

Price	₦14.95
52-week range	₦9.20-17.72
Market Cap. (₦bn)	240,811
1-month Avg. Vol	2,296,608
Curr. PE	10.3x

WAPCO.NL - Share Price Trend



Analyst

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Lafarge Africa Plc. (WAPCO.NL)

Initial View

LSAH Sale... Good riddance

- Lafarge Africa Plc released 9M 19 result, showing the group's performance ex-South Africa business (LSAH). On the adjusted numbers, Lafarge reported EPS of ₦1.28 compared to a loss of ₦1.20 in 9M 18 (including Lafarge South Africa). The improvement relative to the prior year, largely mirrored impact of the deleveraged balance sheet and improved cost efficiencies. Given that LSAH has largely been EBITDA negative (with a marginal improvement in Q2), the impact of the exclusion was muted on overall performance. On a Q3 basis, EPS printed positive at ₦0.29, compared to loss of ₦0.75 same period last year. Reported revenue and EBIT came in line with expectation, however, a lower than expected net finance cost and tax credits pushed earnings higher, with Q3 EPS close to our H2 19 forecast of ₦0.30. WAPCO also reported a ₦106 billion gain on disposal of LSAH in discontinued operations, being the excess of the purchase consideration (₦114 billion) over the impaired net asset value (₦7 billion).
- South Africa's lagging EBITDA margin contribution taken off the books.** Over Q3 19, EBITDA margin printed at 21% which is 9ppts higher than Q3 18 (when LSAH was included). This reflects improved cost efficiencies of the Nigerian business which offset the prolonged lagging performance of the South African business. You will recall that LSAH had until Q2 19 reported negative EBITDA for 5 consecutive quarters. For context, Opex to sales in Q3 19 printed at 10% which is 10 ppts higher YoY.
- The ₦134 billion shareholder loans was extinguished from the books as purchase consideration for the sale of LSAH.** This leaves only ₦56 billion worth of loans as outstanding in Lafarge Africa, comprising of the BOI Power fund and 2nd tranche of the 2021 bond and translates to a lower debt-to-capital ratio of 15% in Q3 19 from 66% as at FY 2018. As expected, this drove finance cost lower significantly by 137% YoY to ₦3.2 billion and gave significant boost to the bottom line.
- On a not-too-impressive note, the Nigeria standalone business witnessed paring sales in the quarter** by 7% YoY to ₦45 billion. Management alluded the decline in sales to sluggish recovery of public consumption post-election, as well as prolonged rainy season compared to last year. Notably, volume declined 17% YoY, to 1.2MT, which neutered the relatively higher prices (+11% YoY to ₦38,310). We note that the impact of the slash in price over Q3 (-11% QoQ), was largely clouded in the Q3 numbers.

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- On cost, WAPCO posted leaner COGS per ton of ₦28,300 in Q3 19 which prints much lower than ₦38,810 posted in Q3 last year. Going through the break down, this largely stemmed from significantly lower cost of raw materials. Thus, together with the higher revenue per ton, gross margin expanded 2.4ppts YoY to 26%. As noted earlier, the improved costs efficiencies and lower finance cost supported EBIT expansion by 117% YoY.
 - ***Meanwhile, cashflow positions also improved significantly post LSAH-sale.*** In particular, FCF over 9M 19 (Nigeria standalone business) jumped 2.1x the value of 9M 18 (includes LSAH), driven by a 64% YoY jump in CFO. However, the FCF/share was only 14% higher YoY given the dilutive impact of the new shares added from the rights issue (wherein 7.4 billion units were added), while FCF yield is up 5ppts YoY to 14%. CFO margin also printed 17ppts higher YoY to 29%.
 - While the LSAH sale has played quite favourably to the new WAPCO, our **concerns regarding the continued delay of the capex plans** (particularly the Ashaka power plant and debottlenecking) lingers. As noted over the conference call yesterday, management stated that the \$20 million Ashaka power plant project which was scheduled for completion Q4 this year has been postponed. Meanwhile, Management still affirms scheduled completion of the Ashaka debottlenecking for Q4 2020. Our FVE of ₦23.59, presents upside potential of 58% compared to current market price of ₦14.95 and translates to a **BUY** rating. WAPCO currently trades at a P/E and P/FCF of 10.3x and 11.5x which trades at a discount to domestic peer average of 10.9x and 14.7x, respectively.
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Summary of Results

Income statement – (₦'million)	Q3 19 ¹	Q3 18	YoY growth	QoQ growth	9M 19 ¹	9M 18	YoY growth
Volume ('000 tons)	1,179	1,414¹	-17%	-30%	4,483	4,620	-3%
Price/ton (N)	38,314	34,442¹	11%	-11%	36,372	35,850	1457%
Revenue	45,172	72,009	-37%	-45%	163,057	234,301	-30%
Cost of sales	33,361	54,876	-39%	-44%	111,785	178,206	-37%
Gross profit	11,811	17,133	-31%	-48%	51,272	56,095	-9%
OPEX	4,509	14,355	-69%	-48%	16,275	37,091	-56%
Operating profit	7,745	2,795	177%	-45%	35,479	19,121	86%
Net interest expense	(3,060)	(10,799)	-72%	-36%	-15,399	-33,482	-54%
PBT	4,686	-8,015	158%	-49%	20,139	-14,372	-240%
PAT	4,734	-6,471	173%	-19%	20,573	-10,385	-298%
EPS	0.29	(0.75)			1.28	(1.20)	

Key Ratios	Q3 19 ¹	Q3 18	Change(pps)	9M 19 ¹	9M 18	Change(pps)
Gross margin	26.15%	23.79%	2.35%	31.44%	23.94%	7.50%
EBIT margin	17.15%	3.88%	13.27%	21.76%	8.16%	13.60%
PBT margin	10.37%	-	21.50%	12.35%	-6.13%	18.48%
PAT margin	10.48%	-8.99%	19.47%	12.62%	-4.43%	17.05%
Effective tax rate	1.03%	-	20.30%	2.16%	-27.74%	29.90%
ROE				6.33%	-35.45%	41.78%
ROA				4.51%	-8.63%	13.14%
CFO margin				24.56%	5.49%	19.07%
FCF/s				32.05%	-15.14%	47.19%
FCF yield				2.14%	-1.22%	3.36%

Source: ARM Research *unless otherwise stated

¹ Nigeria stand-alone business

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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