gap of over 1.7mmt, given a full capacity output of 250,000mt.

Originating as one of the oldest industries worldwide, the paper industry in Nigeria boasted a valuation of N398.8bn in 2023, with projections soaring to almost a trillion naira at N872.30bn by 2030, growing at a compounded annual growth rate (CAGR) of 11.83% (*see chart 2*).

Chart 2:



The industry finds itself at a crossroads, grappling with a myriad of challenges that impede its progress and performance. Despite privatisation efforts, all three once-prominent paper mills in the country (***Nigeria Paper Mill in Jebba, Kwara State (1969); Nigerian National Paper Manufacturing Company Limited (NNMMC) also called Iwopin Pulp and Paper Company (1975) in Ogun State, and the Nigerian Newsprint Manufacturing Company, Oku-Iboku (1986), (NNMC) Akwa Ibom State***) have now fallen into obsolescence. Reports suggest that Asset Management Company of Nigeria (AMCON) has taken over the management of NNMC over unpaid debts, underscoring financial instability issues. ***Whether this has helped revamp the industry is a question with an obvious answer.***

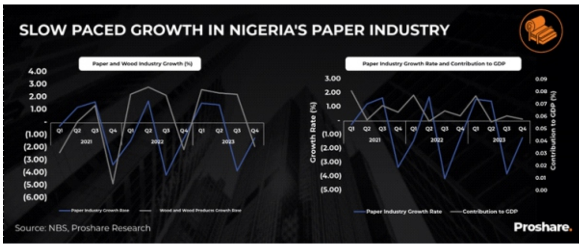
Thomas Wyatt: **At the Center of the Sinking Ship.**

To produce one ton of paper, about seventeen trees are usually required. Wood is converted to chips and combined with sodium hydrogen sulfide and sulfur dioxide, producing a paper-making material called pulp. Paper conversion companies like **Thomas Wyatt** Nigeria Plc require pulp and other paper-making materials as primary inputs in their production process.

The Nigerian paper industry's growth is tempered by its reliance on forest resources, prompting a critical need for conservation efforts. While paper and forest resource products may be interdependent, the industry's evolution has shown increased adoption of nonconventional methods for paper production and increased paper recycling activities.

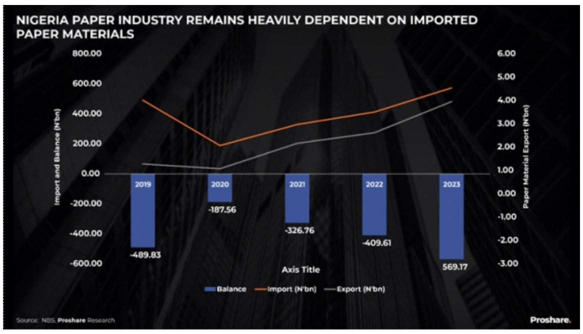
Paper conversion companies like **Thomas Wyatt** are part of an industry that has slowed its pace of growth domestically but is gradually evolving, morphing, and developing to fit the opportunities and dynamics of today's consumer demand. The ship may be sinking in the Nigerian paper industry waters, but opportunities to thrive glare at those who glare back and have what it takes to seize them. We argue that the industry is going through the most substantial transformation it has seen in many decades (*see chart 3*).

Chart 3:



Relative to other African counterparts, such as South Africa and Egypt, which have over 15 paper mills, Nigeria's redundant mills have left the paper conversion companies with the option to source a larger proportion of their paper-making material through importation amidst foreign exchange volatility, naira depreciation, inflationary pressures catalysing surge of cost of raw materials, poor research efforts, and unclear policies to support companies in Nigeria's paper industry value Chain (*see chart 4*).

Chart 4:



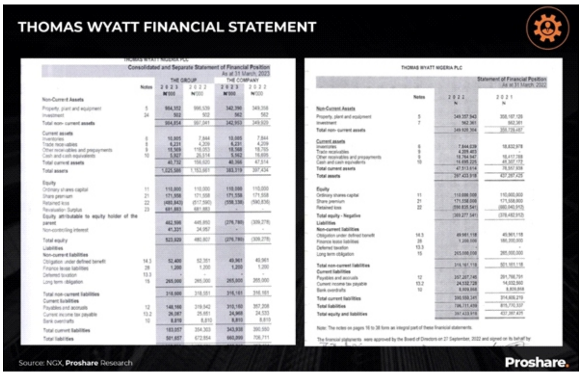
Voices of optimism emerge despite the challenges in the Nigeria paper industry. While citing the Portuguese economy, where the paper industry stands as one of the largest contributors to GDP, Funlayo Okeowo, a seasoned expert in the paper industry and CEO of FAE, boldly asserts that "***paper can be Nigeria's second oil.***"

According to another paper industry official, "***There are a lot of new opportunities out there, especially speciality products.***" These sentiments underscore the industry's enduring potential and capacity for innovation. The bottom line, industry officials say, is that "*the paper mill survivors can still survive despite many challenges as long as they can adapt to market changes.*"

Thomas Wyatt: **Of Financial Performance Wellbeing.**

Besides the role of **Thomas Wyatt** in the Nigerian paper industry playbook, Analysts have observed discrepancies in the financial figures published between 2022 and 2023, especially in the balance sheet line items. The total assets, liabilities and shareholder equity have varying figures across similar years, raising questions about the validity and credibility of the company's financial statements. For instance, the company's total assets stood at N397.92m in the FY 2022 financial report and were later stated as N1.03bn for the same period in the FY 2023 financial report without a restatement disclosure. A similar adjustment was sighted in shareholder's equity, which was negative at N378.48m in the FY 2022 financial report and reported as positive at N523.93m for FY 2022 in the FY 2023 report (*see table 1*).

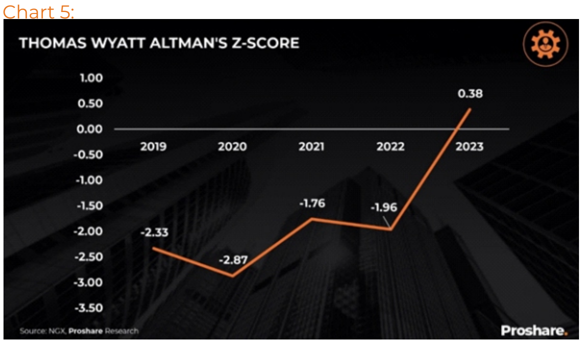
Table 1:



Over these five years, ***BBC Professional Chartered Accountant*** (Formerly Balogun Badejo & Co) has been the company's auditor, asserting compliance with International financial reporting standards. This variation has raised a need for further digging into their accounting practices, record-keeping, and auditing processes. This inaccurate reporting can dampen analysts' ability to analyse the company's financial performance. Nevertheless, analysts adopted the Altman Z-score model to gauge the company's financial distress and performance in the past five years.

The model revealed the company has been in financial distress in the past five years based on the combined five financial ratios, with a negative Z-score between 2019 and 2022 and a positive score of 0.38 in 2023 but far below the grey and safe zone. This implies the company has a high risk of filing for bankruptcy, given the historically insufficient revenue to cover operating costs and losses eroding shareholder funds. The paper company had a negative shareholder's fund from 2019 to 2022 but turned positive in 2023 at N523.93m, supported by the revaluation surplus of N681.88m (*see chart 5*).

Chart 5:



As more businesses shift towards digital documentation, communication, and remote work structures, the demand for traditional paper products has declined, reflecting the company's relatively low revenue. Additionally, reduced disposable consumer incomes amidst other factors adversely affected Thomas Wyatt's financial performance in 9M 2024. The paper company saw its key financial ratios tumble. The company's profit ratio fell significantly, with the gross profit margin slumping to 17.99% and the net profit margin sliding to 12.96%, while return on equity and assets fell to 1.83% and 0.97%, respectively. The company's liquidity worsened as receivables rose by +311% to N7.81bn in 9M 2024, and inventories stayed flat at N11.44bn in 9M 2024 (*see table 2*).

Table 2:

FINANCIAL RATIOS

	9M 2023	9M 2024
Current Ratio	0.20	0.12
Return on equity	5.07%	1.83%
Return on asset	2.72%	0.97%
Net profit margin	20.42%	12.96%
Gross profit margin	53.98%	17.99%
Acid test ratio	0.19	0.09
Leverage ratio	49.64%	49.51%
Inventory turnover ratio	0.18	0.18
Sales/Assets	13.30%	7.50%
EBITDA to sales ratio	0.20	0.13

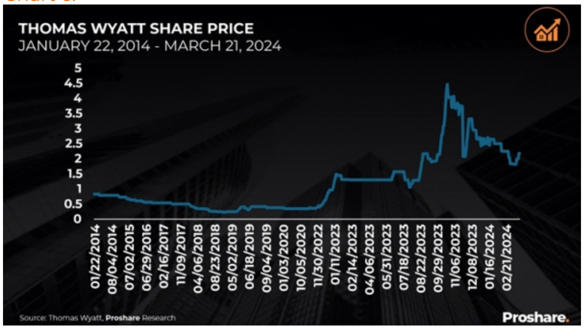
Source: Thomas Wyatt, Proshare Research

Share Price **Movement.**

Over the last ten years, the 75-year-old company has received less attention on the Nigerian Exchange Limited (NGX) local bourse. The paper maker's share price stayed below N1.00K from 2014 to 2022, swinging downward from N0.83K on January 22, 2014, to N0.36K on November 28, 2022. In December 2022, the share price went up, settling above N1.00K by January 2023, but stayed flat at N1.31K for roughly six months between January 25, 2023, and June 20, 2023.

The share price climbed slightly to N1.57k by June 26, 2023, and stayed flat till July 19, 2023, before falling steadily to N1.0K on August 01, 2023. Since then, the share price has been upward, reaching a resistant price of N4.47k on October 23, 2023, despite the declining profitability in FY 2023. The share price shed some of the gains going into 2024, settling at N2.18k as of March 22, 2024, with a year-to-date (YTD) return of -10%. This means the company underperformed the market's YTD return of +39.95% as of March 22, 2024 (*see chart 6*).

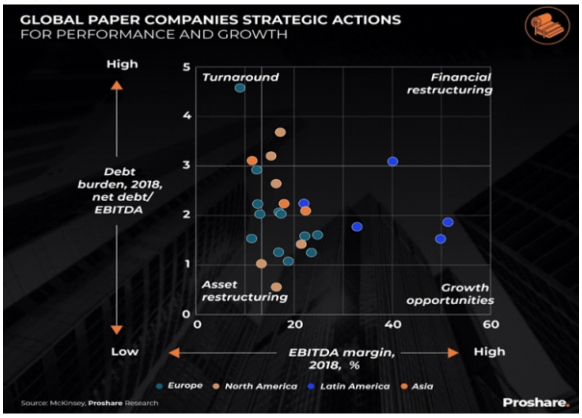
Chart 6:



Identifying **Potential or Risks.**

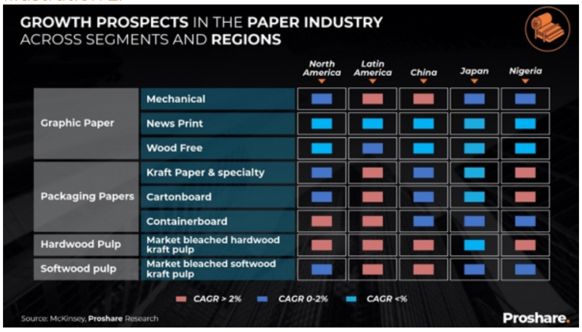
Paper producing and conversion companies across the globe have not shown high growth in financial performance as the adoption of non-paper substitutes continues to rise. Companies have moved to recalibrate their strategies, mainly in asset structures, to fit the demands for products and services relevant to the current evolving economy (*see illustration 1*).

Illustration 1:



The paper companies have switched strategies. Most have reduced size but maintained efficiency in operations focused on fewer segments and specific products highly relevant to the current evolving economy's demands. Graphic papers have diminishing demand, while packaging papers, hardwood pulp, and softwood pulp have a positive demand outlook (*see illustration 2*).

Illustration 2:



Closing Thought: **Rejigging the 76-year-old Paper Company.**

Thomas Wyatt is an ageing company battling declining cash, sales, and profit. These suggest that the company has tough operational situations to overcome. Addressing this requires rethinking the business model. The paper company needs to expand beyond traditional printing products to explore digital printing technology, including personalised printing options, specialty paper products, and paper-based electronics. More importantly, there is a need to consider paper production to lessen the supply shocks. A backward integration will improve and hasty the group's conversion and product variability. However, it is capital-intensive and can be sourced from current shareholders or fresh investors. Nigeria's growing population and reliance on paper (especially in civil service) project a positive prospect for the 76-year-old company. The company must consider eco-friendly packaging solutions to improve its green credentials and support climate-friendly paper production.

For feedback and further information, kindly contact research@proshare.co

Related **Items.**

1. Thomas Wyatt Nigeria Plc Declares N8.63m LAT in Q1 2024 Results,(SP:N3.09K)
2. Q1 2024 Unaudited Financial Statement for the Period Ended - September 30, 2023 - Thomas Wyatt Nigeria Plc
3. Thomas Wyatt Nigeria Plc Declares N43m PAT in 2023 Audited Results, (SP:N1:3K)
4. 2022 Audited Financial Statement For The Year Ended 31st March 2023 - THOMAS WYATT NIG. PLC
5. Q3 2022 Unaudited Financial Statements for the Period ended 31st December 2022 – Thomas Wyatt Plc
6. Thomas Wyatt Nigeria Plc declares N26.93m loss in Q3'22 Unaudited result, (SP:N1.31k)
7. 2022 Annual Financial Statements for the Period ended 31st March 2022 – Thomas Wyatt Nigeria Plc
8. Q1 2022 Unaudited Financial Statements for the Period ended 30th June 2022 – Thomas Wyatt Nigeria Plc
9. Q1 2021 Unaudited Financial Statements for the Period ended 31st March 2021 -Thomas Wyatt Plc
10. 2021 Annual Financial Statements for the Period ended 31st March 20201 – Thomas Wyatt Nigeria Plc
11. NSE Suspends Trading In the Shares of Thomas Wyatt Nigeria Plc Effective Jan 6th, 2021
12. Q3 Unaudited Financial Statements for the Period ended 31st December 2019 -Thomas Wyatt Nig. Plc
13. NSE Issues Post First Deficiency Notification For Thomas Wyatt Nigeria Plc
14. Report for the Period ended 3oth September 2019 - Thomas Wyatt Nigeria Plc
15. NSE Lifts Suspension Placed on the Trading in the Shares of Thomas Wyatt Nigeria Plc
16. Thomas Wyatt Nigeria Plc Announces Delay in Filing FY 2018 Results
17. Thomas Wyatt Nigeria Plc Explains Reasons Behind Late Filing of Audited Results
18. Audited report for the period ended 31 March, 2015 - THOMAS WYATT PLC
19. Audited Reports for the year ended 31 March, 2013 – Thomas Wyatt Nigeria Plc
20. Audited Reports for
21. Thomas Wyatt Plc declares N27.7 million loss in '12 Audited result. (SP: N1.32k)

Advice To Users of This **Report.**

Proshare, founded in 2006, is a trusted professional practice and financial information hub dedicated to serving as a critical bridge between the markets, investors, regulators, and stakeholders. By delivering credible, reliable, and timely engagements, we assist the marketplace to shape thought-led conversations premised on evidence-based insights that hold the firm accountable collaboratively.

Practice Ethos and Disclaimer

Proshare does not guarantee any results or investment returns based on the information contained in this report. Although we have used our best efforts to provide the most accurate information, we do not promise verbally or in writing that you will earn a profit when or if you use the information contained therein and/or take the actions that might have been prescribed here by the author or our analysts, any reliance you place on our content for decision making is at your own risk Reports often contain complex technical language, kindly seek expert analysis or expert opinions to help interpret the findings accurately. Context is key, and understanding is essential to grasp the report's true implications. We encourage our discerning readers to seek additional education and insights as you navigate the complexities of the report. As consumers of news and information, we play a role in responsible reporting, be cautious of spreading unverified or misleading information about the report's contents or corporate entities mentioned in the report.

Creation Date

This report was published on June 17, 2024, and is based on the best publicly available information at that time. The PDF version was created on June 17, 2024. For comments, feedback, and updates, kindly send us an e-mail via **research@proshare.co**. Thank you.

Teslim **SHITTA-BEY**
Managing Editor/CE

Tosin **IGE**
Head, Research

Market Intelligence. | **Impact Research.** | **Digital Media.** | **Strategic Advisory.** | **Stakeholder Relations.**

Contacts.

Olufemi **AWOYEMI**, *mni*
ceo@proshare.co

Teslim **SHITTA-BEY**
teslim.bey@proshare.co

Tosin **IGE**
research@Proshare.co

Ademidun **SHOGO**
ireconomist@Proshare.co

www.proshare.co
+234 902 407 5284
@proshare
proshare.co
proshare.co
proshare.co

Plot 590b, Lekan Asuni
Close, Off Toyin Omotosho Street,
Omole Phase 2, Isheri Olowora
Ikeja, Lagos, Nigeria **PC: 105102**
Tel: **0700 – PROSHARE**
E-mail: info@proshare.co