



Stock Update: SE market growth confers revenue resilience

Recommendation: (₦97.31 - NEUTRAL)**SE market growth confers revenue resilience**

- Following sustained output growth in Nigeria and tempered competitive environment in South Africa over H1 15, we review our 2015 volume growth estimates for Lafarge Africa Plc (Lafarge) to 1% YoY (vs. -5% YoY previously), corresponding to production volume of 6.78MT for FY 15. On the Nigerian front, we expect strong volume growth in the South Western operation (WAPCO) over H1 15 (+11% YoY to ~ 2MT) to taper in the second half of the year owing to hard-faced macroeconomic milieu and a relatively more competitive regional market. Tracking back, we recall our initial surmise on Lafarge's encroachment into Dangcem's market share in H1 15 as a key underpinning for the former's H1 15 volume growth in the declining market environment owing to logistic challenges in the latter (Dangcem). We however note that Dangcem's recent price slash and acquisition of 2000 distribution trucks may have slightly altered the competitive picture. In view of this, we now expect a more tempered 5% YoY output growth in H2 15 to 1.92MT – implying 6% YoY growth in our FY 15 volume estimate to 3.92MT for WAPCO. Importantly, we expect strong demand growth for local cement in South East (SE) Nigeria, following CBN's ban of interbank FX sales to cement importers, to provide some support for YoY volume growth over the rest of the year.

Income Statement Data

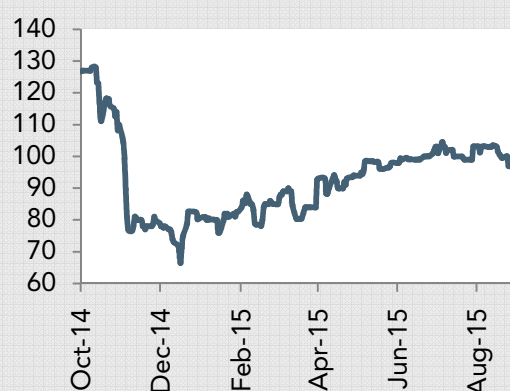
	2015 – 6M'm	2014 – 6M'm	%chg
Revenue	116,709	104,157	12.0%
PBT	29,721	25,845	15.0%
Tax	3,512	4,337	-19.0%
PAT	26,209	21,507	22.0%

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%

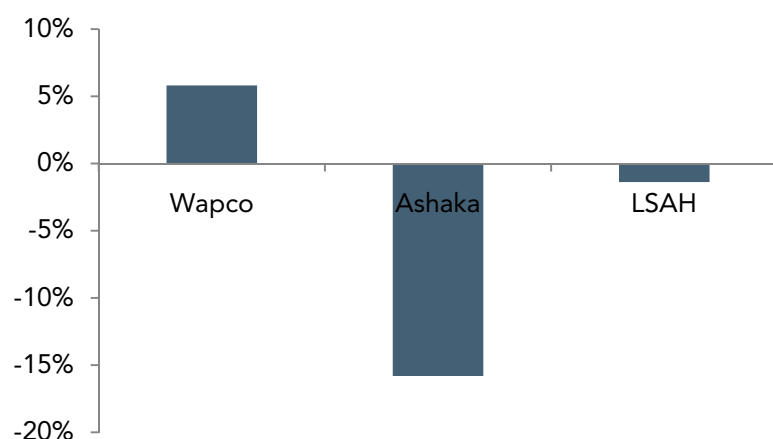
Stock Data

Price	₦97.00
52 week range	₦66.50 – ₦131.32
Market Cap. (N'B)	441.825
1-month Avg. Vol	229,979
Curr. PE	11.08x
Bloomberg Ticker	WAPCO:NL
Reuters Ticker	WAPCO.LG

Lafarge Africa Plc- Share Price Trend**Analyst(s)****Philip Anegebe**philip.anegebe@arm.com.ng

This expectation is corroborated by management's recent report of transporting cement from WAPCO to South East market in H1 15, as UNICEM struggled to cope with the surge in demand. Nonetheless, expected lower FY 15 volumes (-16% lower YoY at 594KT) for North Eastern operation (Ashaka), after an ~20% YoY volume contraction in H1 15 should moderate overall Nigerian cement volume growth to 2% YoY at 4.51MT. Away from Nigeria, we expect some volume rebound in South Africa over H2 15, leaving output only 1% lower YoY at 2.27MT in our FY 15 estimates (vs. 2.23MT previously expected). Importantly, our "tapered pessimism" over FY 15 LSAH volume story is underpinned by the recent clampdown on cement dumping activities of Pakistani companies (~14% of South African market) which we expect to cushion market competition in the country.

Figure 1: FY 15 volume growth forecast

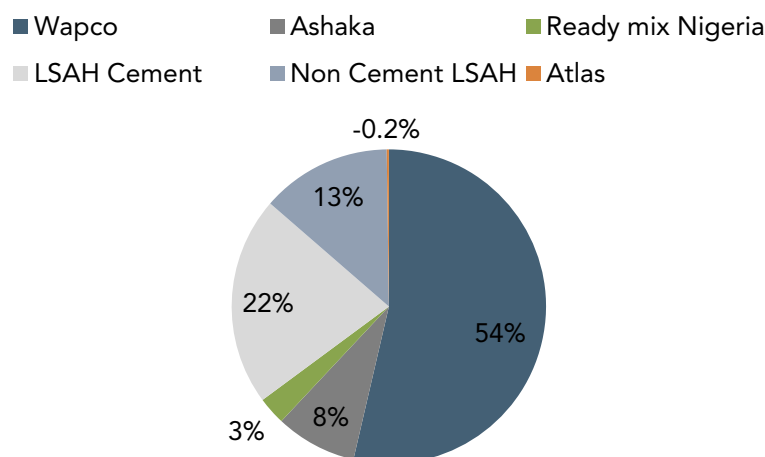


Source: ARM Research

- On the price front, we expect Lafarge to respond to recent price slash by industry leader—Dangcem, by reducing current prices ~18% and ~11% to ₦26,868 and ₦29,323 per ton at WAPCO and Ashaka in a bid to retain market share. This implies weighted FY 15 prices of ₦30,800 and ₦31,739 for the respective Nigerian operations (WAPCO and Ashaka) based on our estimates. In South Africa, we see prices staying largely flat YoY at around ₦21,348 over the rest of the year. Thus, whilst Nigerian cement revenues—propelled by higher YoY volumes and prices— is expected to rise 10% YoY to ₦139billion, LSAH cement revenues should come in 1% lower YoY at ₦48billion for FY 15 in line with volume declines. Overall, our volume and price

adjustments translate to 10.3% northward movement in our forecast group revenues for FY 15 to ₦224billion.

Figure 2: Expected contribution to revenue by business 2015E



Source: ARM Research

- In line with volume growth expectation, we have raised our target cost of sales 6% higher YoY at ₦145billion (vs. -9% YoY to ₦124billion in previous communication). We note that the tamer rise in cost of sales, relative to growth in revenues, reflects the company's coal for LPFO substitution at the Ashaka plant as well as increasing usage of biofuel at Saganmu. Consequently, we now expect FY 2015 gross margins of 35%, 2pps higher than previous.

...and UNICEM's top-line firms up

- Largely underpinning the business' partnerships with key distributors and utilization of more efficient trucks, we expect OPEX to remain subdued for the remainder of 2015 (-2% YoY at ₦22billion). On other fronts, significant rise in finance income owing to a sustained tempo of cash generation (+28% YoY to ₦18billion over H1 15) should offset rise in finance charges in the near term, leaving net finance income at ~₦3billion for FY 15. Furthermore, we expect contributions from UNICEM to remain strong for the rest of the year, as strong top-line growth and better fuel mix offsets high finance charges. Overall, we expect FY 2015 EPS of ₦11.36 (vs. ₦9.27 in previous communication) with earnings growth of ~13% over our forecast horizon (2015-2019).

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- Net revision drives our FVE ~18% higher to ~~€~~97.31 vs. current trading price of ~~€~~97. Lafarge trades at 2015E EV/EBITDA and P/E of 7.0x and 8.5x relative to 8.83x and 12.1x for Bloomberg EMEA peers. Thus, we upgrade our recommendation to **NEUTRAL** from a SELL in previous communications.
 - We arrived at our FVE using a combination of cash flow (FCF and DDM) and relative valuation methods (EV/EBITDA), applying weights of 35%, 35% and 30% respectively. Our underlying assumption for the FCFF and DDM methods are a Beta of 0.95, an equity risk premium of 5%, WACC of 18.1%, and cost of equity of 19.3%.
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Summary of forecasts

QUARTERLY					
Income Statement ('bln)	Q1 2015A	Q2 2015A	Q3 2015E	Q4 2015E	
Turnover	57	60	54	53	
COGS	39	38	35	34	
Gross Profit	18	22	19	20	
Operating Costs	7	6	5	4	
Operating Profit	11	16	13	15	
Net Finance costs	0	0	2	-1	
Profit Before Taxation	9	21	15	17	
Taxation	0	3	2	4	
Profit After Taxation	9	18	12	13	
Income Statement ('B)	2014A	2015E	2016E	2017E	2018E
Revenue	206	224	223	253	272
COGS	137	145	145	162	171
Gross Profit	68	78	78	91	101
Operating Cost	23	22	22	28	30
Operating Profit	44	56	56	64	71
Finance Income	3	6	4	5	8
Finance expense	4	3	3	3	3
PBT	41	62	60	70	82
Tax	7	10	10	11	13
PAT	35	52	50	59	69
Balance Sheet ('B)					
Assets	2014A	2015E	2016E	2017E	2018E
Fixed Assets	209	210	211	213	215
Stocks	24	20	20	24	29
Trade debtors	17	18	20	23	24
Cash and other bank balances	14	57	86	137	179
Total Assets	306	346	378	437	489
Liabilities					
Trade Creditors	51	64	62	79	82
Non-current Liabilities	55	53	60	69	80
Total liabilities	114	127	132	159	173
Shareholders' fund	192	219	246	278	316
Key Ratios	2014A	2015E	2016E	2017E	2018E
P/E	12.32	8.54	8.84	7.47	6.41
EV/EBITDA	9.68	7.03	6.56	5.09	4.07
ROA	11%	16%	14%	15%	15%
ROE	19%	25%	21%	23%	23%
Net Margins	17%	23%	22%	23%	25%
EPS	7.87	11.36	10.97	12.99	15.14

Source: Company financials, ARM Estimates

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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