

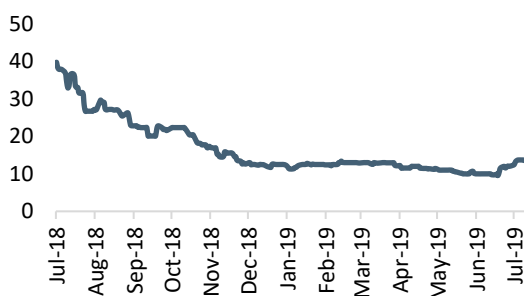
## Lafarge Africa Plc. (WAPCO.NL)

### Initial View

Rating	<b>BUY</b>
Price	₦13.10
FVE ( <i>last communicated</i> )	<b>₦18.07</b>
52-week range (₦)	9.20-31.6
Market Cap. (N'bn)	211,012
1-month Avg. Vol	1,233,866
Curr. PE	N/A

### Positive performance, but weak top line

#### WAPCO.NL - Share Price Trend



#### Analyst(s)

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- Late yesterday, Lafarge Africa Plc (Lafarge) released Q2 19 results, which showed EPS grew to ₦0.36 from loss recorded in Q2 18. This mirrored support from lower operating expense and lower finance costs, but of which supported the flattish top line.
- Revenue was relatively flat at ₦81.8 billion, supported by 1% YoY increase in Nigeria which offset the 2% YoY decline in South Africa (LSAH). On the former, the ₦150/50 kg bag increase in prices in April, made up for the decline in volume (-1% YoY to 1.3 MT). However, group volume expanded 5% YoY to 1.7MT emanating from LSAH (+35% YoY to 397 kt), the impact of which was muted on the topline due to lower prices. Elsewhere, COGS declined 2% YoY to ₦59.2 billion, with savings on cost emanating from lower cost of power (₦3,093 to ₦322/ton) and raw materials (₦7,530 to ₦5,850/ton). The foregoing resulted in gross margin of 27.6% (+191bps YoY).
- Also supporting earnings was the 22% YoY decline in Opex to ₦8.6 billion, owing to lower admin (-22% YoY) and marketing (-21%) expenses. As a result, opex margin contracted 293bps YoY to 10.5% in the quarter, reflecting payoff of SAP module acquired last year. EBITDA margins increased 297bps to 22.4%, mostly reflecting reduced negative contribution from LSAH (to -5.9% from -14.6% in Q2 18), while Nigeria advanced 49bps to 32.2%. The sale of LSAH will be completed in July.
- In addition, finance cost dropped 61% YoY to ₦5.6 billion, following the restructuring of loans in the prior year and paydown of short-term loans using proceeds of the right issue. Thus, together with a 7% YoY increase in finance income, net finance cost printed ₦13.5 billion in Q2 18.
- A culmination of the foregoing resulted in PBT of ₦20.3 billion (Q2 18: ₦3.4 billion), while a tax charge of ₦3.3 billion translated to a PAT of ₦5.9 billion. The lower effective tax rate reflects the pioneer tax credit (H1 19: ₦2.9 billion) on the Mfamosing plant.

- Lafarge currently trades at EV/EBITDA of 7.9x compared to Nigeria and MEA peers of 8.2x and at 16.5x respectively. Our last communicated FVE of **₦18.07** translates to a **BUY** rating on the stock.

## Summary of Results

Income statement – (N'million)	Q2 19	Q2 18	YoY growth	QoQ growth	H1 19	YoY growth
<b>Revenue</b>	<b>81,785</b>	<b>81,649</b>	0%	4%	<b>160,296</b>	-1%
<b>Cost of sales</b>	<b>59,223</b>	<b>60,688</b>	-2%	-2%	<b>119,551</b>	-3%
<b>Gross profit</b>	<b>22,561</b>	<b>20,961</b>	8%	24%	<b>40,745</b>	5%
<b>OPEX</b>	<b>8,585</b>	<b>10,961</b>	-22%	-12%	<b>18,395</b>	-19%
<b>Operating profit</b>	<b>13,962</b>	<b>10,080</b>	39%	66%	<b>22,387</b>	37%
<b>Net interest expense</b>	<b>-4,787</b>	<b>-13,481</b>	-64%	-42%	<b>-13,068</b>	-42%
<b>PBT</b>	<b>20,277</b>	<b>-3,401</b>	696%	16410%	<b>20,400</b>	421%
<b>PAT</b>	<b>16,990</b>	<b>-1,902</b>	993%	440%	<b>20,135</b>	616%

Key Ratios	Q2 19	Q2 18	Change(pps)	H1 19	H1 18	Change(pps)
Gross margin	28%	26%	1.9%	25%	24%	1.4%
EBIT margin	17%	12%	4.7%	14%	10%	3.9%
PBT margin	25%	-4%	29.0%	13%	-4%	16.6%
PAT margin	21%	-2%	23.1%	13%	-2%	15.0%
Effective tax rate	16%	NA	-	1%	NA	-

Source: ARM Research \*unless otherwise stated

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