



Rating	NEUTRAL
Price	₦25.50
FVE	₦27.94
52-week range	₦24.65 – ₦57.35
Market Cap. (₦bn)	221.172
1-month Avg. Vol	58,204
Curr. PE	N/A

Quarterly EPS	Q1	Q2	Q3	Q4
2017 A	0.94	2.67	(2.17)	(4.28)
2018 (E*)	(0.23)	(0.22)	(0.58)*	0.22*

WAPCO.NL - Share Price Trend



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Lafarge Africa Plc. (WAPCO.NL)

Company Update

Loan Restructuring: Silver lining or same old story?

- Lafarge Africa Plc (Lafarge) recently released an explanatory note to shareholders on its planned debt restructuring of its parent company's loan ahead of the extraordinary meeting wherein the company expect to receive approval for its premeditated ₦90 billion rights issue. While the refinancing plan is in line with our view (See report: **Remain Cautious on Near-Term Headwinds**), we had expected the company would use part of the proceeds of the right issue to reduce the parents company loan to ₦89 billion (from ₦149 billion), which will be rolled over with an extended maturity of 7 years. However, details from the explanatory note showed that management intends to restructure the outstanding total facility of \$308 million with an extension of the maturity (7.5 years with two years moratorium) of a total of \$293 million (at a relatively higher cost) and debt to equity conversion of \$22.2 million via the rights issue. Accordingly, we have updated our model to reflect the still elevated debt position and the refinancing premium on the extended facility.
- Going by details of the explanatory note, the restructured loans are being priced at a post moratorium rate of 3-month Libor+6.35% (2-year moratorium rate of 12-month Libor+6.35%), a 64bps premium compared to our earlier estimate of 50bps premium, and higher than the average rate of 3-month Libor+5.71% on the original facility. Accordingly, we have raised our interest expense forecast to reflect the higher borrowing rates and revised our debt position estimate higher to ₦224 billion (prior estimate of ₦171 billion).

- On interest expense, we have adjusted our financing cost over the forecast period for the restructuring premium, which necessitated 20bps average upward revision to our forecast interest rate and have thus raised interest expense for FY 18 to ₦35 billion and associated FX loss of ₦7.4 billion, with overall net finance cost of ₦40.9 billion (previously: ₦39.2 billion). Net adjustment of the revision culminated into a loss after tax of ₦9.5 billion (prior: ₦8.3 billion).

Table 1: Balance of Shareholder Loan Pre and Post 2017 Rights Issue

	\$'million
Debt position to Caricement B.V Pre-2017 Rights Issue	571.2
Debt to Equity Conversion via Rights	(262.0)
Debt Repayment	(82.0)
Post 2017 Rights Debt Position to Caricement B.V.	227.2
As at July 2018	
Caricement B.V.	227.2
Holderfin B.V.	88.0
Total Shareholder Loan	315.2

** Caricement B.V. and Holderfin B.V. are wholly owned subsidiaries of LafargeHolcim*
Source: Company Report, ARM Research

Rights Issue, still financing short term obligations

- With the company's loan with its parent conveniently aligned via restructuring, the management is now seeking approval from shareholders for a ₦90 billion rights issue. In one part, ₦40 billion of the proceeds of the issue will be used to finance short term obligation with First Bank (FBN) and ₦20 billion will be used to refinance the company's CP programme (with ₦10 billion already issued, management guided to additional ₦10 billion before the end of the year with maturity of both series matching the conclusion of the rights issue). On another part, the companies short term obligation of \$22.2 million (₦7.9 billion) to Caricement BV. will be converted into equity via the rights issue. On the debt to equity conversion, we still find it ridiculous that the company will still drawdown another \$20 million from Caricement BV to bridge working capital requirements. Accordingly, we estimate net proceed from right issue of ₦21.6 billion. With the first tranche (₦26.4 billion) of the ₦60 billion bond issued in 2016 due for maturity in Q1 2019, we expect the company to issue additional ₦10 billion CP which combined with excess of the proceeds from the rights issue should be sufficient to cover the repayment. On balance, post rights issue, we

expect the parent company's loans to remain much of the same at \$313 million (current: \$315 million), albeit with a longer maturity profile.

- Beyond 2018, we expect the impact of the rights issue to have more telling impact as the company refinance its expensive short-term borrowings, especially its obligation to FBN and part of the corporate bond – priced at 17% and 17.2% respectively – with cheaper financing. Coalescing this with our expectation of lower borrowings over our forecast period, save for short term working capital needs, we expect average debt position of ₦163 billion over our forecast period and thus forecast a gradual moderation in financing cost. Specifically, in 2019, we expect a 38.5% YoY decline in net finance expense to ₦24.9 billion (prior: ₦26.8 billion). Accordingly, we have raised our FY 19 PAT estimate higher to ₦13.3 billion (prior: ₦11.4 billion).

Table 2: Terms of Original Intercompany Loan

Lender	Amount (\$'m)	Interest Rate	Maturity
Holderfin BV	88.0	3 Month Libor + 5.71%	26 September, 2018
Caricement BV	227.2	6 Month Libor + 5.71%	28 November, 2018

Source: Company Report, ARM Research

- On impact of the rights issue, using our revised FVE of ₦27.94 based on the above adjustments to debt stock and interest expense, we expect additional shares of 3.2 billion, which will catapult overall share outstanding to 11.9 billion. Accordingly, we expect circa ₦0.61 average EPS dilution over our forecast period which necessitated our post rights FVE of ₦20.38. With the recent adjustment to our model unlocking additional ₦4.29 for our FVE to **₦27.94**, we now have a **NEUTRAL** (prior: SELL) rating on the company at current price of ₦25.50. Lafarge trades at 2018 EV/EBITDA of 7.6x which compared to Bloomberg EMEA peers of 13.4x.

Summary of Results and Forecasts

ANNUAL					
Income Statement (₹'m) *	2016A	2017A	2018F	2019F	2020F
Revenue	219,714	299,153	329,230	342,366	362,051
COGS	179,052	248,394	253,507	258,285	274,265
Gross Profit	40,662	50,759	75,723	84,080	87,786
Operating Cost	29,138	46,944	50,909	48,209	52,457
Operating Profit	12,440	7,885	27,739	39,722	38,974
Finance Income	3,675	1,439	2,096	2,096	5,027
Finance expense	3,675	29,741	35,617	25,314	21,581
PBT	-22,819	-34,033	-13,149	14,802	22,905
Tax	-39,717	569	-3,682	1,480	2,290
PAT	16,899	-34,602	-9,467	13,322	20,614
Balance Sheet (₹ 'm) *					
Fixed Assets	390,241	393,652	380,474	379,532	380,469
Stocks	44,981	58,266	53,373	56,516	62,747
Trade debtors	9,766	25,110	24,055	24,761	24,780
Cash & other bank balances	19,441	50,414	75,264	39,399	40,232
Total Assets	501,373	577,727	586,152	559,779	575,482
Trade Creditors	114,457	113,000	119,778	128,042	141,410
Non-current Liabilities	75,758	80,085	156,473	155,196	158,336
Total liabilities	252,422	420,740	363,967	331,025	338,016
Shareholders' fund	248,953	156,987	253,556	257,974	265,473
Key Ratios	2016A	2017A	2018F	2019F	2020F
P/E	12.6	-11.3	-25.6	18.2	11.8
EV/EBITDA	11.3	20.8	7.8	6.4	6.2
ROA	3.5%	-6.4%	-1.6%	2.3%	3.6%
ROE	8.0%	-17.0%	-4.6%	5.2%	7.9%
Net Margins	7.7%	-11.6%	-2.9%	3.9%	5.7%
EPS	3.1	-4.0	-1.1	1.5	2.4
EBIT margins	5.7%	2.6%	8.4%	11.6%	10.8%
PBT margins	-10.4%	-11.4%	-4.0%	4.3%	6.3%
Effective Tax rates	174.1%	-1.7%	28.0%	10.0%	10.0%
Debt to Equity	51.3%	183.2%	88.4%	68.6%	62.1%
Debt to Assets	25.5%	49.8%	38.2%	31.6%	28.7%
Interest coverage	3.4	0.3	0.8	1.6	1.8
BVPS	45.4	28.2	45.5	29.7	30.6

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 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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