

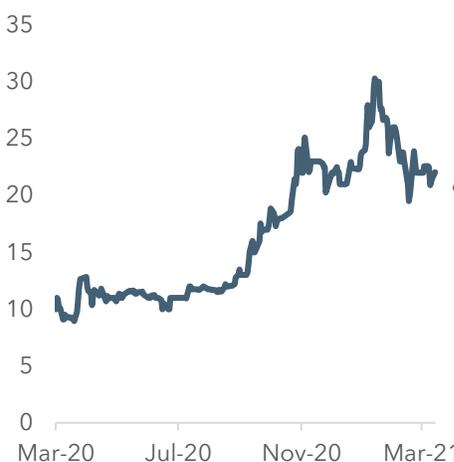
Lafarge Africa Plc

Price	₦22.05
52-week range	N8.95-N31.5
Market Cap. (₦'bn)	355.18
1-month Avg. Vol	2,246,968
Curr. PE	8.52

Stock report

Solid growth in EPS despite covid-19 outbreak

WAPCO.NL - Share Price Trend



Analyst

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- Earlier this week, Lafarge Africa Plc (WAPCO) organised its FY'20 analyst conference call to discuss its 2020 annual numbers. It's recently released FY'20 report showed an advancement in EPS to N1.91, 99% higher than 2019 levels. This was largely supported by higher YoY topline number, sub-inflationary growth in cost and lower net finance cost which combined to support a 110% YoY and 99% YoY improvement in PBT and PAT numbers to N37.57bn and N30.84bn respectively.
- Taking a closer look at the numbers, Lafarge's topline was up by 8% YoY to N230.57bn mostly supported by volume growth of 6% over the period. The larger chunks of the volume growth were realised in Q1 and in Q3 (after the easing of lockdown measures led to an increase in the demand for cement). Similarly, average realized prices increased by 2% with gross profit and gross margin expanding by 20% YoY and 289bps YoY to N67.24bn and 29.16% respectively. Asides from the increase in average realized prices, the slower rise in cost of sales (up 4% YoY) relative to topline also contributed to the improvement in margins in 2020. As such, average cost per tonne came in at N31,510, 2% lower than was obtainable in FY 2019 following the 59.3% YoY decline in distribution fixed cost. Management mentioned it has renegotiated its distribution contracts to substitute more of fixed cost proportion to variable cost. We suspect this partly contributed to the 6% YoY rise in distribution variable cost over the period. This combined with the 22% YoY increase in energy cost, reflective of the impact of Naira devaluation, led to a 10% YoY rise in variable cost to N100.68bn.
- Moving down the P&L line, we also observed moderation in opex/sales ratio in 2020, down 87bps YoY to 9.77% largely supported by the 61.4% YoY decline in advertisement expenses. This led selling and distribution expenses lower by 17.2% YoY to N4.22bn. However, administration expenses increased slightly by 4% YoY following the 15% YoY increase in salaries and other staff related cost. The lower interest rate regime and the absence of FX gains led finance income down by 63% YoY to N1.18bn. Nonetheless, net finance cost fell by 50% YoY as significant moderation in the interest cost on borrowings drove finance cost down by 52% YoY to N9.71bn.
- On a Q4'20 stand-alone basis, topline grew by 2% YoY to N50.69bn. The increase was more price driven over the period with average realized prices rising by 9% YoY to N45,002 per

tonne while volume dragged by 7% YoY to 1.12MMT. Management mentioned that the company experienced operational downtime in Q4'20 in its Ewekoro cement plant in Ogun state and Mfamosing cement plant in Cross rivers state. Nonetheless, we saw a huge jump in gross profit, up 99% YoY to N11.12bn led by the 10.77% moderation in cost of sales to N39.58bn. The 15% YoY decline in variable cost, which constituted about 55% of total cost of sales over the period, largely supported the YoY decline. Thus, average cost per tonne declined by 4% YoY to N35,132 albeit slower than the fall in the cost of sales due to lower volume. Although opex/sales ratio increased slightly by 43bps YoY in Q4'20 and we also witnessed a 6% YoY increase in net finance cost, Lafarge was able to post a PBT and PAT of N3.28bn and N2.65bn in Q4'20 respectively vs a loss before tax and loss after tax numbers registered in the corresponding period last year.

- We have a FVE of **N28.61** on the stock, which implies an upside potential of 30% from current price level of N22.05. Lafarge trades at a 2021 EV/EBITDA of 4.06x which is a discount to MEA peers of 12.12x. Accordingly, we maintain a **STRONG BUY** recommendation on the stock. We are positive on Lafarge Africa Plc in 2021 with management planning to spend around \$60m to \$70m on the captive power plant for the Ashaka cement plant as well as the debottlenecking of the Ashaka and WAPCO plants to unlock as much as 300kt and 700kt of additional capacity in 2021 and 2022. Similarly, plans to further optimize its energy mix in 2021 may be positive for margins. In 2020, management mentioned that the use of gas in the WAPCO cement plant has been reduced to 35% from 50% while alternative fuels now accounts for 35% and local coals 30%. It further stated that it plans to increase the use of alternative fuels across all of its plants by 2023.
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Summary of Results

ANNUAL						
Income Statement (N'million)	2020	2021E	2022E	2023E	2024E	2025E
Production capacity (Million tonnes)	10.4	10.4	10.4	10.4	10.4	10.4
Utilisation rate	50%	52%	54%	56%	58%	60%
Volume (Million tonnes)	5.18	5.41	5.62	5.82	6.03	6.24
Price (N'000)	44.48	44.70	44.93	44.70	44.48	44.26
Revenue	230,573	241,761	252,314	260,351	268,301	276,163
COGS	163,333	169,773	172,980	178,051	182,213	184,162
Gross Profit	67,240	71,987	79,334	82,300	86,088	92,003
Operating Cost	22,523	24,471	25,025	25,909	26,503	27,014
Operating Profit (EBIT)	45,673	48,922	55,554	57,790	60,968	66,443
Net finance cost	-8,534	-8,285	-9,107	-5,866	-5,048	-2,621
PBT	37,572	40,637	46,447	51,924	55,920	63,823
Tax	(6,730)	(8,127)	(9,289)	(10,385)	(11,184)	-12,763
PAT	30,842	32,510	37,158	41,539	44,736	51,058
Balance Sheet (N'million)	2020	2021E	2022E	2023E	2024E	2025E
Property, plant and equipment	348,328	345,590	336,887	333,041	328,223	328,223
Non-Current Assets	404,143	400,773	391,636	387,609	382,613	382,613
Current Assets	53,323	80,496	106,565	136,945	163,101	192,690
Total Assets	507,214	533,895	553,781	580,171	605,193	633,254
Borrowings	49,733	61,597	59,224	61,507	62,526	63,790
Non-Current Liabilities	20,019	27,511	24,283	26,532	25,883	26,723
Current Liabilities	127,556	136,122	142,372	149,897	157,673	164,472
Equity	359,639	372,642	387,505	404,121	422,016	442,439
Key Ratios						
P/E	10.99	10.43	9.13	8.16	7.58	6.6
EV/EBITDA	4.4	4.2	3.5	3.1	2.7	2.3
ROA	6.1%	6.2%	6.8%	7.3%	7.5%	8.2%
ROE	8.8%	8.9%	9.8%	10.5%	10.8%	11.8%
Gross margin	29.2%	29.8%	31.4%	31.6%	32.1%	33.3%
Net Margin	13.4%	13.4%	14.7%	16.0%	16.7%	18.5%
EPS	1.91	2.02	2.31	2.58	2.78	3.17
EBIT margins	19.8%	20.2%	22.0%	22.2%	22.7%	24.1%
Effective Tax rates	17.9%	20.0%	20.0%	20.0%	20.0%	20.0%
Debt to Capital	12.1%	14.2%	13.3%	13.2%	12.9%	12.6%
Interest coverage	5.35	5.90	6.10	9.85	12.08	23.4
BVPS	31.49	33.27	34.38	36.02	37.57	39.3

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
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 other subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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