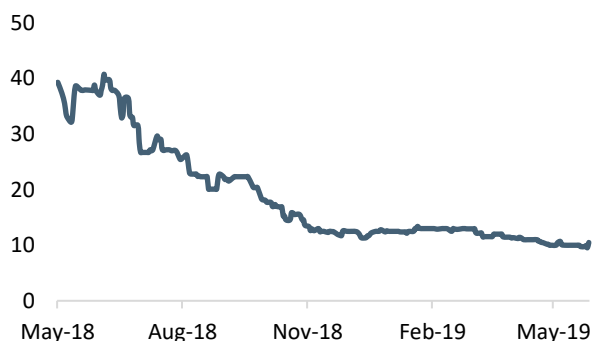


Rating	BUY
Price	₦9.55
FVE (<i>last communicated</i>)	₦18.07
52-week range	₦9.20 – ₦40.79
Market Cap. (N'bn)	169.132
1-month Avg. Vol	1,233,866
Curr. PE	N/A

WAPCO.NL - Share Price Trend



Analyst(s)

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Lafarge Africa Plc. (WAPCO.NL)

Initial View

Disposal of LSAH...brink of hope

- After the close of trade yesterday, Lafarge Africa Plc (Lafarge) released its long-awaited FY 18 and Q1 19 results. In line with our thoughts, Lafarge recorded profit in both Q4 18 and Q1 19 quarters, after five consecutive quarters of losses since Q3 2017. The performance in both quarters largely reflected impact of the tax credit earned on the new Mfamosing plant – Q4 18: ₦6.7 billion and Q1 19: ₦3.0 billion – which swayed the Q4 18 loss before tax of ₦5.1 billion to a ₦1.6 billion profit and pushed Q1 19 PBT of ₦123 million to a PAT of ₦3.1 billion.
- In our Sector Update published in December 2018 (See Report: *Competition upsetting the status quo*), we had guided that the management of Lafarge Africa intends to dispose the South African operation to a willing buyer and in the worst case scenario that the asset would be put back to the parent company. Concisely, the management yesterday released an explanatory note for shareholders approval for the sale of the South African business to LafargeHolcim Limited (LH) at a consideration of \$316.3 million. While we had expected actual proceeds of the cash to be used in revamping the moribund Shagamu plant or setting up a new factory at Ashaka, the transaction is being conducted by a set-off of the all the outstanding borrowings (comprising \$293 million principal sum and \$23.3 million accrued interest as at July 31st) owed to the LH.
- Accordingly, following the completion of the transaction, all Lafarge Africa FCY loans will be extinguished. As such, we expect significant savings on interest expense in the short to medium term, compared to our earlier estimate of better cash flows following the

moratorium that accompanied the refinancing of the FCY loan in August 2018.

- Specifically, going by the refinancing structure of the FCY portion of the loan in 2018 and the expected repayment of expensive short term borrowings from the proceed of the rights issue, we had guided that total interest expense in 2019 will reduce potentially to ₦29.7 billion from ₦45.9 billion in FY 18. With the conclusion of the sale in July 31st, we estimate a further reduction in finance expense to c. ₦22 billion in full year 2019.

Not all rosy for core performance in Q4 18

- A closer look at the Q4 18 numbers shows revenue dropped 2% YoY to ₦74.1 billion, with bulk of the decline stemming from lower earnings on aggregate and concrete (-12% YoY) and Admixtures (-29% YoY) which offset the 2% growth in cement (makes up ~80% of total revenue). Flattered by the gross loss in the same quarter in the prior year following impairment booked at Mfamosing, gross margin came in stronger in Q4 18 at 18.3% following impact of the 28% YoY drop in COGS to ₦60.5 billion. However, it is worth stating that the gross margin printed at the lowest of all the quarters in 2018. The decline in direct cost mirrored the drop in PPE depreciation from ₦925 million in Q4 17 to ₦19.2 billion in Q4 18.
- Elsewhere, Opex in the quarter dropped 15% YoY to ₦9 billion – a payoff of lower administrative expenses (-35% YoY) in the quarter which offset the 90% surge in S&D. Consequently, opex to sales ratio dipped 191 bps YoY to 12.3% in the quarter. This also supported improvement in operating margin from -26% in Q4 17 to 8% in Q4 18.
- Meanwhile, a significant decline in net finance cost from ₦24.5 billion in Q4 17 to ₦10.8 billion in Q4 18 supported lower loss before tax to ₦5.1 billion from ₦37.2 billion in similar period last year. A tax credit of ₦6.7 billion – which relates to the Mfamosing plant – pushed the earnings to the positive, with a post-tax profit of ₦1.6 billion. This implies EPS of ₦0.18 in the quarter from negative ₦4.24 in the similar period last year.

Q1 19: A promising start to the year

- Q1 19 recorded a positive start to the year, as earnings were positive (both pre- and post- tax), with extended support from tax credit. Revenue, on the other hand, declined 3% YoY to ₦78.5 billion stemming from lower sales in cement (-1% YoY) and aggregate & concrete (-12% YoY). We also believe this could be linked to lower volume sales despite pushing prices lower (similar to Dangcem), following increased competition by new BUA volumes.
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- Meanwhile, there was improvement in gross margin by 84 bps YoY to 23.2%, following a faster decline in COGS by 4% YoY to N60.3 billion, compared to revenue. Lower COGS mirrored decline in production fixed costs (-37% YoY) and distribution fixed costs (-83% YoY) -- offsetting the 8% rise in variable cost which stemmed from increased cost of raw materials and gas. Also, opex to sales ratio dropped 209 bps YoY to 12.5%, reflecting drop in opex by 17% YoY to ₦9.8 billion, amidst a 19% YoY decline in admin expenses and 3% decline in S&D. This also supported the improvement in operating margins by 297 bps to 10.7%
- Elsewhere, net finance cost dropped 10% YoY to ₦8.3 billion largely reflecting the FX gain of ₦1.1 billion. Specifically, finance cost remained relatively flat at ₦9.6 billion (Q1 19: ₦9.5 billion), despite the contraction in the company's loan book by 7% YoY to ₦232 billion. Overall, PBT settled at ₦123 million from a loss of ₦2.9 billion similar period last year. A tax credit of ₦3 billion further supported the bottom line to ₦3.1 billion in the quarter, from a loss of ₦2 billion last year. As a result, EPS printed positive at ₦0.20 (from a loss of ₦0.23 in Q1 18). It is worth stating that this takes to account the additional 7.4 billion units from the rights issue effected in March.
- WAPCO currently trades at an EV/EBITDA of 8.3x compared to Bloomberg Middle and East Africa Peers at 14.8x. Our last communicated FVE of **₦18.07** translates to a **BUY** rating on the stock. **Our model is under review.**

Summary of Results

Income statement – (₦'million)	Q4 18	YoY growth	QoQ growth	Q1 19	YoY growth	QoQ growth	Deviation from forecast	FY 18	FY 17
Revenue	74,125	-1.80%	2.94%	78,512	-2.64%	5.92%	9.70%	308,425	299,153
Cost of sales	60,537	-28.29%	10.32%	60,328	-3.69%	-0.35%	10.90%	238,743	250,179
Gross profit	13,588	252.04%	-20.69%	18,184	-1.02%	33.83%	6.10%	69,683	48,974
OPEX	9,091	-15%	-37%	9,811	-17%	8%	-3.30%	46,182	43,920
Operating profit	5,756	129.31%	105.92%	8,425	34.66%	46.37%	53.50%	24,811	7,885
Net interest expense	-10,771	-55.98%	-0.26%	-8,281	-10.01%	-23.12%	-9.10%	-44,254	-41,778
PBT	-5,145	-86.15%	-35.81%	123	104.17%	102.39%	-31.10%	-19,508	-34,032
PAT	1,574	104.28%	124.33%	3,145	257.10%	99.77%	-22.00%	-8,802	-34,601

Key Ratios	Q4 18	Q4 17	Change(pps)	Q1 19	Q1 18	Change(pps)	FY 18	FY 17	Change(pps)
Gross margin	18.33%	-11.84%	30.17%	23.16%	22.32%	0.84%	22.59%	16.37%	6.22%
EBIT margin	7.76%	-26.01%	33.78%	10.73%	7.76%	2.97%	8.04%	2.64%	5.41%
PBT margin	-6.94%	-49.22%	42.28%	0.16%	-3.65%	3.81%	-6.33%	-11.38%	5.05%
PAT margin	2.12%	-48.67%	50.80%	4.01%	-2.48%	6.49%	-2.85%	-11.57%	8.71%
Effective tax rate	NA	NA	-	NA	NA	-	NA	NA	-

Source: ARM Research *unless otherwise stated

Ratings, Disclosure & Disclaimer – [Click here](#)