

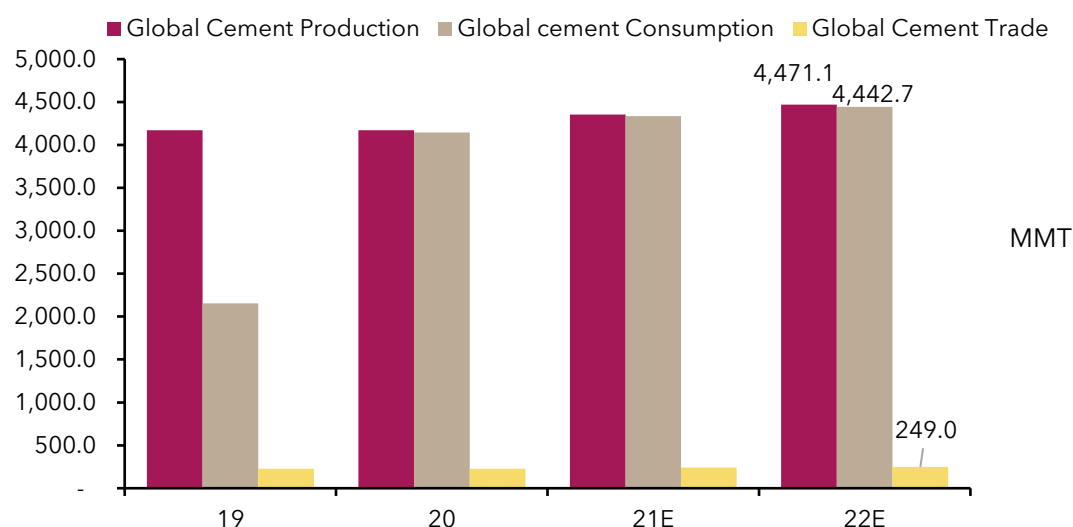


9M:2022 Sector Report: Sustaining Growth Amid Headwinds

The Global Cement Space

Over time, the demand for cement has continued to be driven by population and urbanization, infrastructure, housing growth and government spending. The United Nations estimated the world population to be around 9.7 billion by 2050 (currently at 7.7 billion, of which Sub-Saharan Africa has an estimated population of c. 1.1 billion people). By 2050, 6.6 billion people, which represents twenty-six (68%) of this population, are expected to move to urban areas and African cities are expected to add additional 950 million people. The world bank describes Africa as the fastest-growing and youngest region globally. An increasing population need massive infrastructure and rapid real estate development (both residential and commercial). The region's most promising prospects stem from the new African Continental Free Trade Area, a potential market of 1.3 billion people with a combined GDP of almost \$3.5 trillion in 2021.

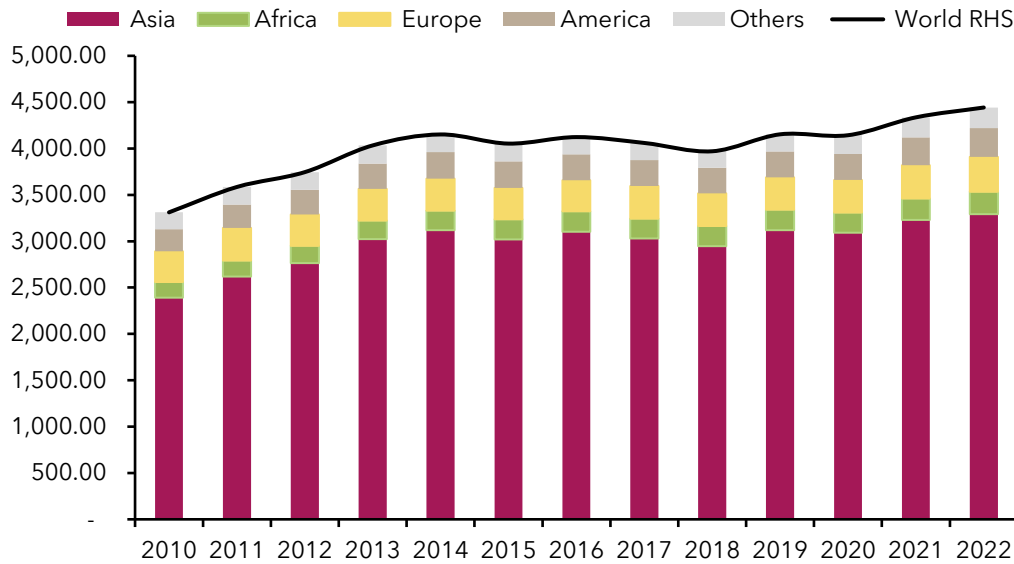
Figure 1: A Trend of Global Cement Consumption Between 2019 - 2022E (MMT)



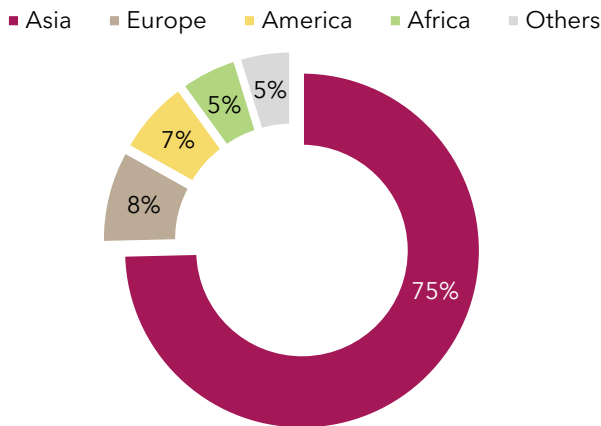
Source: ICR Research, ARM Research

The Global Cement Report estimates for 2021 show that the average global per capita consumption was 541kg, with SSA per-capita cement consumption at 130kg. We believe there is enormous potential for higher per capita cement consumption in the space. The estimated African infrastructure gap amounts to USD130bn - USD170bn per year. These estimates suggest that the cement players have untapped opportunities and prospects in the SSA region. In 2021, the Nigerian cement sector rose 6.6% YoY - its fastest expansion since 2015 - bringing average growth since COVID-19 to 5.3% against the 3.8% average in the prior two years.

Figure 2: Global Cement Consumption per Region



Source: Bloomberg, ARM Research



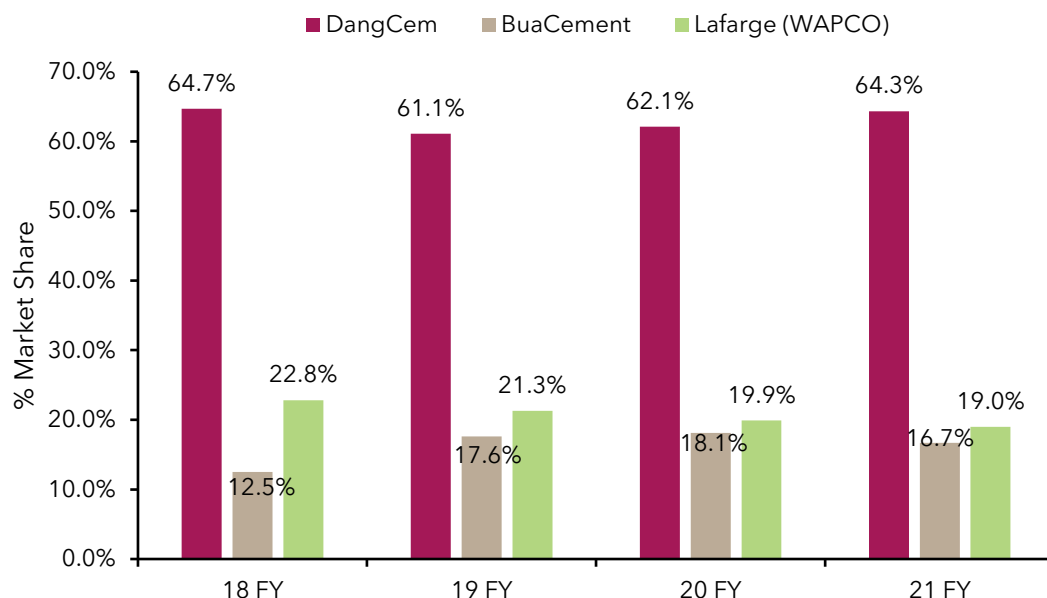
A dive into the 10-year average figures shows that Asia dominates the Cement consumption space taking over Seventy-five per cent (75%) of global supply. Africa's cement consumption amounts to only five per cent (5%) of the worldwide cement consumption. This value shows that consumption is lower compared to substantial infrastructure needs and the real estate demands of the continent and further buttresses our point that there is a huge cement demand gap to be filled in the continent.

Competitive Landscape of the Nigerian Cement Industry

The Nigerian cement sector is Oligopolistic, with three major cement producers leading the charge to cater for cement demand in the most populated country in Africa. Before the entry of BUA Cement and its acquisition of the Cement Company of Northern Nigeria, CCNN (Sokoto Cement) and the Edo Cement Company, Dangote Cement and Lafarge (WAPCO) were the major cement industries in Nigeria. The entrance of BUA Cement into

the cement space heightened competition and increased the country's production capacity. Dangote Cement is still the leading cement company in Nigeria and Africa, with its footprint across 10 African countries.

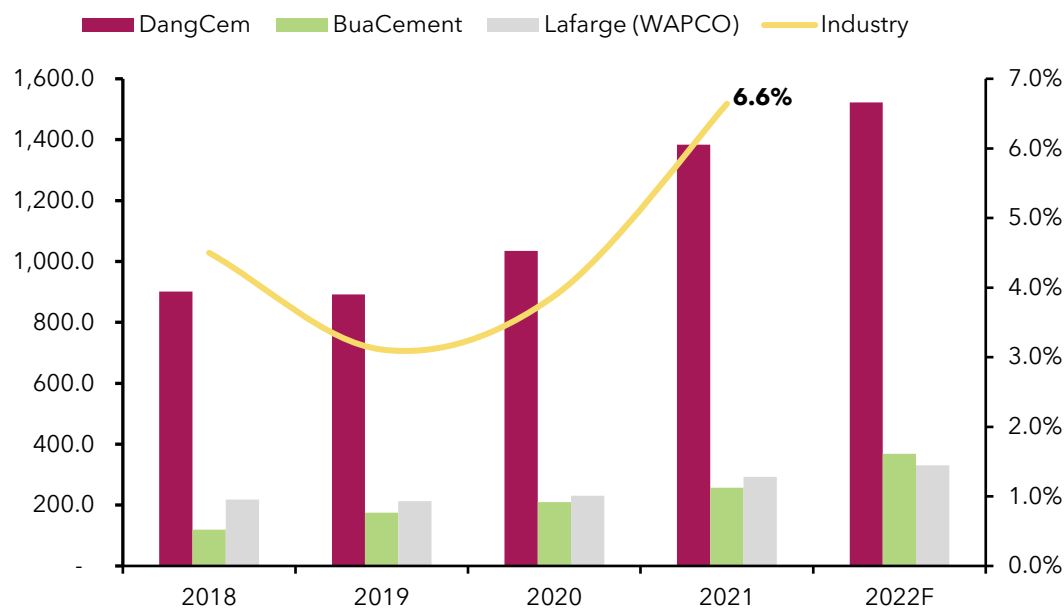
Figure 3: Market Share Analysis of Major Cement Players in Nigeria



Source: Company Financials, ARM Research.

Dangote Cement, over time, has capitalized on its high production capacity, wide presence across Nigeria and Africa and price-making ability to establish its leadership in the industry. Between 2018 and 2021, these companies recorded a Compounded Annual Growth Rate of 11.8%). BUA Cement recorded the fastest growth with a CAGR of 21.3%, while Dangote Cement and LAFARGE recorded a CAGR of +11.3% and +7.7%, respectively. We ascribe BUA Cement's fast growth to the strategic acquisition of CCNA in 2019.

Figure 4: Trend of Revenue Growth of the three major cement players in Nigeria.



Source: Company Financials, ARM Research.

Government Spending and the Cement Sector

Given the growing adoption of concrete roads as a substitute for asphalt roads, government expenditure has recently started impacting the sector. Although asphalt roads are cheaper to construct when compared to concrete roads, the latter has a relatively longer average lifespan of 30-40 years. The latter's lifespan is twice the average lifespan of asphalt roads which overrides the short-term cost-benefit derived from constructing asphalt roads. The trend of concrete roads has continued, with the Federal Government last year giving the needed green light for the construction of five (5) roads using cement

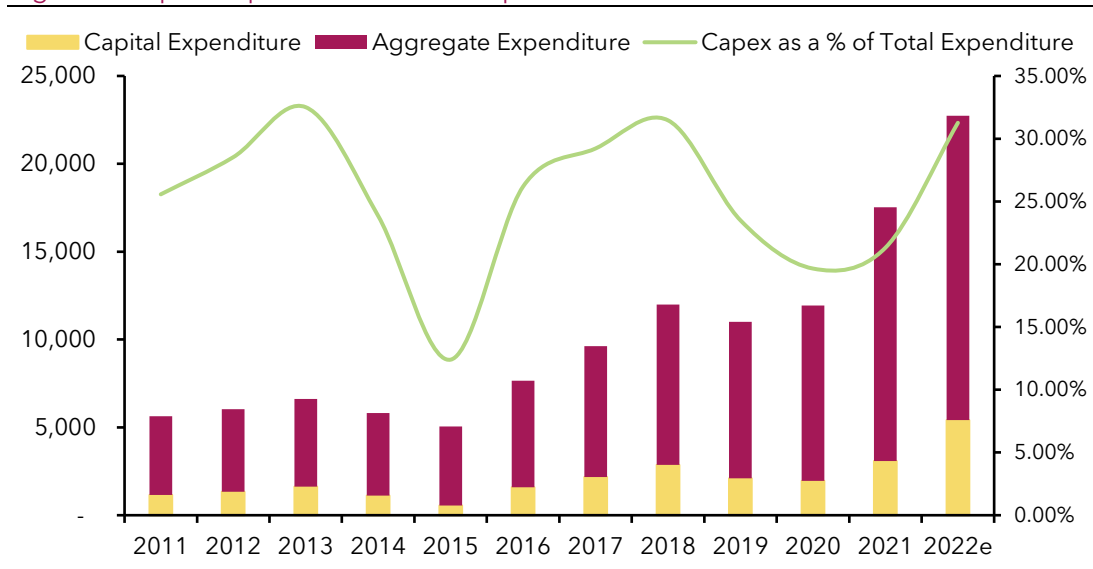
- The 49.153 kilometres Bama to Banki road (Borno State).
- The 49.577 kilometers Dikwa to Gamboru-Ngala road (Borno State)
- The Nnamdi Azikiwe Road, popularly known as a Western Bypass (Kaduna state)
- The deep seaport access road sections 1 and 3 in (Lagos State)
- The 100 kilometers Obele/Ilaro/Papalanto to Shagamu Road in (Ogun State).

Nigeria has an estimated population of two hundred and ten (210) million people, vast land, and a huge youth population. In this light, the impending internal mobility between rural to urban communities and the need to foster growth and prosperity is imperative. Nonetheless, the commitment of the Government has been underwhelming as the infrastructure deficit has contributed in no small part to slowing the actualization of the macroeconomic potential of the country. Over time, on a ten (10) year average, Recurrent

expenditure has dominated the government budget, accounting for over 75% of total spending, while Capital spending amounts to an average of 25%.

The Government, in its bid to boost infrastructural development, spent a total of NGN3,939.27 (vs NGN1,960.32bn in 2020FY) on capital expenditure in 2021 of which NGN3,079.87bn was for an appropriation for the Capital Development Fund in the 2021 appropriation act while an additional NGN859.40bn was from the 2021 Supplementary Budget for Capital Development Fund. Also, Twenty-four (24) states have been offered approximately 2,000ha of titled land under the Federal Government's social housing initiative. Furthermore, the federal Government established the Presidential Infrastructure Development Fund (PIDF) to fund the construction of the Lagos-Ibadan expressway, the second (2nd) Niger bridge, and the Abuja- Kaduna-Zaria-Kano highway. All these projects have received a total of USD1bn. This affirms our position that there is an infrastructure gap and there exists a need to spend more on capital projects, and complete abandoned projects.

Figure 5: Capital Expenditure vs Total Expenditure



Source: NBS, CBN, ARM Research

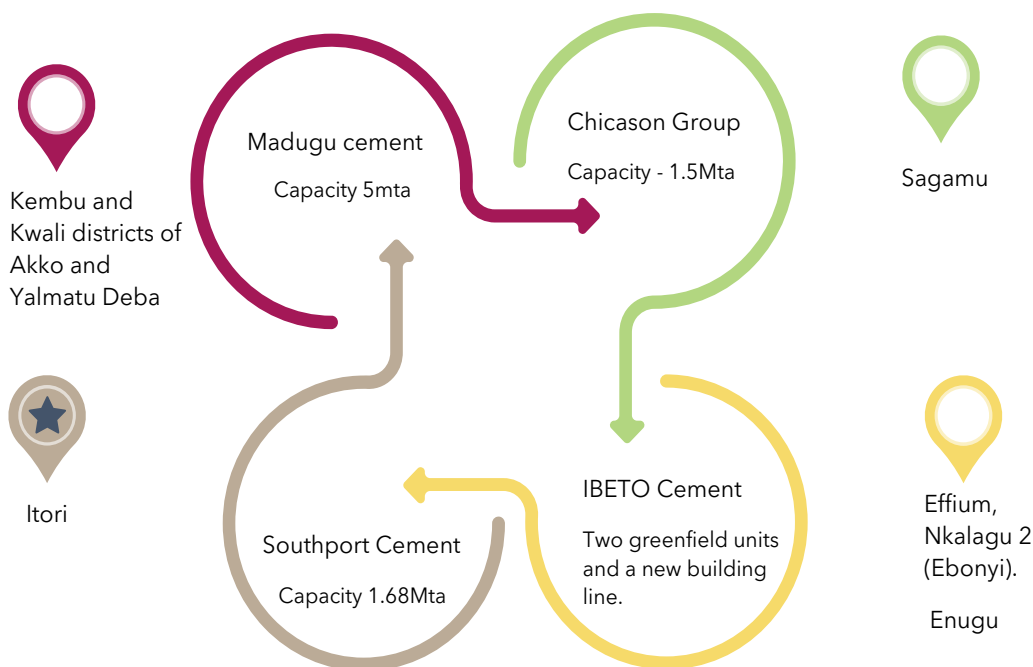
The Cement Sector and the Nigerian Market

The Nigerian cement sector is oligopolistic, with Dangote Cement, Lafarge (WAPCO) and BUA Cement as the major players in the space. The huge capital requirement for entry coupled with Government's regulatory barrier has limited the number of participants in the market. Despite the limited number of players in the market, competition among the three (3) players has been stringent in the last couple of years especially in 2020 when BUA cement acquired CCNN (the major cement supplier in the northern part of the country).

9M:2022				
Major Players	Revenue (Bn)	Revenue Growth (%)	Volume (mtpa)	EBITDA Margin
Dangote Cement	1,177.26	15.17%	51.6	43.50%
Lafarge (WAPCO)	262.85	23.11%	10.5	27.66%
BUA Cement	262.60	40.50%	11.0	43.55%

The competitive space bodes well for the economy given the fact that the country has moved from a cement import-dependent economy to the largest cement producer in Africa. However, we believe the Nigerian economy can accommodate more players in the industry.

Probable New Entrants Into The Nigerian Cement Industry



SWOT Analysis: A Cascade of Value

We analyzed the outlook for the major players in the Nigerian cement space (Dangote, Lafarge and BUA cement) using the swot analysis to show the strength, weaknesses, opportunities, and threats that exist in the space.



❖ STRENGTHS

- ❖ Locally available raw materials.
- ❖ Presence in over 10 African countries which reduces the overall risk the business operation faces.
- ❖ Limited competition due to barriers to entry.
- ❖ Robust capital structure compared to other African cement industry participants
- ❖ Vast area of land available for infrastructural development.
- ❖ Skilled labor force

WEAKNESSES

- ❖ Predisposal to the energy crisis
- ❖ Vulnerability to FX risk e.g Machine export, gas supply
- ❖ Plant Maintenance issues which may disrupt productivity

OPPORTUNITIES

- ❖ Possibility for expansion across all African countries.
- ❖ Huge Infrastructure and housing gap
- ❖ Growing population and the heightened need for housing (both private and public)

THREATS

- ❖ High cost of energy
- ❖ Unfavorable business environment
- ❖ Unstable government policy e.g FX scarcity, border closure
- ❖ Insecurity
- ❖ Poor Transportation network.

Real Estate: Way Below Expectations

Residential Homes

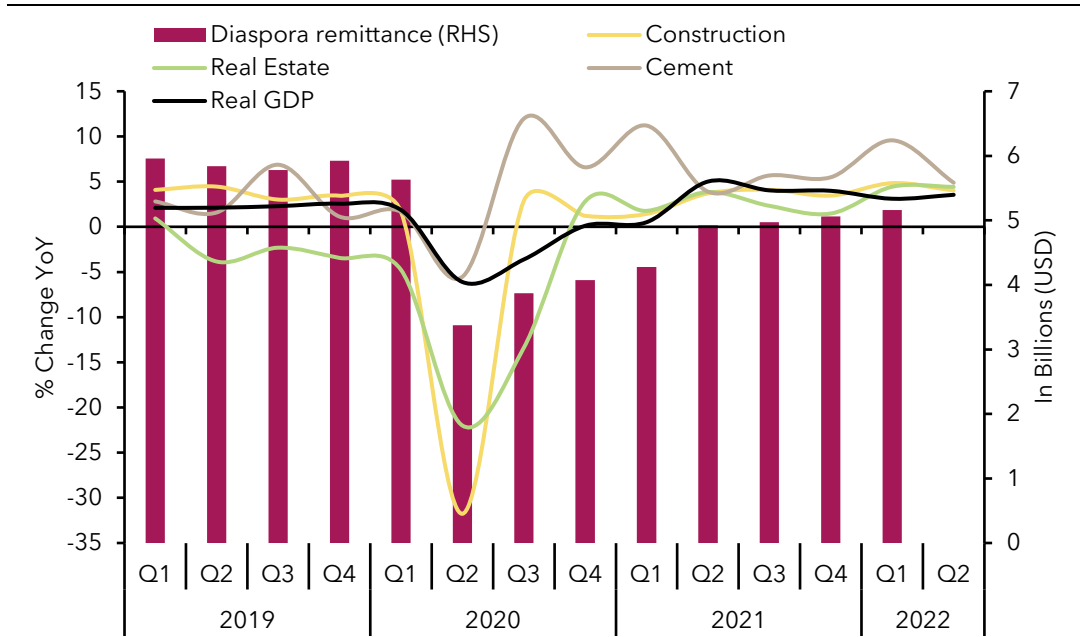
A growing population requires a proportionate rate of infrastructural development. In Nigeria's case, however, infrastructural development has been tepid due to the government revenue decline and the slowdown in household income per capita. Investment in real estate can be direct (direct ownership of land and buildings by a person, group of persons or a firm) or Indirect (Real Estate Investment Trusts, Real Estate Limited Partnerships, Real Estate Mutual Funds). REITs in Nigeria are relatively new with only three (3) REITs being successfully listed on Nigerian Exchange Limited (NGX) namely

- Skye Shelter Hybrid (SFS) REIT (listed in February 2008)
- Union Homes REIT (listed in August 2008)
- UPDC REIT (listed in 2013)

The Nigerian real estate sector growth has mirrored the overall economic output. With the decline in GDP in 2020 following the negative impact of the COVID-19 pandemic, the real estate sector still experienced a huge contraction (-9.22%). Diaspora remittances also play a huge role in the real estate sector's growth, as it has continued to augment household income and promote investment in the real estate sector. Over seventeen (17) million Nigerians live in the diaspora and as of 2021, Nigeria topped the list of Diaspora Home Remittance Countries in Sub-Saharan Africa with over USD20 billion. These remittances cater for the needs of the dependents in the local country, but a significant part of it flows

to the real estate sector as Nigerians abroad tend to build homes in the country to have a place of abode whenever they come to visit.

Figure 6: Analysis of GDP, Construction, Real Estate, Cement Sector and Diaspora Remittances

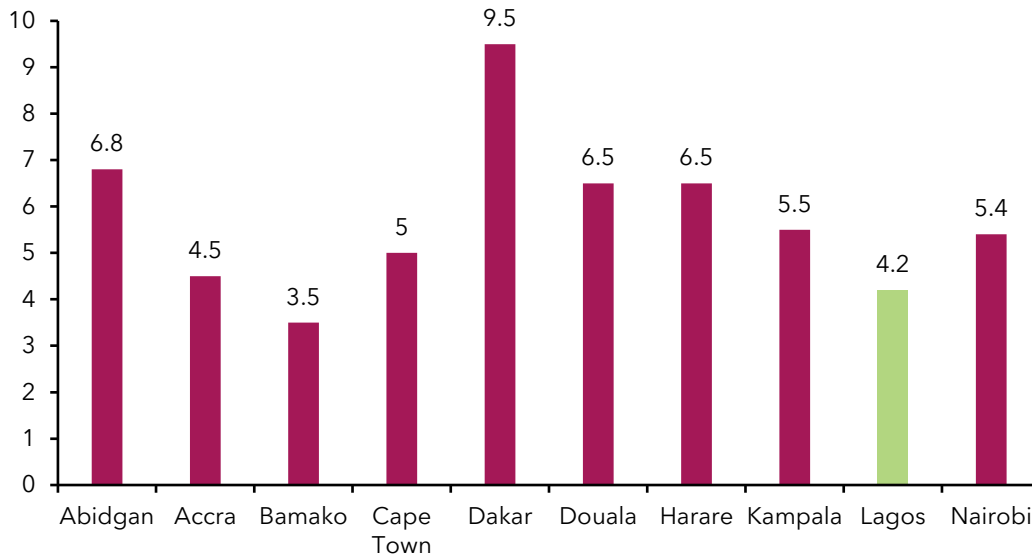


Source: NBS, ARM Research

Office Buildings

The demand for office buildings saw a sharp decline following the introduction of the Work-From-Home during lockdown due to the COVID-19 pandemic. Following the gradual resumption of economic activities post-lockdown, there has been increased adoption of a hybrid work policy. This development bodes for a slowdown in the demand for office buildings. According to Northcourt, the demand for Grade A office space has dwindled while there has been a steep rise in the demand for B+ office spaces and conversions. For our part, we envisage a demand increase for warehouses following the full resumption of commercial activities in the economy.

Figure 7: Average industrial rents for African countries, annual (\$'psm)

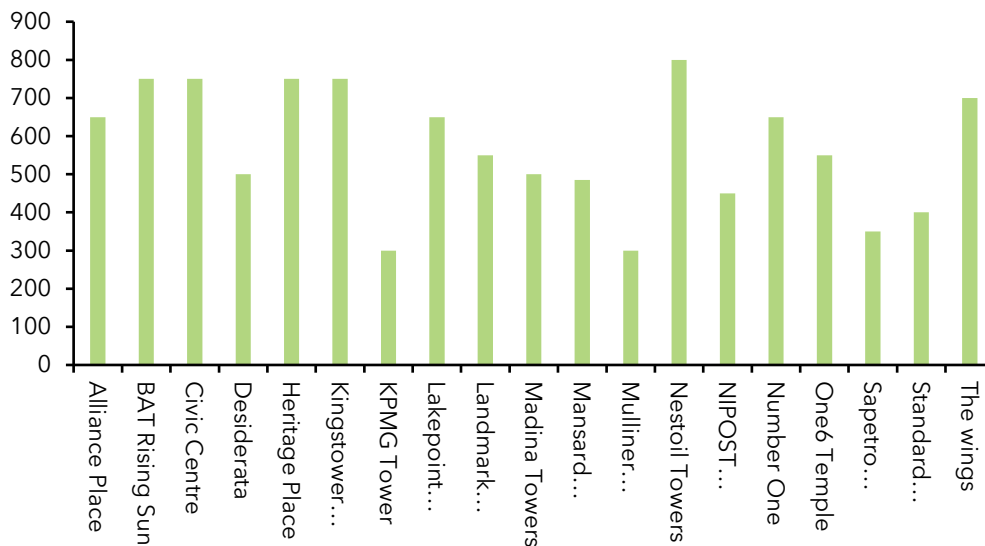


Source: Northcouth, ARM Research

As seen in the diagram above, average industrial rents in Lagos are relatively low compared to other African countries states.

Despite several structures being erected in the city, while some are still in progress, we believe that there is still room for development and growth in the real estate sector. We also opine that there is a need to close the standard of living gap that exists in the Nigerian economy to ensure that the real estate sector (residential and commercial) is affordable for the average Nigerian.

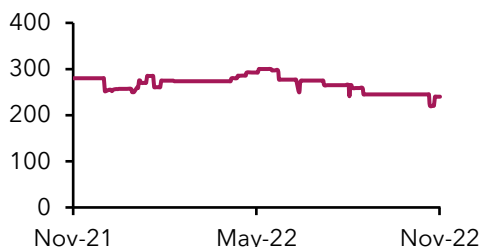
Figure 8: Average industrial rents for In Lagos, annual (\$'psm)



Source: Northcouth, ARM Research

Price	NGN220.00
52-week range	NGN220.5 - NGN300
TP	NGN301.99
Rating	BUY
Market Cap	NGN3.75trn

DANGCEM - Share Price Trend



Analyst: **Owolabi Samson**

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Dangote Cement: Leaving A Footprint Across Africa

We Initiate coverage on Dangote Cement Plc. the leading cement company in Nigeria and Sub-Saharan Africa with a "BUY" rating, as we expect the fundamental and technical outlook of the company to maintain an upward trend. Our view is that the company will outperform current expectations in the long term. Also, the ability of the company to shift the cost burden to consumers and maintain its position as the market leader puts it in an advantageous position. In making our forecast and predictions, we employed professional care and due diligence by analyzing global economic factors and how it affects that group, we took into consideration the political and economic activities of the countries where the group has a footprint. We also considered economic and political factors in Nigeria, and how the environment affects the group's activities.

Background: Beyond the Bounds

Dangote Cement is a subsidiary of Dangote Industries. Founded in 1981 as a trading business with its initial focus on importing bagged cement. Over the years, the group transitioned and began importing bulk cement into Apapa and Porthacourt terminals which it then bagged for distribution. Today, Dangote Cement is the leading cement company in Nigeria and Sub-Saharan Africa and the leading cement producer in Africa with existing operations in 10 African countries.

Operating strategy

Dangote Cement Plc. prides itself as the market leader in Nigeria's cement space. With a 51.6 million tonnes production capacity across 10 African countries. Its board of directors consists of members with several years of experience with a combined experience of 450 years. The company's board of directors comprises individuals of diverse cultures from six (6) different nationalities and 27% female board representation which also depicts gender diversity. Dangote Cement takes market dominance as its major strategy and this aligns with the company's vision for West and Central Africa to become cement and clinker self-sufficient, with Nigeria being the main export hub. In Nigeria, the company currently has fully integrated cement plants with a combined capacity of 32.3mta located in Obajana, Ibese and Gboko. Its large Cement plant capacity made it the market leader compared to Lafarge Africa plc and BUA Cement.

After achieving its goal of making Nigeria a cement and clinker self-sufficient country, a goal which was further bolstered by the ban on cement importation in the early 2000s, the group proceeded on the quest of making Sub-Saharan Africa

cement and clinker self-sufficient by expanding its operations across 9 African countries. Dangote Cement has been able to leverage its high productive capacity, wide presence across Nigeria and Africa and price-making ability to further extend its dominance as the market leader.

9M:2022: Heavy Cost Burden Wanes PAT

Dangote Cement sustained Revenue growth in 9M:2022 as it grew topline by 15.17% (YoY) to NGN1,177trn amid a decrease in sales volume to 20.80mt (vs 21.16mt in 9M:2021). We suspect that strategic pricing was a major factor that overshadowed the effect of the decline in sales volume. Gross Profit advanced 12.02% (YoY) despite the momentous (39.79% YoY) Fuel and Power cost surge. As a result, Profit after Tax declined 23.41% (YoY).

Valuation and Recommendation: We arrived at our 12-month target price of NGN301.99 and a "BUY" recommendation as of 8th of November, 2022 using a blend of absolute (Discounted Cash Flow) and relative (P/E multiple and EV/EBITDA multiple) valuations. For the relative valuation, P/E multiples and EV/EBITDA multiples were weighted at 50:50 while for the absolute valuation (DCF), we estimated the Risk-free rate, Beta, Market Risk Premium, and Weighted Average Cost of Capital at 12.06%, 1.01, 6.50%, and 14.85% respectively.

Revenue: Lower Sales Volume Simmer Topline Growth

As obtained from the 9M:2022 earnings result, Revenue grew 15.17% (YoY) to NGN1,177trn (vs NGN1,022trn in 9M:2021). This is amid a 6.16% decline in sales volume to 20.80mt (vs 22.16mt in 9M:2021). We suspect that the decline in sales volume is on the back of the sustained global energy supply disruptions which have tickled down to Nigeria and other Pan-African countries. Also, high-interest rates and increased rainfall have caused a slowdown in the demand for cement. Furthermore, extended power plant maintenance witnessed in the company's operations in Senegal, and the prolonged shutdown of Congo plants ushered in a steep decline in sales volume.

Cost of Sales: Energy Cost Surge Thwart Topline Performance

Production Cost of Sales (adjusted for depreciation) edged up 21.27% to NGN421.61bn. This is following the momentous surge in Fuel and Power cost (+39.794% YoY to NGN198.15bn), Salaries and Related Staff Costs (+18.88% YoY to NGN34.16bn) and Plant Maintenance Cost (+24.52% YoY to NGN37.18bn). As a result, Gross Profit settled at NGN755.65bn (+12.02% YoY). We opine that increased FX cost played a major role in the uptrend seen in these figures.

OPEX: Haulage Expenses Surge Astronomically

Administrative expenses (adjusted for depreciation) grew (+6.97% YoY) to NGN45.35bn. A dive into the figures show that Salaries and Related Staff Costs (+17.36% to NGN15.32bn), Travel Expenses (+49.44% to NGN3.20bn), Security (+17.75% to NGN2.23bn) witnessed the highest surge in the subcomponents.

Selling and Distribution expenses (adjusted for depreciation) soared (+58.71% YoY) to NGN198.18bn. This is on the back of the massive increase in Advertisement and promotion (+181.15% to NGN5.08bn), Haulage (+63.77% to NGN175.60bn) and Salaries and Related Staff Costs (+17.72% YoY to NGN14.89bn) subcomponents. We believe that this is an offshoot of the current trend in inflation. Overall, Operating Expenses (adjusted for depreciation) surged (+45.60% YoY) to NGN243.54bn.

Outlook: Sustaining Positive Stance

Despite significant cost pressures, we maintain an optimistic view of Dangote Cement. Although the energy supply disruption remains worrisome for cement players. We believe that the oligopolistic nature of the Cement sector and the players' ability to set prices strategically and shift the cost burden to the final consumer gives the company an advantage in the long run. Also, management's determination to limit dependence on fuel oils as a source of power and the introduction of alternative fuel oils and coal put the company in an advantageous position.

Please click [here](#) for the full company report.

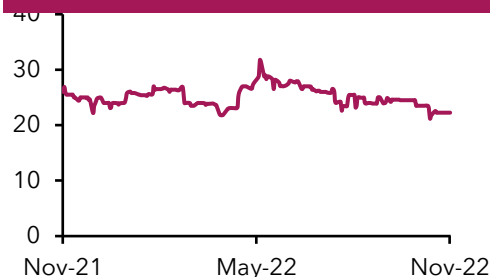
Kindly see below for more details.

Overview of Financials 9M:2022

Item Lines (Million of Naira)	9M 2022	9M 2021	% Change
Sales	1,177,256.00	1,022,186.00	15.17%
Cost of Sales (ex-dep)	(421,607.00)	(347,646.00)	21.27%
Gross Profit	755,649.00	674,540.00	12.02%
Selling and Dist Expenses (ex-dep)	(198,187.00)	(124,872.00)	58.71%
Administrative Expenses (ex-dep)	(45,351.00)	(42,397.00)	6.97%
EBITDA	512,111.00	507,271.00	0.95%
Depreciation and Amortization	(81,963.00)	(73,935.00)	10.86%
EBIT	430,148.00	433,336.00	-0.74%
Other Incomes	3,115.00	7,214.00	-56.82%
Impairment of financial assets	360.00	(226.00)	-259.29%
Finance Cost (Net)	(97,723.00)	(34,837.00)	180.51%
Profit Before Tax	335,900.00	405,487.00	-17.16%
Tax Expense	(122,799.00)	(127,237.00)	-3.49%
Profit After Tax	213,101.00	278,250.00	-23.41%
Balance Sheet Extract (Million of Naira)	9M 2022	9M 2021	% Change
Total Asset	2,333,738.00	2,250,236.00	3.71%
Shareholders Fund	838,218.00	905,215.00	-7.40%
Longterm Liability	451,263.00	339,879.00	32.77%
Shorterm Liability	1,044,257.00	1,005,142.00	3.89%
Ratios	9M 2022	9M 2021	% Change
Gross Margin	64.2%	66.0%	-2.73%
EBITDA Margin	43.5%	49.6%	-12.34%
Operating Margin	36.5%	42.4%	-13.81%
Net Margin	18.1%	27.2%	-33.50%
Return on Asset	9.1%	12.1%	-24.78%
Return on Equity	25.4%	31.9%	-20.35%

Price	NGN22.25
52-week range	NGN21.20-NGN31.75
TP	NGN43.85
Rating	BUY
Market Cap	NGN358.39bn

WAPCO - Share Price Trend



Analyst: **Owolabi Samson**
Samson.owolabi@arm.com.ng

LAFARGE (WAPCO): Standing Strong

We Initiate coverage on Lafarge Africa Plc, with a "BUY" rating as we expect the fundamental and technical outlook of the company to maintain an upward trend. Our conjecture is that the company is currently under-priced in the market. In making our forecast and estimates, we employed professional care and due diligence by analyzing global economic factors and how it affects that group, we took into consideration the political and economic activities of the countries where the group has a footprint. We also considered economic and political factors in Nigeria and how the environment affects the group's activities.

Background: Maintaining Strong Lines

Lafarge Africa Plc. Is a member of the Holcim Group. Incorporated on 24th February 1959 and listed on the Nigerian Exchange (formerly Nigerian Stock Exchange) on 17th February 1979. Apart from selling and distributing cement, the Company provides building and construction solutions designed to meet housing and construction needs from small projects like individual home buildings to major construction and infrastructure projects. Lafarge Africa Plc. Currently has an installed cement production capacity of 10.5mtpa with plants in the Southwest (Ewekoro, Sagamu 4.5mmt), the South (Mfamosing, Calabar 5mmt), and Northeast (Ashaka, Gombe1mmt).

Operating Strategy

The company has been focused on optimizing its cement plants and expanding its market share. The company sold off its South Africa Operations in 2019 for a total sum of USD316.29mn and used the proceeds to deleverage its capital structure and sort its working capital needs. This is reflected in the decline in finance costs. In the last investor relations meeting, the management communicated their desire not to build new plants for the next two (2) to three (3) years but to make optimal use of the currently installed plants, which we believe will keep the debt profile at considerably low levels.

9M:2022 Financial Analysis

Lafarge Africa Plc was able to post a 23.11% growth in topline as revenue stood at NGN269.85bn. We suspect that the growth in Year-on-Year revenue is on the back of strategic pricing. Cost of Production (adjusted for depreciation) grew (+21.87% YoY) to NGN117.55bn. This is on the back of the significant surge in Production variable costs (+33.28% YoY) to NGN87.92bn. In consequence, Gross Profit edged up (+24.09% YoY) to 152.30bn.

Valuation and Recommendation: We arrived at our 12-month target price of NGN43.85 and a "**BUY**" recommendation as of 8th of November, 2022 using a blend of absolute (Discounted Cash Flow) and relative (P/E multiple and EV/EBITDA multiple) valuations. For the relative valuation, P/E multiples and EV/EBITDA multiples were weighted at 50:50 while for the absolute valuation (DCF), we estimated the Risk-free rate, Beta, Market Risk Premium, and Weighted Average Cost of Capital at 13.85%, 1.27, 5.44%, and 20.46% respectively.

Revenue: Higher Sales Boost Topline Earnings

From our study of the 9M:2022 earnings result of Lafarge Africa Plc, Revenue grew (+23.11% YoY) to NGN269.85bn (vs NGN219.19bn in 9M:2021) in the previous year's corresponding period. We believe strategic product pricing was in play for this increase which was further amplified by a +22.43% YoY surge to NGN261.46bn surge in Cement sales, a 46.02% YoY (NGN8.00bn) surge in Aggregates and Concrete revenue.

Cost of Sales: Global Headwinds Bites Hard

Cost of Sales (adjusted for depreciation) advanced 21.87% YoY to NGN117.55bn. We dived into the numbers and saw that Production Variable Costs advanced (+33.28% YoY) to NGN87.92 while Maintenance fixed costs edged up (+38.90% YoY) to NGN13.39bn. However, the company was able to grow Gross Profit by 24.09% YoY to NGN152.30bn. We believe the surge in Cost of Sales (adjusted for depreciation) echoes the inflationary pressures coupled with prolonged Naira depreciation witnessed in 9M:2022.

OPEX: Energy Disruptions Spur Cost Pressures

Total Operating Expenses (adjusted for depreciation) advanced +44.04% (YoY) to NGN77.68bn. The company was able to keep the increase in Administrative Costs (adjusted for depreciation) at bay as it grew +13.35% YoY to NGN15.02bn. However, Selling and Distributions Costs surged by +54.03% (YoY) to NGN62.65bn. Looking

through the binoculars, we attribute this increase to the surge in Advertisement expenses (+184.94% to 1.18bn) evidenced by the promotional activities embarked upon by the company's management (the WinBETA Season 1 promo which flagged off on August 01, 2022). Furthermore, the uptrend seen in Distribution fixed costs (+122.61% YoY to NGN6.78bn), and Distribution variable cost (+48.59% YoY to NGN52.17bn) further bolstered OPEX.

Outlook: Positive Results Sustainable

We expect decent earnings in the last quarter of the year. We base our expectations on strategic decisions made by the management of the company in 9M:2022. The company improved its energy mix which is now characterized by approximately 10.0% of low-cost alternative fuel. Also, the company kept a low debt profile which led to a decline in Net Finance costs (-27.40% to NGN1.66bn). In the last investor relations meeting. The management emphasized that the firm is keeping a low debt profile and they are not investing in any expansionary projects, rather, they are working on optimizing the plant capacity.

Please click [here](#) for the full company report

Kindly see below for more details.

Overview of Financials 9M:2022

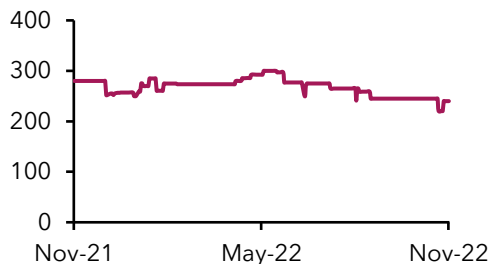
Item Lines ('000 of Naira)	9M 2022	9M 2021	% Change
Revenue	269,852,450	219,197,595	23.11%
Cost of Sales (Production) (ex-dep)	(117,549,271)	(96,458,367)	21.87%
Gross Profit	152,303,179	122,739,228	24.09%
Selling and Distribution Costs	(62,654,051)	(40,676,131)	54.03%
Administrative Expenses (ex-dep)	(15,020,035)	(13,250,652)	13.35%
EBITDA	74,629,093	68,812,445	8.45%
Depreciation and Amortization	(18,398,835)	(21,655,008)	-15.04%
EBIT	56,230,258	47,157,437	19.24%
Other Income	281,442	495,803	-43.24%
Impairment reversal on receivables	43,645	499,256	-91.26%
Gain on disposal of investment in Joint venture	-	826,879	-100.00%
Other operating expenses	-	(13,970)	-100.00%
Finance Cost (Net)	(2,607,424)	(5,064,180)	-48.51%
Profit Before Tax	53,947,921	43,901,225	22.88%
Tax Expense	(9,048,383)	(3,506,628)	158.04%
Profit After Tax	44,899,538	40,394,597	11.15%
Balance Sheet Extract ('000 of Naira)	9M 2022	9M 2021	% Change
Total Asset	565,637,161	526,838,197	7.4%
Shareholders Fund	407,352,418	378,560,676	7.6%
Longterm Liability	15,842,697	17,224,432	-8.0%
Shorterm Liability	142,442,046	131,053,089	8.7%
Ratios	9M 2022	9M 2021	% Change
Gross Margin	56.4%	56.0%	0.4%
EBITDA Margin	27.7%	31.4%	-3.7%
Operating Margin	20.8%	21.5%	-0.7%
Net Margin	16.6%	18.4%	-1.8%
Return on Asset	7.9%	7.4%	0.5%
Return on Equity	11.0%	10.3%	0.7%

Price	NGN72.00
52-week range	NGN47.85 - NGN74.5
TP	NGN72.51
Rating	SELL
Market Cap	NGN2.43trn

BUA CEMENT Plc: Moving at a Fast Pace

We Initiate coverage on BUA Cement Plc, with a "SELL" rating. Despite its track record of revenue growth and capacity expansion, our view is that the company is currently overpriced in the market. In making our forecast and estimates, we employed professional care and due diligence by analyzing global economic factors and how it affects that group, we took into consideration the political and economic activities of the countries where the group has a footprint. We also considered economic and political factors in Nigeria and how the environment affects the group's activities.

BUACEMENT - Share Price Trend



Analyst: **Owolabi Samson**

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Background: Catching Up Quick

BUA Cement Plc., a member of the BUA Group was incorporated in 2008 and commenced business the same year. In 2019, the company acquired the Cement Company of Northern Nigeria, CCNN (Sokoto Cement) and the Edo Cement Company. This was in line with the management's strategy to expand its capacity and market share. This move also gave the company the title "The King in the North". In 2020, BUA Group consolidated its cement operations and listed BUA Cement Plc on the Nigerian Stock Exchange with a total combined installed capacity of 8mmtpa and a market capitalization of NGN1.18trillion (US\$3.3bn), making it the second largest cement producer (overtaking Lafarge Africa Plc) in the Nigerian market and the largest cement producer in the North-Western region of the country.

Operating Strategy

BUA Cement Plc is keen on market share expansion and volume growth. On 25th July 2022, the Company notified the public of its plan to expand the Kalambaina cement plant in Sokoto to 8.0mmtpa from 2mmtpa. BUA Cement Plc. recorded the fastest growth with a CAGR of 21.3%, while Dangote Cement and LAFARGE recorded a CAGR of (+11.3%) and (+7.7%) respectively. We allude BUA Cement's fast growth to the strategic acquisition it made in 2018-2019. We believe the expansionary moves made by the management of the company place the firm in an advantageous position.

9M:2022 Financial Analysis

In the 9M:2022 earnings result of BUA Cement Plc, Revenue grew by 40.50% YoY to NGN262.60bn (vs NGN186.91bn in 9M:2021). We suspect this is on the back of an increase in the volume of cement sold (the commissioning of the Kalambaina plant in Q1:2022 and an additional 500,000 capacity) and strategic pricing. Cost of Production (adjusted for depreciation) Year-on-Year growth mirrored revenue growth (+36.29% YoY) to settle at NGN130.53bn. This is following the significant surge in Other Production Expenses (+186.21% YoY to NGN2.07bn), Energy cost (+60.09% YoY) to NGN65.00bn, and Operations, Maintenance and Technical Fees (+32.47% YoY) to NGN12.70bn. However, Gross Profit witnessed a significant increase (+36.29% YoY) to NGN132.06bn.

Valuation and Recommendation: We arrived at our 12-month target price of NGN72.51 and a "**SELL**" recommendation as of the 8th of November, 2022 using a blend of absolute (Discounted Cash Flow) and relative (P/E multiple and EV/EBITDA multiple) valuations. For the relative valuation, P/E multiples and EV/EBITDA multiples were weighted at 50:50 while for the absolute valuation (DCF), we estimated the Risk-free rate, Beta, Market Risk Premium, and Weighted Average Cost of Capital at 11.19%, 1.149, 12.01%, and 8.28% respectively.

Revenue: Capacity Expansion Boost Sales Volume

Revenue witnessed an upward momentum in the 9M:2022 as it surged (+40.50% YoY) to NGN262.60bn. We suspect this is on the back of an increase in the volume of cement sold (the commissioning of the Kalambaina plant in Q1:2022 and an additional 500,000 capacity) and an increase in the price of cement.

Cost of Sales: Global Headwinds Come in Hot

Cost of Sales (adjusted for depreciation) advanced 45.03% YoY to 130.53bn. This echoes the increase seen in Other Production Expenses (+186.21% YoY to NGN2.07bn), Energy cost (+60.09% YoY) to NGN65.00bn, and Operations, Maintenance and Technical Fees (+32.47% YoY) to NGN12.70bn and Materials Cost (+43.07% YoY to NGN43.03bn). The spillover effect of the sustained Russo-Ukraine conflict can be seen in the surge in Energy Costs. Also, the FX scarcity and the depleting Naira further compound the costs, as is the case with other cement players in the industry.

OPEX: Inflation Keeps Cost on a High Note

Total Operating Expenses (adjusted for depreciation) surged +76.97% YoY to NGN17.69bn. Selling and Distribution Costs (adjusted for depreciation) shot up 138.56% YoY to NGN10.13bn. This echoes the surge in Marketing Expenses and Other Overheads (+70.81% YoY to NGN62.33bn) and Distribution Costs (+200.86% YoY to NGN8.48bn). Administrative Expenses grew by 31.48% YoY to NGN7.56bn. We believe the surge in Operating Expenses is majorly driven by inflationary pressures that have permeated the global economy.

Outlook: Capacity Expansion to Sustain Positive Results

Based on our Valuation and the recent earnings of the company, we place a "SELL" rating on BUA Cement Plc as we consider the stock (BUACEMENT) to be overpriced at current levels.

Please click [here](#) for the full company report

Kindly see below for more details.

Overview of Financials 9M:2022

Item Lines ('000 of Naira)	9M 2022	9M 2021	% Change
Sales	262,598,019.51	186,905,079.63	40.50%
Cost of Sales (ex-dep)	(130,533,562.72)	(90,003,196.56)	45.03%
Gross Profit	132,064,456.79	96,901,883.07	36.29%
Administrative Expenses (Ex dep)	(7,562,227.01)	(5,751,659.75)	31.48%
Selling and Distribution Cost (Ex dep)	(10,132,915.26)	(4,247,563.72)	138.56%
EBITDA	114,369,314.51	86,902,659.60	31.61%
Depreciation and Amortization	(15,396,418.06)	(11,387,669.34)	35.20%
EBIT	98,972,896.45	75,514,990.26	31.06%
Other Incomes	271,863.66	177,105.10	53.50%
Finance Cost (Net)	(9,724,572.44)	(1,049,159.44)	826.89%
Minimum Tax	(708,691.07)	(310,214.77)	128.45%
Profit Before Tax	88,811,496.60	74,332,721.14	19.48%
Tax Expense	(14,796,998.48)	(8,426,509.87)	75.60%
Profit After Tax	74,014,498.13	65,906,211.27	12.30%
Balance Sheet Extract ('000 of Naira)	9M 2022	9M 2021	% Change
Total Asset	781,626,808.87	728,507,473.00	7.29%
Shareholders Fund	384,083,925.57	398,116,748.00	-3.52%
Longterm Liability	197,295,768.09	185,035,605.00	6.63%
Shorterm Liability	200,247,115.21	145,355,120.00	37.76%
Ratios	9M 2022	9M 2021	% Change
Gross Margin	50.3%	51.8%	-3.00%
EBITDA Margin	43.6%	46.5%	-6.33%
Operating Margin	37.7%	40.4%	-6.71%
Net Margin	28.2%	35.3%	-20.07%
Return on Asset	9.5%	8.7%	8.49%
Return on Equity	19.3%	16.9%	14.35%

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 otherwise—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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