

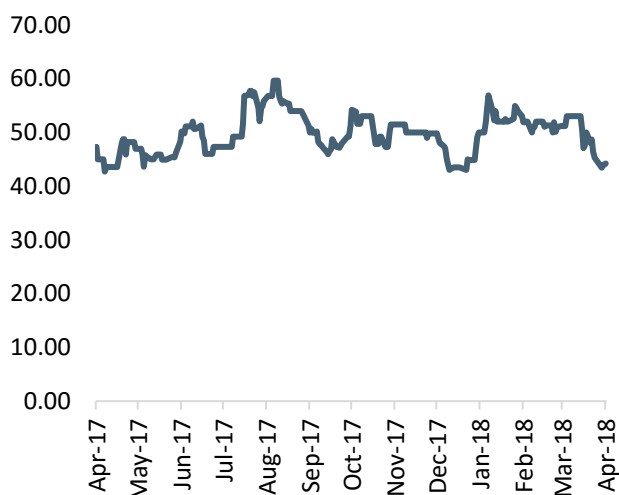
Lafarge Africa Plc. (WAPCO.NL)

Initial View

Rating	NEUTRAL
Price	₦41.05
FVE (<i>last communicated</i>)	₦48.45
52-week range	₦39.90 – ₦63.40
Market Cap. (N'bn)	228
1-month Avg. Vol	1,142,988
Curr. PE	N/A

Quarterly EPS	Q1	Q2	Q3	Q4
2015 A	1.16	3.93	1.07	N/A
2016 A	N/A	N/A	N/A	9.94
2017 A	0.94	2.67	N/A	N/A

WAPCO.NL - Share Price Trend



Analyst(s)

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Surprise impairment loss dashed revenue growth.

- Lafarge Africa Plc (Lafarge) released its full year 2017 audited results wherein it reported a loss after tax of ₦34.6 billion (vs. profit of ₦16.9 billion in FY 16) driven by sizeable increases in cost of sales (+38.7% YoY to ₦248.4 billion), operating expenses (+61.1% YoY) and a foreign exchange loss on borrowings of ₦13.5 billion – which pushed net finance cost higher by 18.5% YoY to ₦41.8 billion. Over Q4 17, Lafarge reported a shock before-tax loss of ₦35.4 billion (vs. ₦17.5 billion profit in Q4 16) which more than doubled the loss in Q3 17 of ₦17.1 billion. Despite loss recorded for the year, management proposed a dividend of 150 kobo for the year (2016: 105 kobo) which implies a dividend yield of 3.4% using price as at last close.
- Over Q4, the company's topline performance received a boost from both Nigeria and South African operations. Going by breakdown, South African topline recorded a huge lift by 95% YoY to ₦26.6 billion while the Nigerian operation grew slightly by 8.6% YoY to ₦48.9 billion. Overall, the group's revenue jumped 28.7% YoY to ₦75.5 billion with its cement (+19.6% to ₦58.8 billion) and aggregates (+72.3% to ₦15.1 billion) divisions remaining the key driver of overall revenue.
- Elsewhere, over Q4 17 Lafarge reported its highest Cost of Goods Sold (COGS) as it rose 128.8% YoY to ₦82.6 billion driven by a combination of higher variable costs (+35% to ₦35.4 billion), production costs (+28.5% to ₦6.8 billion) and maintenance costs (+61.2% to ₦4.0 billion).

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- On variable cost, while management had guided to greater use of alternative energy across Ewekoro I and II as well as in Ashaka, fuel and power cost was up by 76.8% YoY to ₦12.6 billion with a combined contribution of 35.6% (versus 27.2% in Q4 16) to total variable costs. Furthermore, going by provided breakdown on COGS, management reported an impairment loss on PPE of ₦19.2 billion in Q4 17 associated with a ₦12.4 billion full impairment charge on the construction of Mfamosing evacuation road at UNICEM Calabar with the balance impairment charge (₦3.3 billion) on its Kiln Preheater project in AshakaCem. Accordingly, the company reported negative gross profit of ₦7.2 billion. Notably, excluding the impairment charge, the company would have reported a gross profit of ₦12 billion (-46% YoY from prior year) with related margin at 15% (versus 38% in Q4 16).
 - Further magnifying the loss over Q4 17 was the combination of higher operating expense (+22.2% YoY to ₦12.9 billion) and surge in net finance cost (+617.7% YoY to ₦31.8 billion). On OPEX, the largest pressure point remained admin expense (+15.85 YoY to ₦12.2 billion), a development which may be tied to the ongoing restructuring of its operations, Enterprise Resource Planning (ERP) implementation as well as system stabilization project & inventory write-offs in South Africa. Accordingly, the company's operating loss increased to ₦20 billion (versus ₦15 billion operating profit in Q4 16).
 - Over Q4 17, the company recorded an additional ₦3.5 billion (versus ₦9.3 billion in Q3 17) in foreign exchange losses arising from the translation of dollar denominated loans borrowed by UNICEM, foreign vendor transactions and intercompany transactions. In a related development, the rise in debt levels (more than doubled YoY to ₦256.5 billion over FY 17) cascaded to strong pressures at the net finance cost level (over two-fold higher YoY to ₦10.6 billion) in Q4 17. With the concoction of the aforementioned pressures, the company reported a before tax loss of ₦44.7 billion (versus ₦17.5 billion profit in Q4 16).
 - WAPCO trades at an EV/EBITDA of 10.2x compared to Bloomberg Middle and East Africa Peers at 10.8x. Our last communicated FVE of ₦48.85 translates to a **NEUTRAL** rating on the stock. Our model is under review.
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Summary of Results

Income statement – (N'million)	Q4 17	YoY growth	QoQ growth	Deviation from forecast	FY 17	FY 16
Revenue	75,484	29%	10%	4%	299,153	219,714
Cost of sales	82,637	129%	49%	69%	248,394	179,052
Gross profit	-7,152	-132%	-153%	-141%	50,759	40,662
OPEX	12,861	22%	-7%	2%	46,944	29,138
Operating profit	-20,013	-266%	5126%	-509%	7,885	12,440
Net interest expense	-21,898	394%	198%	74%	-41,778	-35,246
PBT	-44,742	-355%	162%	-530%	-34,033	-22,819
PAT	-45,157	-183%	140%	-592%	-34,602	16,899

Key Ratios	Q4 17	Q3 16	Change(pps)	FY 17	FY 16	Change(pps)
Gross margin	-9.48%	19.56%	-29.03%	16.97%	18.51%	-1.54%
EBIT margin	-26.51%	-0.56%	-25.96%	2.64%	5.66%	-3.03%
PBT margin	-59.27%	-24.80%	-34.48%	-11.38%	-10.39%	-0.99%
PAT margin	-59.82%	-27.31%	-32.52%	-11.57%	7.69%	-19.26%
Effective tax rate	-0.93%	-10.12%	9.20%	-1.67%	174.06%	-175.73%

Source: ARM Research *unless otherwise stated

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