

## Lafarge Africa Plc. (WAPCO.NL)

Price	₦17.90
52-week range	₦8.95-18.85
Market Cap. (₦bn)	288,330
1-month Avg. Vol	10,852,049
Curr. PE	7.67x

### Stock Report

#### *Input cost pressures moderated growth in EPS*

- Last week Friday, Lafarge Africa posted its Q3'20 scorecard, which showed a 31.4% YoY improvement in topline. However, this was not enough to lift EPS materially (up 3.4% YoY to N0.30) as higher input cost moderated the benefits that could have emanated from the recorded topline performance. For the 9M period, Lafarge's revenue grew faster than the associated cost of sales in the period (Revenue up 10.3% YoY, Cost of Sales up 9.8% YoY). This, combined with better management of operating expenses and significant moderation in net finance cost delivered a 70.3% YoY growth in PBT to ₦34.29bn.**
- Revenue jumps as lockdown measures eases:** Following an initial dip in Lafarge's revenue in Q2'20 (down 5.1% YoY) especially in April, the relaxation of lockdown measures has enabled a restart in construction activities since May 2020, a trend we believed continued in July-September. We believe this may have supported a recovery in Lafarge's revenue in Q3'20 (up 31.4% YoY to ₦59.34bn) as sales of Cement advanced by 32.2% YoY while revenue generated from Aggregates were somewhat flat YoY. On a QoQ basis, revenue grew by 4.4%; quite unusual in the cement space owing to seasonal factors like rainfall, which often leads to postponement in construction activities. We believe the carryover of some construction activities which were due in Q2'20 into Q3'20 accounts for the improvement we saw QoQ.
- Despite the impressive turnout in Q3'20, we saw slower growth in gross profit (up 13.7% YoY) and a 361bps YoY decline in gross margin to 23.4%.** This was on account of faster increases in cost of sales (up 37.9% YoY) as higher energy cost due to the pass-through impact of Naira devaluation as well as inflationary cost pressures fed in. Consequently, Q3'20 EBITDA and PBT margin declined by 826bps YoY and 105bps YoY to 27.3% and 9.3% respectively, with the narrowed gap between EBITDA and PBT margin supported by the continued moderation in finance cost owing to the deleveraging of its balance sheet. Thus, on the back of input cost pressures, Q3'20 EPS grew by 3.4% YoY, significantly lower compared to the strong double-digit growth in revenue in the same period.



**Analyst**  
 Olayemi Olamofe  
[Olayemi.olamofe@arm.com.ng](mailto:Olayemi.olamofe@arm.com.ng)

- Meanwhile, cashflow positions continued to show improvement in 9M'20.** In particular, FCF over 9M'20 improved by 1.6x over 9M'19, driven by a 28.6% YoY jump in net CFO and lower capex spend during the period. Management had stated during its H1'20 conference call that it was going to retain existing capacity, given the

---

sluggish growth in the cement industry in 2020. We also observed improvement in Lafarge's working capital management especially with regards to its inventories and trade receivables. The improvement in FCF supported a 61.3% YoY increase in FCF/share to N3.43 with CFO margin also printing 483bps YoY higher to 34.0%.

- Going forward, we expect the recovery in the economy to continue to support the demand for cement in Q4 20. While this is positive for Lafarge's topline, the recent unrest in the economy, especially in industrial areas, may moderate revenue performance if it escalates further. Despite the continued downtrend in operating and finance cost on a YoY basis, we have notwithstanding revised our FVE downwards to ~~N~~**20.75**, largely due to resurfacing pressures on Lafarge's operating and financing line items on a QoQ basis in Q3 20. While we hope to clarify from management, we note that operating expenses grew by 44.5% QoQ with FX losses and higher bank charges (likely from the increased bank borrowings of c. N1.5bn in Q3'20) putting a 54.3% upward pressure on net finance cost. Thus, we have an **OVERWEIGHT** rating on the stock given that it has an upside potential of 15.9% from current price levels. Lafarge currently trades at a P/E of 12.5x, which trades at a discount to domestic peer average of 15.9x.
-

## Summary of Results

Income statement – (N'million)	Q3 20	Q3 19	YoY growth	QoQ growth	9M 20	9M 19	YoY growth
Revenue	59,337	45,172	31%	4%	179,877	163,057	10%
Cost of sales	45,533	33,031	38%	39%	123,755	112,690	10%
Gross profit	13,804	12,141	14%	-43%	56,123	50,367	11%
OPEX	5,787	5,261	10%	45%	15,832	15,488	2%
Operating profit	8,302	7,746	7%	-61%	41,111	35,538	16%
Net interest expense	-2,768	-3,060	-10%	54%	-6,819	-15,399	-56%
PBT	5,534	4,686	18%	-71%	34,291	20,139	70%
PAT	4,867	4,734	3%	-68%	28,196	20,573	37%
EPS	0.30	0.29			1.75	1.28	

Key Ratios	Q3 20	Q3 19	Change(pps)	9M 20	9M 19	Change(pps)
Gross margin	23.26%	26.88%	-3.61%	31.20%	30.89%	0.31%
EBIT margin	13.99%	17.15%	-3.16%	22.85%	21.80%	1.06%
PBT margin	9.33%	10.37%	-1.05%	19.06%	12.35%	6.71%
PAT margin	8.20%	10.48%	-2.28%	15.68%	12.62%	3.06%
Effective tax rate	-12.05%	1.03%	-13.08%	-17.77%	2.16%	-19.93%
ROE				7.90%	5.96%	1.94%
ROA				5.52%	4.14%	1.38%
CFO margin				34.01%	29.18%	4.83%
FCF/s				3.43	2.12	61.26%
FCF yield				19.14%	14.27%	4.87%

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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% – 20 %	<b>NEUTRAL</b>	5% – 20 %
<b>NEUTRAL</b>	0% – 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% – 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to real portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

---

All rights reserved. Unauthorised use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.

---