

## Nigerian Cement Producers

### Sector Update

#### Price competition... winners and losers emerging

• In our sector update published in December 2018 (See report: **Competition upsetting the status quo**), we stated that the construction sector was set to witness an uncertain environment over 2019. Specifically, we stated that most part of the first half of 2019 will be focused on assessing the political environment and the likely delay of the passage of the budget. Accordingly, we modelled 6% YoY (FY 18 volume growth of 11% YoY) growth in domestic cement volumes to 21.9mt in 2019. However, the first half of the year 2019 (H1 19) saw a much slower growth in cement consumption, growing 3% YoY to 11.5MT owing to the delays in the February election as well as torrential rains in June. Going further into H2, domestic consumption will remain constrained amid Government's sluggish capex spend due to the delayed cabinet appointments and as well as the heavy rains in Q3. Thus, we revise our FY 2019E cement consumption growth expectation lower to 2% YoY to 21.2MT.

• **Meanwhile, as expected, competition in the cement industry** became more noticeable during the period, following additional capacities installed by BUA Group (4.5MT) in 2018, which includes 1.5MT in CCNN. The new capacities, together with relatively competitive pricing in the North supported CCNN's expansion in market share beyond the North West. CCNN's reported volume in H1 increased by over 500kT to 780kT compared to H1 18. On the other hand, DANGCEM Nigeria volume declined over same period by 3% YoY to 7.6MT. Meanwhile, WAPCO managed to keep its share of the market with volumes up 2% YoY over H1 19. As a result, DANGCEM's market share moderated 200 bps YoY to ~64% as at Q2 2019. Notably, we reckon that the volume decline experienced by DANGCEM is to a large extent reflective of the ₦100 per 50 kg bag price differential with Sokoto Cement (CCNN) in the North. For context, while CCNN's average price per ton declined 7% YoY in H1 19, both DANGCEM and WAPCO experienced much smaller erosion in prices by 2% and 1% YoY respectively. Overall, average cement price in the local market is down 3% YoY as at H1 19, leaving with it, winners and losers.

• Contrary to our expectations of a price hike, following the ₦100/50 kg increase announced by the cement players (led by DANGCEM), we now see further moderation in pricing going into the rest of the year. Accordingly, we expect average cement price per tonne to decline 2.3% YoY to ₦43,504 in 2019, compared to previous expectation

Company	Rating	TP (₦)	ETR
<b>DANGCEM</b>	BUY	240.87	55.4%
<b>LAFARGE</b>	BUY	23.59	62.7%
<b>CCNN</b>	BUY	20.14	23.9%

#### DANGCEM

Valuation Metrics	FY 17	FY 18E	FY 19E
P/E (x)	19.2	8.0	11.1
EPS (₦)	12.0	22.9	14.0
EV/EBITDA (x)	10.7	7.6	7.3
EBITDA Margin	48%	48%	45%
ROCE	27%	40%	24%

#### WAPCO

Valuation Metrics	FY 17	FY 18E	FY 19E
P/E (x)	-7.2	-12.6	16.8
EPS (₦)	-6.2	-1	5.2%
EV/EBITDA (x)	16.2	7.7	5.17
EBITDA Margin	10%	8%	17%
ROCE	-22%	-7%	15%

#### CCNN

Valuation Metrics	FY 17	FY 18E	FY 19E
P/E (x)	6.2	36.3	17.7
EPS (₦)	2.6	0.4	0.9
EV/EBITDA (x)	3.4	20.4	8.2
EBITDA Margin	26.4%	32.2%	36.3%
ROCE	24.7%	3.2%	3.6%

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of ₦44,802. On volumes, with the slow rate of capital spending across the federating units over the first half of the year and further impact of the traditional volume crunch in Q3, we revised FY19E cement consumption lower to 21.2MT (+2% YoY), while we remain optimistic of growth in 2020E (+6% YoY to 22.4MT).

- ***We have revised our DANGCEM 2019E earnings lower***, with EPS now expected to print at ₦14 (previous estimate of ₦15.55) compared to record high of ₦22 posted in 2018 (due to tax credit). The downward revision stemmed from our toned-down expectations on prices, as well as new challenges in some of the Pan-African businesses which has moderated our optimism regarding Pan-African volume growth. A culmination of our adjustments translated to a downward revision in our FVE to ₦240.87 from previous estimate of ₦248.14. That said, DANGCEM continues to trade quite cheap with a forward P/E of 11x compared to Bloomberg MEA peers of 24x.
- ***Our pessimism towards Lafarge Africa (WAPCO) is toned down a notch*** following sale of the South Africa (LSAH) business. On our numbers (Nigeria standalone), we have incorporated lower energy cost with higher margin expectations, and lower finance cost. Beyond 2020, we do not rule out management increasing its leverage. We are also cautiously optimistic of the capex plans (Ashaka debottlenecking and power plant) given the prolonged postponement of the projects. With the adjustments to our 2019 numbers, we revised FY 19E EPS higher to ₦0.86 (2018: ₦1.01), with a 5-year CAGR of 24% to ₦2.52 by FY 2023E. Based on the foregoing, our FVE is revised higher to ₦23.59 (previously ₦18.07), with a forward P/E of 17x, which is at an unjustified premium to DANGCEM, given the obvious EBITDA margin difference.
- ***We revised EPS forecast for CCNN lower to ₦0.92*** (from our previous estimate of ₦1.15) following adjustments to our model emanating from revisions on price and production cost. However, we remain quite upbeat on expectation for volumes, given favourable siting in the North and lower pricing. Accordingly, our revised FVE to ₦20.14 still presents a potential upside of 24% on current pricing, which translates to a BUY rating on our recommendation. CCNN trades at a forward P/E of 17.7x, which is a premium to domestic peer average of 15x and at a premium to DANGCEM of 11x. **We also see potential upside to our estimates stemming from tax credit on the new Kalambaina plant line currently been processed with the NIPC.**

***DANGCEM: Downward revision...but still checks all the BUY boxes***

- ***We have revised our DANGCEM 2019E earnings lower***, with EPS now expected to print at ₦14 (previous estimate of ₦15.55) compared to record high of ₦22 posted in 2018 (due to tax credit). The downward revision stemmed from our toned-down expectations on prices, as well as new challenges in some of the Pan-African businesses which has moderated our optimism regarding Pan-African volume growth. A culmination of our adjustments translated to a downward revision in our FVE to ₦240.87 from previous estimate of ₦248.14. That said, DANGCEM currently trades at FY 19E P/E of 11x on our estimates, which compares to WAPCO and CCNN of 17.7x and 16.8x, respectively. We believe current valuation is unjustified given the superior ROE and FCF/share of 24% and ₦17.6 respectively. Also, compared to Bloomberg MEA peers of 24x, DANGCEM continues to trade quite cheap.
  - ***Promos...any good for Nigeria volumes?*** In a bid to stem the competitive play by the BUA group and gradual play by WAPCO, DANGCEM commenced promotional activities at the start of Q3. However, speaking with
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distributors during our market survey, we see limited impact of this on volume. We revised Nigeria FY 19E volume lower to 14.3MT (FY 18: 14.2MT). Meanwhile, new power challenges in Ethiopia and persisting competition in South Africa necessitated revised **optimism on Pan-Africa recovery**. Ethiopia now grapples with new power challenges due to power rationing which caused a 110kT YoY decline in Q2 19 volume. This combined with further pressure in South Africa, informed cut in Pan-Africa volume FY 19E to 9.8MT (previously 10.8MT). Overall, we now expect group volume growth of 2% (previous: 10%) in FY 19E to 24.1MT (2018: 23.6MT).

- As mentioned earlier **we have toned down our expectation on prices** and now expect Nigeria 2019E price/ton to print at ₦43,426. **We also increased S&D expenses**, due to the promotional activities as well as increased diesel costs incurred on the new trucks purchased earlier in the year. Overall, our pre-tax profits for the year is revised lower to ₦289 billion, which is 4% lower than ₦301 billion in 2018. While we still see some benefits from the last year of tax benefits at Ibese line 3 & 4 and Obajana line 4 plants, we still expect EPS to decline 38% YoY to ₦14.09, owing to the high base year of accumulated tax credit for 2016-2018 posted in 2018.

#### **WAPCO: Sale of LSAH favours valuation upgrade**

- **Our pessimism towards Lafarge Africa (WAPCO) is toned down a notch** following sale of the South Africa (LSAH) business. On our numbers (Nigeria standalone), we have incorporated lower energy cost with higher margin expectations, and lower finance cost. Beyond 2020, we do not rule out management increasing its leverage. We are also cautiously optimistic of the capex plans (Ashaka debottlenecking and power plant) given the prolonged postponement of the projects. With the adjustments to our 2019 numbers, we revised FY 19E EPS higher to ₦0.86 (2018: ~~₦1.01~~), with a 5-year CAGR of 24% to ₦2.52 by FY 2023E. Based on the foregoing, our FVE is revised higher to ₦23.59 (previously ~~₦18.07~~), with a forward P/E of 17x, which is at an unjustified premium to DANGCEM, given the obvious EBITDA margin difference.
- **FCY loans valued at \$316 million will be removed from the company's books**, upon conclusion of the LSAH sale deal in July. Thus, only the 2nd Tranche of the 2021 bond (₦33.8 billion) and the CBN-BOI Power Intervention fund loan (₦19.9 billion) will be left outstanding in the books. This will push the debt ratio down to 17% by 2020 compared to 47% as at FY 18. Based on the foregoing, we forecast net finance cost of ₦21 billion in 2019E (H1: ₦13 billion, H2: ₦8 billion), and to as low as ₦9.6 billion, on average, from 2020-2023 – assuming no additional debt. However, we think increasing capex needs could compel the company to increase leverage beyond 2020.
- **Cautious optimism on Ashaka debottlenecking beyond 2020**. The Ashaka cement plant's capacity has remained constrained at 700kT over the past years, compared to its full capacity of ~1MT. Management reiterated commitment to carry out the \$50 million (N18 billion) debottlenecking of the Ashaka cement plant by Q4 2020, which will increase the effective capacity to 1.2MT. However, we remain conservative in our expectation for volumes in 2019<sup>1</sup> and 2020 of 5.9 MT and 5.4MT, respectively, while we envisage a faster growth beyond 2020 (+3% CAGR to 6.84MT in 2023).

**We envisage improved margins going forward**, following sale of the LSAH business. The Nigeria business has overtime reported better margins than South Africa, due to material production cost differentials and pricing.

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<sup>1</sup> It includes South Africa volumes in H1 19 of 648kT

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Between 2016-2018, the Lafarge Africa group posted gross margin of ~20%, while the Nigeria business averaged ~30%. Thus, we estimate a blended gross margin of 26% in 2019E, with gradual expansion over our forecast period (average: 35%), upon completion of LSAH sale, onboarding of the new Ashaka power plant and completion of the Ashaka cement plant debottlenecking. Overall, we estimate PBT of ₦16 billion in 2019E, with the impact of pioneer tax credit from Mfamosing Line 2 reducing the tax burden. Thus, our forecast 2019E PAT prints at ₦14 billion from the loss position last year.

### ***CCNN: A brewing teapot...but slight earnings downgrade***

- ***We revised EPS forecast for CCNN lower to ₦0.92***, from our previous estimate of ₦1.15 and FY 18 of ₦0.44. The adjustments to our model emanated from our revisions on price, energy cost and depreciation. However, we remain quite upbeat on expectation for volumes, given favourable siting in the North and lower pricing. The adjustments led to a downward revision in our FVE to **₦20.14** from previous estimate of ₦22.87. CCNN trades at a forward P/E of 17.7x, which is a premium to domestic peer average of 15x. That said, CCNN holds a 24% upside from current trading price, which translates to a **BUY** rating. **We also see potential upside to our estimates stemming from tax credit on the new Kalambaina plant line currently been processed with the NIPC.**
  - ***We remain upbeat on 2019E volume expectation***, following increasing market share across the Northern region emanating from the additional capacity installed last year. Also, the lower price point, compared to DANGCEM's further levelled the competition in favour of CCNN. Thus, we forecast volume of 1.53MT (utilisation rate of 77%) by the end of the year. On the other hand, based on revised expectations on the April 'price hike', **we reduced our 2019E revenue per ton to ₦41,306** (previously ₦42,773) which is 3% lower than FY 18.
  - ***We revised our energy cost per ton higher*** to ₦12,900 (previously ₦12,000) in 2019E, following deviation from our 2019E run rate in H1 (+10% QoQ to ₦13,325). Speaking with management, we understand that the pressure stemmed from the use of the old 0.5MT LPFO-fuelled plant. While our forecast factors in use of the old plant, we had expected less pressure on the energy costs given savings from use of the new coal plant. Further on costs, we increased depreciation charge forecast for the year to ₦6.9 billion from previous expectation of ₦3.6 billion, following greater than expected charge on the new Kalambaina plant posted in H1 19. Overall, our PBT and PAT estimates for the year have been revised lower to ₦16 billion and ₦12 billion respectively.
  - ***Free float correction, what are the options.*** Following the merger of CCNN and Kalambaina, BUA group's (through Damnaz) stake in CCNN increased to 94% from 55%, with free float now about 3% when adjusted for other major shareholders. While no specific guidance has been provided on the best means to meet up with the NSE 20% minimum free float (which they still have a 2-year window to adjust), we explored three options by CCNN and the majority shareholder (BUA Group); 1) Tender offer by the parent company to minority shareholders at a price not lower than the conversion price of the plant to CCNN, assuming they intend to take the company private; 2) Offer for sale of some of the shares of the parent company to the public at a negotiated price; and 3) a direct sale to a strategic investor (private equity firms, development financial institutions or an asset management firm) without relinquishing
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controlling stake.

- **In our view, we think the best option to meet the requirement, without further diluting minority holdings and taking advantage of the current high share price will be via an Offer for sale or direct sale.** This will require that the BUA Group sells 2.2 billion units (or more) to existing and potential shareholders.

**Table 1: CCNN's Shareholding (units)**

	<b>Q3 18</b>	<b>Q4 18</b>	<b>Q1 19</b>	<b>Q2 19</b>
Damnaz Cement Nigeria Ltd	691,359,467	12,356,573,791	12,356,573,791	12,356,573,791
Rabiu Abdulsamad		396,227,440	396,227,440	396,227,440
Magaji Abubakar	46,998	45,456	45,456	45,456
Binji Yusuf Haliru		7,093	7,093	7,093
Gwandu Hajia Aishatu Umaru	61,418,000	61,418,000	61,418,000	61,418,000
Nasdal Bap Nigeria Ltd	144,359,850	144,359,850	144,359,850	144,359,850
Others (Free float)	359,493,455	390,699,739	390,699,739	390,699,739
	<b>1,256,677,770</b>	<b>13,349,331,369</b>	<b>13,349,331,369</b>	<b>13,349,331,369</b>
<b>Free float</b>	<b>29%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>

## DANGCEM Summary of Results

ANNUAL							
Income Statement (N <sup>3</sup> million)	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Volume (Million tonnes)							
Nigeria Volume	12.5	14.2	14.3	15.2	16.5	17.1	18.1
Rest of Africa Volume	9.5	9.4	9.8	10.6	11.1	11.6	12.2
	<b>22.0</b>	<b>23.6</b>	<b>24.1</b>	<b>25.9</b>	<b>27.6</b>	<b>28.7</b>	<b>30.3</b>
Nigeria Price (N'000)	45.6	43.6	43.4	42.6	42.3	42.8	42.6
Rest of Africa Average Price (N'000)	29.7	30.2	30.4	31.3	30.9	30.3	31.5
<b>Revenue</b>							
Nigeria	568,570	619,262	621,978	648,277	698,496	732,211	770,998
Rest of Africa	258,377	284,314	296,989	332,572	343,518	351,499	382,987
Intercompany	21,365	2,363	-	-	-	-	-
	<b>805,582</b>	<b>901,213</b>	<b>918,967</b>	<b>980,848</b>	<b>1,042,014</b>	<b>1,083,710</b>	<b>1,153,985</b>
<b>COGS</b>	<b>351,290</b>	<b>383,311</b>	<b>378,334</b>	<b>408,608</b>	<b>436,068</b>	<b>448,689</b>	<b>473,324</b>
<b>Gross Profit</b>	454,292	517,902	540,633	572,240	605,946	635,020	680,661
<b>Operating Cost</b>	<b>155,297</b>	<b>189,426</b>	<b>227,216</b>	<b>216,517</b>	<b>230,487</b>	<b>241,591</b>	<b>255,703</b>
<b>Operating Profit</b>	304,208	338,698	319,040	362,189	382,765	401,539	433,798
<b>Finance Income</b>	35,926	11,323	12,784	12,254	12,161	18,754	27,754
<b>Finance expense</b>	<b>52,711</b>	<b>49,778</b>	<b>40,559</b>	<b>41,100</b>	<b>40,364</b>	<b>42,471</b>	<b>45,984</b>
<b>PBT</b>	289,590	300,806	286,397	328,523	349,792	373,098	410,893
<b>Tax</b>	<b>85,342</b>	<b>-89,519</b>	<b>48,581</b>	<b>82,131</b>	<b>87,448</b>	<b>93,275</b>	<b>102,723</b>
<b>PAT</b>	<b>204,248</b>	<b>390,325</b>	<b>237,816</b>	<b>246,393</b>	<b>262,344</b>	<b>279,824</b>	<b>308,170</b>
<b>Balance Sheet (N<sup>6</sup>million)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Fixed Assets</b>	1,192,140	1,171,864	1,257,210	1,290,143	1,318,075	1,335,680	1,347,378
<b>Stocks</b>	94,594	106,998	103,364	111,226	118,265	121,239	127,422
<b>Trade debtors</b>	30,155	44,468	44,110	44,065	49,415	50,699	53,518
<b>Cash and other bank balances</b>	168,387	166,896	102,419	161,955	241,348	349,165	492,756
<b>Total Assets</b>	1,665,883	1,694,463	1,712,972	1,819,550	1,945,348	2,078,752	2,249,942
<b>Trade Creditors</b>	270,721	230,970	245,917	265,187	282,572	290,302	305,767
<b>Non-current Liabilities</b>	364,047	212,344	216,963	222,590	229,346	237,372	246,840
<b>Total liabilities</b>	884,523	707,850	718,022	754,265	801,698	851,091	922,885
<b>Shareholders' fund</b>	781,360	986,613	994,950	1,065,285	1,143,650	1,227,661	1,327,058
<b>Key Ratios</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>P/E (x)</b>	19.2	8.0	17.3	16.7	15.6	14.7	13.32
<b>EV/EBITDA (x)</b>	10.7	7.6	10.4	9.4	8.8	8.2	7.50
<b>ROA</b>	13%	23%	14%	14%	14%	14%	14%
<b>ROE</b>	26%	44%	24%	24%	24%	24%	24%
<b>EBIT Margin</b>	38%	38%	35%	37%	37%	37%	38%
<b>Tax burden</b>	71%	130%	83%	75%	75%	75%	75%
<b>Interest burden</b>	95%	89%	90%	91%	91%	93%	95%
<b>Asset Turnover</b>	0.50	0.54	0.54	0.56	0.55	0.54	53%
<b>Equity Multiplier</b>	2.13	1.72	1.72	1.71	1.70	1.69	170%
<b>Gross margin</b>	56%	57%	59%	58%	58%	59%	59%
<b>Net margin</b>	25%	43%	26%	25%	25%	26%	27%
<b>EBIT margins</b>	38%	38%	35%	37%	37%	37%	38%
<b>PBT margins</b>	36%	33%	31%	33%	34%	34%	36%
<b>EPS (N)</b>	12.0	22.9	14.0	14.5	15.4	16.4	18.1
<b>Effective Tax rates</b>	29%	-30%	17%	25%	25%	25%	25%
<b>Debt to Equity</b>	49.6%	35.1%	33.2%	30.7%	30.2%	30.5%	32%
<b>Debt to Assets</b>	23.3%	20.4%	19.3%	18.0%	17.7%	18.0%	19%
<b>Interest coverage (X)</b>	5.8	6.8	7.0	7.9	8.5	8.5	8.6
<b>BVPS (N)</b>	45.9	57.9	58.4	62.5	67.1	72.0	77.9

## Lafarge Africa Summary of Results

ANNUAL							
Income Statement (N'million)	2017	2018	2019E	2020E	2021E	2022E	2023E
Volume (Million tonnes)							
Nigeria Volume	4.5	4.8	5.22	5.41	5.62	6.27	6.84
South Africa	1.7	1.1	0.65	-	-	-	-
	<b>6.2</b>	<b>5.9</b>	<b>5.87</b>	<b>5.41</b>	<b>5.62</b>	<b>6.27</b>	<b>6.84</b>
Nigeria Price (N'000)	44	44.1	42.78	42.35	42.14	42.77	42.56
LSAH Price (N'000)	35.6	36.3	-	-	-	-	-
<b>Revenue</b>							
Nigeria	204,493	7,426	223,283	228,949	236,653	268,175	291,092
LSAH	94,675	73,223	42,419	0	0	0	0
	<b>299,168</b>	<b>80,649</b>	<b>265,702</b>	<b>228,949</b>	<b>236,653</b>	<b>268,175</b>	<b>291,092</b>
<b>COGS</b>	<b>250,179</b>	<b>238,743</b>	<b>194,551</b>	<b>155,685</b>	<b>153,824</b>	<b>172,973</b>	<b>186,299</b>
Gross Profit	48,989	-158,093	71,150	73,264	82,829	95,202	104,793
<b>Operating Cost</b>	<b>43,920</b>	<b>46,182</b>	<b>34,206</b>	<b>30,161</b>	<b>31,886</b>	<b>36,938</b>	<b>40,968</b>
Operating Profit (EBIT)	<b>7,885</b>	<b>24,811</b>	<b>36,960</b>	<b>43,102</b>	<b>50,942</b>	<b>58,264</b>	<b>63,825</b>
Net finance cost	41,778	44,254	-21,197	-9,545	-9,351	-9,722	-9,669
PBT	<b>-34,032</b>	<b>-19,508</b>	<b>15,763</b>	<b>33,557</b>	<b>41,591</b>	<b>48,542</b>	<b>54,156</b>
Tax	569,132	-10,707	-1,874	-6,323	-9,364	-11,102	-13,539
PAT	<b>-34,601</b>	<b>-8,802</b>	<b>13,889</b>	<b>27,235</b>	<b>32,227</b>	<b>37,440</b>	<b>40,617</b>
<b>Balance Sheet (N'million)</b>							
Property, plant and equipment	393,652	394,489	354,772	374,246	389,656	405,528	405,528
Non-Current Assets	436,186	447,376	405,001	425,975	444,634	464,494	464,494
Current Assets	151,103	93,360	148,818	121,150	110,334	107,193	121,526
Total Assets	587,289	540,737	553,819	547,126	554,968	571,687	586,020
Borrowings	287,629	266,207	71,016	75,391	77,579	78,673	79,220
Non-Current Liabilities	89,648	193,546	86,239	90,615	92,802	93,896	94,443
Current Liabilities	340,655	212,650	106,525	90,009	89,218	97,355	103,018
Equity	156,987	134,541	361,055	366,502	372,947	380,435	388,559
<b>Key Ratios</b>							
P/E	-7.2	-12.6	16.8	14.0	11.8	10.2	9.4
EV/EBITDA	16.2	7.7	5.2	7.9	7.0	6.3	5.7
ROA	-6.4%	-1.6%	2.7%	2.9%	2.9%	2.9%	2.8%
ROE	-17.0%	-6.0%	5.7%	7.5%	8.7%	9.9%	10.6%
Net Margins	-11.6%	-2.9%	5.2%	11.9%	13.6%	14.0%	14.0%
EPS	-6.2	(1.0)	0.9	1.7	2.0	2.3	2.5
EBIT margins	2.6%	8.0%	13.9%	18.8%	21.5%	21.7%	21.9%
PBT margins	-11.4%	-6.3%	5.9%	14.7%	17.6%	18.1%	18.6%
Effective Tax rates	-1.7%	54.9%	11.9%	18.8%	22.5%	22.9%	25.0%
Debt to Equity	183.2%	197.9%	19.7%	20.6%	20.8%	20.7%	20.4%
Debt to Assets	49.0%	49.2%	12.8%	13.8%	14.0%	13.8%	13.5%
Interest coverage	0.2	0.5	1.7	4.5	5.4	6.0	6.6
BVPS	28.2	15.5	34.4	34.0	34.5	35.5	36.4



## CCNN Summary of Results

ANNUAL							
Income Statement (N' million)	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Volume (000' tons)	467.5	742.2	1,530.3	1,700.0	1,740.0	1,800.0	1,900.0
Price (N'000)	42.0	42.7	41.3	41.1	41.3	41.5	41.3
Revenue	19,588	31,722	63,212	69,870	71,871	74,721	78,491
COGS	11,840	17,511	36,209	40,682	41,162	42,422	44,206
Gross Profit	7,749	14,211	27,003	29,188	30,709	32,300	34,285
Operating Cost	3,369	6,580	11,062	12,087	12,290	12,628	13,108
Operating Profit	4,483	7,875	16,055	17,261	18,621	19,918	21,475
Finance Income	108	138	165	204	249	305	373
Finance expense	388	420	287	347	372	442	513
PBT	4,203	7,592	15,933	17,119	18,497	19,782	21,335
Tax	979	1,860	3,824	4,143	4,513	4,866	5,291
PAT	3,224	5,731	12,109	12,976	13,984	14,915	16,044
Balance Sheet (N' million)	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Fixed Assets	12,325	219,573	222,359	226,823	231,173	236,119	241,525
Stocks	6,516	12,642	25,499	27,121	28,684	29,222	30,232
Trade debtors	2,674	4,044	8,049	8,908	9,151	9,527	9,994
Cash & other bank balances	3,134	596	3,817	9,874	9,806	10,438	10,708
Total Assets	24,649	347,746	370,615	383,617	389,704	396,196	403,350
Trade Creditors	6,101	8,861	18,140	20,640	20,777	21,396	22,346
Non-current Liabilities	3,071	2,705	3,002	2,966	3,111	3,149	3,231
Total liabilities	10,236	14,259	26,691	31,975	34,977	38,344	42,099
Shareholders' fund	14,412	333,488	343,924	351,642	354,728	357,454	360,425
Key Ratios	2017A	2018A	2019F	2020F	2021F	2022F	2023F
P/E	6.2	36.3	21.7	20.3	18.8	17.6	16.4
EV/EBITDA	3.4	20.4	11.3	10.5	9.9	9.4	8.9
ROA	14.4%	3.1%	3.4%	3.4%	3.6%	3.8%	4.0%
ROE	24.9%	3.3%	3.6%	3.7%	4.0%	4.2%	4.5%
Net Margins	16.5%	18.1%	19.2%	18.6%	19.5%	20.0%	20.4%
EPS	2.6	0.4	0.9	1.0	1.1	1.1	1.2
Gross margins	39.6%	44.8%	42.7%	41.8%	42.7%	43.2%	43.7%
EBIT margins	22.9%	24.8%	25.4%	24.7%	25.9%	26.7%	27.4%
PBT margins	21.5%	23.9%	25.2%	24.5%	25.7%	26.5%	27.2%
Effective Tax rates	23.3%	24.5%	24.0%	24.2%	24.4%	24.6%	24.8%
Debt to Equity	5.35%	0.16%	0.16%	0.18%	0.20%	0.23%	0.27%
Debt to Assets	3.13%	0.15%	0.15%	0.16%	0.18%	0.21%	0.24%
Interest coverage	11.5	18.7	55.9	49.8	50.0	45.1	41.9
BVPS	11.5	25.4	26.2	26.8	27.0	27.2	27.4



## 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 reas portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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