

Price	₦41.50
52-week range	₦27.65-44.00
Market Cap. (₦'bn)	1,395
1-month Avg. Vol	551,457
Curr. PE	23x

BUA.NL - Share Price Trend



Analyst

Janet Ogunkoya
Janet.ogunkoya@arm.com.ng

BUA Cement Plc. (BUA.NL)

Initial View

Staggering volume growth and tax credits buoy earnings

- Earlier today, BUA debuted the year with an impressive Q1 20 result, with growth in EPS by 26% YoY to ₦0.58. Growth started right from the top line (+25% YoY) and was sealed off with tax credits¹ which pushed faster growth in PAT (+26% YoY) vis a vis PBT growth of 16% YoY. Management is scheduled to hold conference call next week Monday and that should be followed up with the release of our initiation report on BUA. That said, we run through key highlights of the Q1 20 result in this note.
- **A low base in Q1 19, but still impressive utilization rate.** BUA's Q1 20 volume spiked 20% YoY to 1.3MT from 1.1MT last year. Management attributes the growth to the low base from last year, given the new 3MT/a plants did not commence until Q2 19. That said, we still found the utilization rate of 66% quite impressive (FY 19: 56%), given borders remained shut in Q1 20 and chances of export activities in the quarter are slim. The growth in volume, together with a 4% YoY increase in revenue per ton drove the 25% increase in revenue to ₦54 billion.
- **On the cost leg,** BUA recorded a faster growth in COGS by 33% YoY to ₦29 billion which pressured margins 340 bps lower YoY to 45.5%. Besides impact of the increased volumes, there was also an increase in COGS per ton (+11% to ₦22,200) which we believe stemmed from increased energy cost (+3% YoY to ₦8,000/ton). Management attributed this to the increase in gas prices during the quarter, a similar trend we noted among peers. On the other hand, total opex rose 31% YoY to ₦5.8 billion, with opex to sales increasing 50 bps YoY to 10.8%. EBIT margin contracted 320bps to 39%.
- Overall, we view the result as impressive. **However, we noted the company's negative CFO position in the quarter,** which stemmed largely from paid off contract liabilities which is contained in the trade payables. We would seek clarity on this from management. Meanwhile, it is worth stating that **management gave necessary clarification on the treatment of the OBU II asset** which we had

¹ Pioneer tax credit secured on the Kalambaina line 1 and extension on Okpella line 2 in February 2020

flagged earlier. According to management, the OBU asset was already 90% complete as at 2018, with some proportion of the asset sitting in WIP. Hence, the PPE value of ₦393 billion as at FY 19 was inclusive of a transfer from Capital WIP and inclusive of the value of the new plant. BUA currently trades at P/E of 23x, a premium to domestic peer average of 12.5x – DANGCEM (12x) and WAPCO (14x).

Summary of Results

Income statement – (N'million)	Q1 20	Q1 19	YoY growth	FY 19	YoY growth
Volume	1.328	1.107	20%	4.501	53%
Utilization rate	66%	55%		56%	
Price per ton	40.639	38.964	4%	38.995	-4%
Revenue	53,969	43,134	25%	175,518	47%
Cost of sales	29,477	22,081	33%	93,075	58%
Gross profit	24,492	21,052	16%	82,443	38%
OPEX	5,802	4,441	31%	22,361	20%
Operating profit	20,984	18,160	16%	71,428	67%
Net interest expense	(855)	(766)	12%	-5,192	41%
PBT	20,129	17,394	16%	66,236	69%
PAT	19,790	15,682	26%	60,610	-5%
EPS	0.58	0.46	26%	1.79	-5%

Key Ratios	Q1 20	Q1 19	Change(pps)	FY 19	Change(pps)
Gross margin	45.38%	48.81%	-3.43%	46.97%	-3.40%
EBIT margin	38.88%	42.10%	-3.22%	40.70%	4.70%
PBT margin	37.30%	40.33%	-3.03%	37.74%	4.83%
PAT margin	36.67%	36.36%	0.31%	34.53%	-19.30%
Effective tax rate	1.69%	9.84%	-8.15%	8.49%	72.08%

Source: ARM Research

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