



Initial View

6 months ended 30th June, 2015

**Recommendation: (N82.47)**

- Lafarge Africa Plc (Lafarge) released unaudited results for 6 months ended 31st June 2015 wherein revenues grew 12% YoY to ₦117 billion while PBT and PAT rose 15% and 22% YoY to ₦30 billion and ₦26 billion respectively.

***Price and volume increases continue to underpin revenue growth...***

- Lafarge's Q2 15 revenues rose 9% YoY to ₦59.8 billion—14% ahead of our estimates, propelled by increases in revenue in Nigeria (+9% YoY to ₦39.4 billion) and higher contribution from LSAH. The rise in Nigerian revenue was underpinned by higher cement prices (+6% YoY to ₦34,531 per tonne) and volumes (+3% YoY to 1.1MT). Importantly, WAPCO and Nigerian ready mix businesses grew volumes by 11% and 32% YoY to 809KT and 112m<sup>3</sup>k in the period. On the South African end, where Rand based revenue declined 5% YoY following 7% and 14% YoY contractions in cement and aggregate volumes, a 7% appreciation of the Rand over Naira buoyed top-line by ₦1.4billion in Naira terms. Excluding this, Lafarge's group revenue rose +6% higher YoY.

**Income Statement Data**

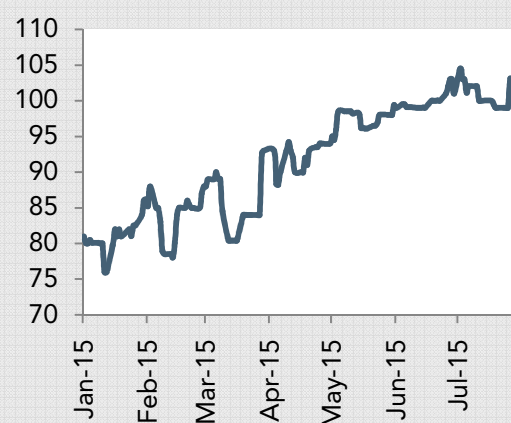
	2015 – 6M'm	2014 – 6M'm	%chg
Revenue	116,709	104,157	12.0%
PBT	29,721	25,845	15.0%
Tax	3,512	4,337	-19.0%
PAT	26,209	21,507	22.0%

**Balance Sheet Data**

	2015-Jun 'm	2014-Dec 'm	%chg
Inventory	24,729	24,262	2.0%
Receivables	20,286	17,457	16.0%
Cash	18,005	14,029	28.0%
Payables	46,909	51,305	-9.0%
Net Assets	195,142	191,642	2.0%

**Stock Data**

Price	₦101.24
52 week range	₦66.50–₦131.32
Market Cap. (N'B)	455.490
1-month Avg. Vol	922,321
Curr. PE	11.43x
Bloomberg Ticker	WAPCO:NL
Reuters Ticker	WAPCO.LG

**Lafarge Africa Plc- Share Price Trend****Analyst(s)**

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### ***... as improving energy mix blunts devaluation impact***

- Despite devaluation pressures in the period, Q2 15 COGS rose slower than revenues (+5.7% YoY) to ₦38 billion reflecting improved energy mix in favour of cheaper alternative fuel. Accordingly, gross profit rose 15% YoY to ₦22 billion, with related margins 2pps higher YoY at 36.6%. Management noted that coal utilization at Ashaka rose to ~85% (vs. ~60% in Q2 14), while biofuel usage at WAPCO's Sagamu plant doubled from mid teens in 2014.
- Q2 15 operating expense rose 8.8% YoY to ₦5.9 billion—lagging growth in top-line, as the business' partnerships with key distributors and utilization of more efficient trucks continue to underpin greater distribution efficiency. Consequently, EBIT jumped 18% YoY to ₦16 billion with related margins at 26.8% (vs. 24.8 in Q2 14).
- Lafarge also reported net finance income of ₦2 billion in Q2 15 (vs. net finance cost of ₦45 million in the corresponding quarter of 2014), driven by the sharp rise in finance income to ₦3 billion (+246% YoY) relative to the 8% contraction in finance charges to ₦888 million. Whilst the surge in the former partly reflects the 26% YoY jump in average cash and cash equivalent to ₦9 billion which management attributed to working capital improvements, the latter tracks the 12% decline in average noncurrent financial liabilities to ₦4 billion. In addition, management also noted that the business enjoyed lower average interest cost of ~7% in the period.

### ***Share of gain from UNICEM bolsters benign earnings performance***

- Furthermore, the company reported a surprise ₦2.6 billion share of gain from UNICEM in which it currently holds 42.5% stake following the latter's strong top-line performance that offset its (still) high finance charges (Q2 15: ₦2.2 billion) that hitherto stoked losses in prior two quarters. According to management, the top-line growth was on the back of strong demand for cement in the South East with UNICEM posting capacity utilization in excess of 90% during the period (vs. ~80% in 2014).
  - In all, strong gross margin performance and unexpected gain from UNICEM drove Q2 15 PBT 54% higher YoY to ₦20 billion, with lower effective tax rate of 15.6% (vs. 18.3% in Q2: 2014) nudging PAT 60% higher YoY to ₦18 billion. PBT margin
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expanded 10.3pps YoY to 35% while PAT margin expanded 9.3pps YoY to 29.5% respectively.

***Tempered competitive environment underpins improved outlook***

- Going forward, we expect Nigerian volume growth to remain subdued due to the relatively harsher macro environment in 2015 that have pressured construction spending. Nonetheless, we expect top-line growth to persist as higher cement price continues to support weaker volume growth in Nigeria. At the South African end, despite ~7% slowdown in volume for LSAH in the period, we view South African government's recent moves against dumping of cement from Pakistan as a signpost for some turnaround performance for the remainder of 2015. Specifically, in mid May, South Africa introduced a provisional anti-dumping duty ranging between 14.3 – 77.2% on cement imports from Pakistan (~14% of South African market). The duty, which is expected to last for 6 months, eases competition and should ultimately support volume growth for domestic players—including LSAH. On other fronts, traction in use of alternative fuels in Ashaka and Sagamu should continue to tame input cost pressures in the coming quarters. Furthermore, we expect earnings from UNICEM to remain strong as the recent restriction of FX sales to cement importers—who primarily play in the same market—sustains top-line performance.
  - Lafarge trades at 2015E EV/EBITDA and P/E of 8.3x and 10.93x relative to 9.8x and 16.97x for Bloomberg EMEA peers. We had a FVE of ~~₦~~82.47 for the stock as at our last communication. Our model is however under review.
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## 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 reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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