

## Lafarge Africa Plc. (WAPCO.NL)

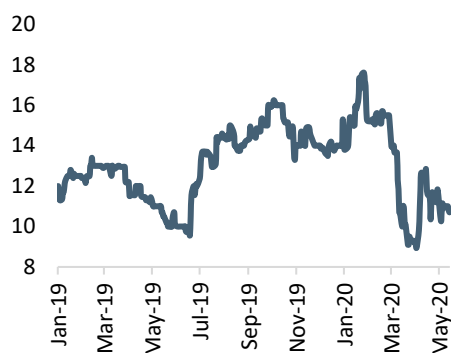
Rating	<b>BUY</b>
Price	₦10.70
FVE	<b>₦19.65</b>
52-week range	₦8.95 - ₦17.60
Market Cap. (₦bn)	172.35
1-month Avg. Vol	4,530,368
Curr. 12M T. PE	9.97

### Stock report

#### An impressive turnout

Lafarge Africa released its Q1 20 numbers on Friday which showed an impressive growth in top and bottom line by 10% and 28% to ₦64 billion and ₦8 billion, respectively. This came in much stronger than we expected, owing to outpaced growth in revenue and much lower finance cost than we estimated. However, we resist the urge to make any early upward revision to our revenue expectations, given the slight cloudiness of COVID-19 impact on revenues in the year. Thus, we left 2020E revenue unchanged. However, we revised 2020E finance cost lower, given the impact of early repayment of part of the CBN Power Fund loan (₦5.3 billion at 9%) in the quarter which drove the steep decline in finance cost in Q1 20. Thus, we revised our 2020E interest rate lower to 19% from 23%. To mention, we left the debt book forecast unchanged for the year, as we think the debt could be refinanced with a less costly debt, given the slight pressure we noticed in the company's working capital over Q1, and even more so amid pressures in COVID -19. Thus, our 2020E EPS has been revised upward to ₦0.92/s from ₦0.74 (2018: ₦0.96). However, there was little impact to our FVE which was revised upward to **₦19.65** from ₦19.41.

#### WAPCO.NL - Share Price Trend



#### Analyst

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- **The growth in revenue stemmed from a stern 8% YoY growth in volume** to 1.4MT, while revenue/ton was up slightly higher by 2% YoY. The volume growth was impressive, in our view, as this translated to a 55% capacity utilization rate—marking the highest on our available records far back as Q4 16. However, our excitement was somewhat short-lived, as pressure on energy cost (especially gas) drove COGS up faster by 14% YoY. For context, COGS per tonne increased by 5% YoY to ₦32,240 while energy cost per ton rose 41% to ₦7,420. We believe this was due to the naira depreciation which drove cost on the already highly priced gas contracts on the Mfamosing line higher. Management has reiterated commitment to renegotiate terms of the existing contract. The increased cost led to a plunge in gross margins by 270bps YoY to 28%.
- **Early loan repayment drives finance cost lower than we anticipated:** Finance cost also printed lower by 69% YoY, reflecting impact of the dollar shareholder loan which was removed from its books as consideration for sale of the South Africa business last year. There was also an early repayment of the 9% CBN Power Fund in the quarter (February) which drove finance cost and interest rate lower than we expected, with the average interest rate for the quarter of 17% printing lower than FY 19 average of 31%. However, we noted some pressure in the working capital (WC) which we think could necessitate an increase in leverage. We traced the pressure on the WC to increases in inventory and prepayments as wells as payoff of payables.

This resulted in a lower operational cashflow, which together with increased capex, drove the company's FCF/s lower to ₦0.11 in the quarter, compared to ₦1.55 in Q1 19.

- Overall, Lafarge reported PBT and PAT growth of 105% and 28% YoY, despite recording a tax charge of ₦1.4 billion (ETR: 14%) as against tax credit last year. The ETR continues to reflect impact of the pioneer tax credit on the Mfamosing line which ends this year, except an extension is approved.
- We view the result as positive and will continue to monitor developments in Lafarge. As stated earlier, we have left our revenue for 2020E unchanged, amid uncertainties on impact of COVID-19, while our finance cost estimate was revised lower from ₦14 billion to ₦12 billion. Thus, our 2020E EPS has been revised upward to ₦0.92/s from ₦0.74. This translates to a forward P/E of 11.6x which is a discount to DANGCEM's 15x. While improved, the company's ROE of 4.3% (vs DANGCEM's 22%) continues to justify the discounted P/E. Our FVE on WAPCO has been revised higher to ₦19.65 from ₦19.41.

## Summary of Result

Income statement – (N'million)	Q1 20	Q1 19	YoY growth	QoQ growth
Volume ('Mt)	1,429	1,322	8%	-46%
Price (N'000/ton)	44.574	43.885	2%	13%
Revenue	63,696	58,016	10%	28%
Cost of sales	46,069	40,423	14%	2%
Gross profit	17,627	17,593	0%	277%
OPEX	5,912	6,166	-4%	-7%
Operating profit	11,840	11,522	3%	2182%
Net interest expense	-2,457	-6,934	-65%	52%
PBT	9,382	4,588	105%	518%
PAT	8,067	6,302	28%	260%

Key Ratios	Q1 20	Q1 19	YoY Change(pps)	QoQ Change(pps)
Gross margin	27.67%	30.32%	-2.65%	18.30%
EBIT margin	18.59%	19.86%	-1.27%	19.73%
PBT margin	14.73%	19.86%	6.82%	19.23%
PAT margin	12.66%	10.86%	1.80%	22.79%
Effective tax rate	14.02%	NA	NA	-139.02%

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