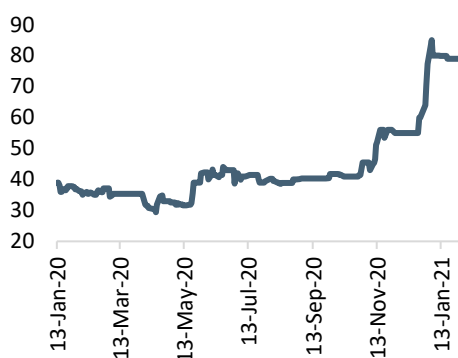




Price	₦79.00
52-week range	₦27.65 - ₦85.00
Market Cap. (₦'bn)	2,675
1-month Avg. Vol	1,819,932
Curr. PE	37.98x

BUA.NL - Share Price Trend



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BUA Cement Plc (BUACEMENT)

Initial View

Performance remains resilient

- Last week Friday, the Management of BUA Cement published its unaudited FY 2020 numbers which showed a 19.37% YoY and 16.35% YoY growth in PBT and PAT to ₦79.07 billion and ₦70.52 billion, respectively. This was largely supported by growth in topline (+19.35% YoY), marginal decline in operating expenses (-0.82% YoY) and lower financing charges (-33.77% YoY) over the period.
- We suspect the growth in FY 20 Revenue (+19.35% YoY) was volume driven following the 141bps YoY contraction in gross margin to 45.56% while gross profit increased by 15.76% YoY to ₦95.43 billion. We observed faster increases in cost of sales (+22.53% YoY to ₦114.04 billion) relative to the growth in revenue mostly due to the 29% YoY increase in energy cost. We believe this is reflective of the impact of the devaluation of the Naira in the official window from ₦306/\$ at the start of the year to ₦379/\$ by year-end, which put upward price pressures on dollar-linked gas contracts.
- BUA Cement continues to remain operationally efficient, with FY 2020 Opex/sales ratio printing at 10.59%, 215bps lower than 2019 levels. In absolute terms, OPEX declined marginally by 0.82% YoY to ₦22.18 billion, supported by the 9.93% YoY decline in administrative expenses which more than offset the 7.27% YoY rise in selling and distribution expenses. The rise in selling and distribution expenses was driven by higher distribution cost (+5% YoY to ₦11.79 billion) which may be attributable to higher PMS prices following the partial liberalisation of the downstream sector.
- Furthermore, net finance cost declined by 33.77% YoY to ₦3.44 billion supported by an increase in finance income (+232.01% YoY to ₦521 million), and a decline in finance cost (-25.97% YoY to ₦3.96 billion) despite significant increase in its borrowings (+56.96% YoY). Meanwhile, proceeds from bond issuance and increase in bank borrowings continue to support improvement in BUA's cash balances.
- On a Q4 2020 standalone basis, BUA Cement Plc's revenue rose by 14.83% YoY to ₦52.92 billion, faster than the 9.16% YoY increases in cost of sales over the same period to ₦29.22 billion. Accordingly, gross profit and gross margins expanded by 22.68% YoY and 287bps YoY respectively. The growth in topline coupled with a 685bps YoY moderation in Opex/sales and 61.63% YoY decline in net finance cost underpinned the growth in Q4 2020 PBT (+22.01% YoY to ₦19.58 billion). However, PAT over the same period declined by

2.34% YoY to ₦16.95 billion, following a tax charge of ₦2.63 billion in Q4 2020 (vs a tax credit of ₦1.31 billion in Q4 2019).

- Bearing in mind that the FY 2020 numbers are unaudited, we await the release of BUA Cement FY 2020 audited numbers to review our recommendation on the company. Our last communicated FVE was ₦31.18, which still implies a SELL rating on the stock based on the current market price of ₦79.

Summary of Results and Forecasts

₦million	FY2020	FY2019	YoY (pps)	Q4 20	Q4 19	YoY
Revenue	209,474	175,518	19.35%	52,924	46,089	14.83%
Cost of sales	114,042	93,075	22.53%	29,222	26,769	9.16%
Gross profit	95,433	82,443	15.76%	23,703	19,320	22.68%
OPEX	22,178	22,361	-0.82%	5,464	7,918	-30.99%
Operating Profit	82,505	71,428	15.51%	20,148	17,523	14.98%
Net interest expenses	3,439	5,192	-33.77%	565	1,473	-61.63%
PBT	79,066	66,236	19.37%	19,583	16,050	22.01%
PAT	70,518	60,610	16.35%	16,951	17,357	-2.34%
₦million	FY2020	FY 2019	YoY (pps)			
Fixed Assets	527,833	393,406	34.17%			
Inventories	28,455	27,202	4.61%			
Receivables	15,182	2,619	479.69%			
Liabilities						
Payables	65,942	69,211	-4.72%			
Non-current Liabilities	213,477	10,401	1952.67%			
Total Liabilities	419,724	106,869	292.75%			
Shareholders' Fund	374,129	363,697	2.87%			
Key Ratios	FY2020	FY2019	change (pps)	Q4 20	Q4 19	YoY
Gross Margin	45.56%	46.97%	-1.41%	44.79%	41.92%	2.87%
EBIT Margin	39.39%	40.70%	-1.31%	38.07%	38.02%	0.05%
PBT Margin	37.75%	37.74%	0.01%	37.00%	34.82%	2.18%
PAT Margin	33.66%	34.53%	-0.87%	32.03%	37.66%	-5.63%
EPS	2.08	1.79	16.20%	0.50	0.51	-1.96%

Source: ARM Research *unless otherwise stated

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 real portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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