



Rating	BUY
Price	₦21.00
FVE (<i>last communicated</i>)	₦29.96
52-week range	₦20.70 – ₦57.35
Market Cap. (N'bn)	182
1-month Avg. Vol	594,299
Curr. PE	N/A

WAPCO.NL - Share Price Trend



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Lafarge Africa Plc. (WAPCO.NL)

Initial View

Still in a loss position

- Today, Lafarge Africa Plc (Lafarge) released its Q3 2018 result, reporting a loss after tax of ₦6.5 billion albeit, lower than ₦18.8 billion in 9M 17. Cumulative for the nine-month period, the company reported a loss after tax of ₦10.4 billion (vs. 9M 17 PAT of ₦937.9 million). Broadly, the reported loss in the period was due to sizeable finance expense of ₦10.8 billion (-34.8% YoY) which offset gross margin expansion of 423bps YoY to 23.8% and a 34bps moderation in operating expense to sales.
- Over the third quarter, the group's sales increased by 4.6% YoY to ₦72.0 billion, supported by the Nigeria division with revenue printing at ₦49 billion (+10% YoY). Revenue growth in Nigeria was driven by volume (+17.4% YoY), offsetting a 5.6% decline in cement prices. Elsewhere in South Africa, revenue declined 5% to ₦23.3 billion, due to lower volumes as prices were higher by 15% YoY. Overall, by products, the group's revenue was supported by a 6.7% YoY increase in cement sales to ₦56.3 billion which offset the decline in aggregates (-2% to 14.3 billion) and Ad mixtures (-4.4% to ₦1.4 billion).
- Elsewhere, input cost pressure moderated over Q3 18 with cost to sales at 76.2% (Q3 17: 80.4%). The moderation in input costs stemmed from lower fixed costs (-40.8% YoY to ₦5.1 billion), maintenance (-38.3% YoY to ₦3.4 billion) and general expenses (-54% to ₦3.9 billion) which combined offset a 40.4% YoY increase in variable cost to ₦36 billion. The increase in variable cost was the result of higher energy cost (+13.9% YoY to ₦10.8 billion) and raw materials (+97.1% YoY to ₦12.4 billion). As a result, gross profit

expanded by 27.3% YoY to ₦17.1 billion with related margin printing at 23.8% (+423bps).

- Still benefitting from improved efficiency and cost management, particularly from its South Africa operation, operating expense to sales moderated 30bps YoY to 19.9% which combined with higher gross profit translated to an operating profit of ₦2.8 billion (operating loss of ₦462 million in Q3 17).
- However, operating profit gains were eroded by finance expenses, with the net finance cost printing at ₦10.8 billion although, lower than ₦16.7 billion in Q3 17. The improvement in net finance cost stemmed from a 73% decline in FX losses to ₦2.5 billion in the review period. Consequently, the company reported a loss before tax of ₦8.0 billion. Further down, the company reported a deferred tax credit of ₦1.5 billion borne from temporary tax differences which reduced the loss to ₦6.5 billion.
- WAPCO trades at an EV/EBITDA of 7.4x compared to Bloomberg Middle and East Africa Peers at 12.9x. Our last communicated FVE of ₦29.96 translates to a BUY rating on the stock. Our model is under review.



Summary of Results

Income statement – (N'million)	Q3 18	YoY growth	QoQ growth	Deviation from forecast	FY 17	FY 16
Revenue	72,009	4.6%	-12%	9.7%	299,153	219,714
Cost of sales	54,876	-0.9%	-10%	10.9%	248,394	179,052
Gross profit	17,133	27.3%	-18%	6.1%	50,759	40,662
OPEX	14,355	117%	31%	-3.3%	46,944	29,138
Operating profit	2,795	2.9%	-72%	53.5%	7,885	12,440
Net interest expense	-10,799	-35.0%	-20%	-9.1%	-41,778	-35,246
PBT	-8,015	-53.0%	136%	-31.1%	-34,033	-22,819
PAT	-6,471	-65.6%	240%	-22.0%	-34,602	16,899

Key Ratios	Q3 18	Q3 17	Change(pps)	FY 17	FY 16	Change(pps)
Gross margin	23.8%	19.60%	4.19%	16.97%	18.51%	-1.54%
EBIT margin	3.88%	NA	NA	2.64%	5.66%	-3.03%
PBT margin	NA	NA	NA	-11.38%	-10.39%	-0.99%
PAT margin	NA	NA	NA	-11.57%	7.69%	-19.26%
Effective tax rate	-19.30%	NA	NA	-1.67%	174.06%	-175.73%

Source: ARM Research *unless otherwise stated

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