



Nigerian-German Chemicals PLC

A passion for excellence

Accounts - 1998

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Financial Highlights

Year ended December, 1998

	1998	1997
	N'000	N'000
Major balance sheet items:		
Total Assets	1,767,716	1,604,515
Current liabilities	935,721	797,564
Long term liabilities	52,917	22,290
Provisions for liabilities and charges	27,279	27,279
Shareholder's funds	751,799	757,382
Major profit and loss account items:		
Turnover	972,311	1,086,324
(Loss)/Profit before taxation	4,855	80,900
Taxation	10,438	7,886
(Loss)/Profit after taxation	(5,583)	73,014
Dividend (gross)	-	30,625
Information per 50k ordinary share based on 61,250,000 ordinary shares:		
Earnings - (Actual)	(9.12k)	119.21k
Market price	₦ 7.75	₦ 8.80
Price earning ratio	(84.98)	7.38
Dividend - Actual)	-	50.00k
Dividend cover (times)	-	2.38
Net assets per share	₦ 12.27	₦ 12.37
Number of employees	177	218

Chairman's Statement

From the 35th Annual General Meeting - 30th June, 1999

Distinguished Shareholders, Ladies and Gentlemen, It is with gratitude to God for sparing our lives this far, that I take the opportunity to welcome you all to the 35th Annual General Meeting of our Company. Before I present the results of our operations for the 1998 financial year, let me recapture the environment in which we operated in that year.

THE BUSINESS ENVIRONMENT

1998 turned out to be a very difficult year for business. Despite a Federal Government Budget that promised constructive gains for the economy, the manufacturing sector in particular, and the country as a whole was brought to a virtual standstill by a crippling energy crisis. The impact of the fuel scarcity on purchasing power, and costs of transportation and distribution was significant.

NEPA's (National Electric Power Authority) ability to satisfy consumer demand continued to fall, as its infrastructure crumbled, due to years of neglect. With epileptic power supply and fuel scarcity, manufacturers production capacities and production costs were severely and adversely affected. MAN estimates that average industrial capacity utilisation in 1998 fell to 28%, down from 34% in 1997.

Budget implementation delays, especially regarding release of capital votes where government spending remains the prime catalyst for economic activity, severely stunted economic growth during the year. While focus on managing inflation kept rates low, interest rates rose sharply due to the cash squeeze. The cost of borrowing for manufacturers rose from an average of 14% per annum in 1997 to 24% in 1998. At the same time, consumer purchasing power, which had been falling steadily in recent years, fell even more sharply, as consumers exhausted their savings.

It is against this backdrop that many companies experienced shrinking sales, low overhead recovery and high levels of unsold inventories.

1998 PERFORMANCE

The operating environment severely and adversely affected NGC's performance during this period. As you are well aware, our Company has been undergoing significant restructuring, during which it has invested heavily in capital assets to execute its diversification and expansion strategies. It has also invested in replacing aging assets, as well as in information technology as a bedrock for improving operational efficiency. While the Rights Issue raised in 1996 financed some of these activities, a significant portion was also financed through bank loans, some of which are short term in tenure. The decision to finance the activities by this manner was considered prudent during a period of low interest rates and a stable environment. The expected cash flow from budgeted sales was more than adequate to meet debt obligations. Ultimately, the aim was to maximise shareholder value and returns.

In a year characterised by sharply increased interest rates, and production and budgeted sales shortfalls, it was difficult for the company to service its high debt obligations, obtained for capital projects, as well as financing considerable inventory and debtor levels. Consequently, despite high operating margins, because of successful cost restructuring, virtually all profits went to service interest rate obligations of ₦121m.

We were also compelled by rules of prudent accounting, to make additional provisions against profits for obsolete stocks, and doubtful or unrecoverable debts. The little profit remaining, was wiped out by an obligation to provide for an additional assessment by the tax authorities against underpayment of taxes in 1992.

Consequently, Profit before Tax declined to ₦4.8 million, down from ₦80 million in 1997. We recorded a loss of ₦5.5 million, following a provision for tax of ₦10.4 million. The foregoing regardless, total assets of the Company grew ₦1.76 billion in 1998, from ₦1.6 billion in 1997. Following two years of capital spending, our net fixed assets value stands at ₦652 million. Including investments and R & D, the value is ₦818 million.

OUTLOOK FOR 1999 & BEYOND

The Federal Government budget for 1999 contains few provisions that provide encouragement for the manufacturing sector.

The removal of rebates on duties paid for raw materials has increased input costs for manufacturers.

Collapsed infrastructure means that companies need to provide for their utility and energy requirements, at high diesel costs.

Government spending has fuelled inflation which unfortunately is not focused on reflation the economy, and improving consumer purchasing power.

Imported competing products are often cheaper than locally manufactured equivalents. Consequently, there is very little opportunity to pass on rising costs, through price hikes, to consumers.

Despite ongoing challenges in the operating environment and manufacturing sector especially, we are confident that the huge investments undertaken in the last two years, will from 1999, yield production and operating efficiencies. These will enable us compete well with imported products, achieve market share growth and ensure long term shareholder value and returns in the future. Needless to say, our capital investments in positioning our company for long term development and growth are largely complete.

In 1999, Management will continue to focus on steadily improving the Company's bottom line by pursuing the following clear objectives:

1. Strengthening our sales and marketing management and focusing on what is necessary to drive achievement of sales targets and volume market share.
2. Linked closely to above, growing plant capacity utilisation.
3. Strengthening our financial management and controls.
4. Achieve full potential benefits of an integrated management information and enterprise resource planning system, which will manifest itself through higher operating efficiencies.
5. Replacement of short term debts with longer term debts/debenture, to enable more management time be focused on longer term business fundamentals.

In order to achieve these objectives, we have recruited experienced staff to drive marketing and sales strategy, financial management and controls, as well as information technology management.

DIVIDENDS AND BONUS ISSUE

In place of a dividend cash payout at a time when the Company needs all the cash it can get to drive its operations, the Board has recommended a bonus issue of. This will be funded by the capitalisation of shareholders funds, which stands today at ₦751.8 million.

CHANGES TO THE BOARD

Having reached the revered age of 70, Dr. B. S. Oloruntoba, will be retiring from the Board of Directors with effect from the end of this year's Annual General Meeting. Dr. Oloruntoba joined the Board of the Company on 9th May, 1979. I know I speak well on behalf of members of the Board and management in expressing deep appreciation to him for his years of service, and prayers for success in all his future endeavors.

During the year, the Company also received notice of resignations from the Board of Ms. Catherine Edozie and Mr. Ebenezer Abiona, both Finance and Marketing Directors respectively. In addition, Mr. Anthony Strawson, the Managing Director and Chief Executive Officer left the services of the Company in December 1998, following the completion of his contract of employment. We thank them for their contributions to the Board and the company over the years, and wish them well in their future endeavors.

Consequently, the Board, on April 27, 1999 approved the appointment of Mr. Adeboye Shonekan, the Vice Chairman, as the Chief Executive Officer. The Board also approved the election of Mr. Emmanuel Ndiokwere to the board. Mr. Ndiokwere heads the Industrial chemicals Division. He has been a member of the company for 25 years. Following the positive impact brought to the company by his wealth of experience, the Board also approved the election of Mr. Kartik Raina as Sales & Marketing Director. On behalf of the other Directors, I extend a hearty welcome to Messrs. Ndiokwere & Raina.

I would like to also congratulate Mr. Shonekan on his appointment and pray that he be given the strength, drive and focus to guide this Company to greater heights.

MANAGEMENT AND STAFF MATTERS

Despite the strains of operations during the year, employee relations remained cordial throughout the year, continuing a six-year tradition. The management and staff of the Company deserve commendation for their efforts in this difficult year.

I am confident that they fully appreciate the enormity of the challenges they face, going into the future, and are even better prepared to address these challenges now and in the future.

CONCLUSION

In conclusion, let me express my gratitude to all the shareholders for their continued support during this difficult year. The Company remains fundamentally sound, with a very strong asset base, essential to safeguard sustained long-term growth and development. I am confident that long term shareholder value and returns are assured.

Thank you for your attention.

Abali Muhammadu – Emir of Fika
Chairman

Profit and Loss Account

Year ended December 31, 1998

	1998	1997
	N'000	N'000
TURNOVER	972,311	1,086,324
Cost of sales	567,814	636,895
	-----	-----
GROSS PROFIT	404,49	449,429
Net operating expenses	288,902	280,524
	-----	-----
OPERATING PROFIT BEFORE INTEREST PAYABLE	115,595	168,905
Interest payable	110,740	88,005
	-----	-----
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4,855	80,900
Taxation	(10,438)	(7,886)
	-----	-----
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	(5,583)	73,014
Dividend	-	(30,625)
Debenture	-	(4,000)
	-----	-----
RETAINED (LOSS)/PROFIT FOR THE YEAR	(5,583)	38,389
	-----	-----
Earnings per share (actual)	(9.12K)	119.21K
	-----	-----

Dividend per share	Nil	50.00k
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Balance Sheet

At December 31, 1998

	1998	1997
	N'000	N'000
FIXED ASSETS	652,682	534,986
INVESTMENT	146,579	19,692
RESEARCH AND DEVELOPMENT	18,745	-
	-----	-----
CURRENT ASSETS	818,006	554,678
	-----	-----
Stocks	628,153	724,813
Debtors	262,927	292,565
Cash at Bank and in Hand	58,630	32,459
	-----	-----
	949,710	1,049,837
CREDITORS:		
Amount falling due within one year:	(935,721)	(797,564)
	-----	-----
NET CURRENT ASSETS/(LIABILITIES)	13,989	252,273
	-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES	831,995	806,951
Amounts falling due after one year:		
Debenture Stock	-	(20,000)
Lease Payable	-	(2,290)
Term Loan	(52,917)	-
PROVISIONS FOR LIABILITIES AND CHARGES:		
Deferred Taxation	(27,279)	(27,279)
	-----	-----
NET ASSETS	751,799	757,382
	-----	-----
CAPITAL AND RESERVES:		
Called-up Share Capital	30,625	30,625
Share Premium	194,88	194,88
Revaluation Reserve	256,850	256,850
General Reserve	12,100	12,100
Profit and Loss Account	189,680	22,919
Reserve for Bonus Issue	7,656	-
Debenture Redemption Reserve	60,000	40,000
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SHAREHOLDERS' FUNDS	751,799	757,382
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Cash Flow Statement

Year ended December 31, 1998

	1998	1997
	N'000	N'000
CASH FLOW OPERATING ACTIVITIES:		
Profit before taxation	4,855	80,900
Adjustments for:		
Depreciation of fixed assets	63,609	49,714
Interest expenses	110,740	88,005
Profit on sale of fixed assets	(1,118)	(1,786)
Amortisation of leased assets	3,000	9,018
	-----	-----
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	181,086	225,851
Stocks	96,660	(37,697)
Debtors	29,638	(127,120)
Creditors	(77,021)	78,551
	-----	-----
CASH FLOW FROM OPERATIONS	230,363	139,585
Payment of tax	(8,702)	(31,179)
Withholding tax deducted at source	-	(2,380)
	-----	-----
NET CASH FROM OPERATING ACTIVITIES	221,661	106,026
	-----	-----
Cash flow from investing activities:		
Purchase of fixed assets	(185,543)	(198,233)
Proceeds from sale of fixed assets	2,356	1,786
Purchase of investment	(126,887)	(19,692)
Research and development	(18,745)	-
	-----	-----
Net cash used in investing activities	(328,819)	(216,139)
	-----	-----
Cash flow from financing activities:		
Loans received (Net)	117,917	-
Interest paid	(110,740)	(88,005)
Dividends paid	(33,864)	(28,013)
	-----	-----
Net cash used in financing activities	(26,687)	(116,018)
	-----	-----
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(133,845)	(226,131)

Cash and cash equivalents January 1,	(518,719)	(292,588)
Cash and cash equivalents December 31,	(652,564)	(518,719)
	-----	-----
REPRESENTED BY		
Cash in hand and at bank	58,630	32,459
Bank overdraft	(711,194)	(551,178)
	-----	-----
	(652,564)	(518,719)
	-----	-----

Five-Year Financial Summary

Year ended December 31,

	1998	1997	1996	1995	1994
	N'000	N'000	N'000	N'000	N'000
TURNOVER AND PROFIT					
Turnover	972,311	1,086,324	928,927	718,597	535,723
	-----	-----	-----	-----	-----
Profit before taxation	4,855	80,900	131,017	120,879	63,044
Taxation	10,438	(7,886)	(28,045)	(22,291)	(35,132)
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(Loss)/Profit after taxation	(5,583)	73,014	102,972	98,588	27,912
Dividend	-	(30,625)	(30,625)	(17,500)	(7,700)
Debenture redemption reserve	-	(4,000)	(12,000)	(12,000)	(12,000)
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Profit/(Loss) retained	(5,583)	38,389	60,347	69,088	8,212
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Earnings per share - (notes) - actual	(9.12k)	119.21k	168.12k	160.96k	45.57k
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Dividend per share - (notes) - actual	-	50.00k	50.00k	28.57k	12.57k
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ASSETS EMPLOYED					
Fixed assets	652,682	534,986	395,485	320,542	259,510
Investment	146,579	19,692	-	-	-
Research and Development	18,745	-	-	-	-
Net current assets	13,989	252,273	411,697	236,647	206,242
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	831,995	806,951	807,182	557,189	465,752
Provision for liabilities and charges	(80,196)	(49,569)	(92,189)	(149,834)	(139,485)
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	751,799	757,382	714,993	407,355	326,267
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FINANCED BY

Share capital	30,625	30,625	30,625	17,500	17,500
Reserves	721,174	726,757	684,368	389,855	308,767
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Shareholders' funds	751,799	757,382	714,993	407,355	326,267
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Notes:

1. Earnings per share are based on the profit after taxation.
2. Earnings and dividend per share have been calculated each year on the basis of 61,250,00 ordinary shares in issue at December 31, 1998.

More Information

For more information on our accounts, please contact our company secretary for a copy of our ANNUAL REPORT:

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