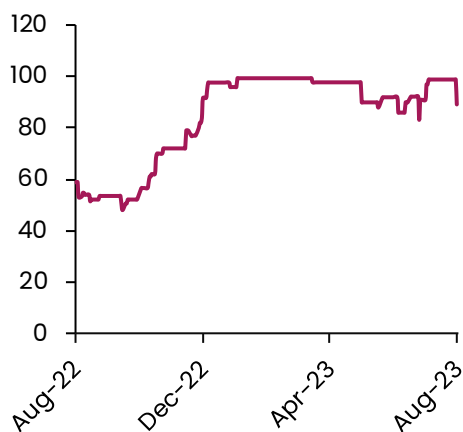




BUACEMENT | Industrial Goods | HI:2023

Price	NGN98.95
52-week range	NGN46.8-NGN99.7
TP	NGN110.81
Rating	OVERWEIGHT
Market Cap	NGN3.35trn

BUACEMENT-Share Price Trend



Analyst

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BUA CEMENT PLC. (BUACEMENT.NL)

Earnings Note: HI:2023

Spiraling Finance Costs Limits Bottom-Line Growth

BUA Cement Plc. recently released its HI:2023 financial results, depicting a 17.24% YoY growth in revenue to NGN221.07bn. On the other hand, production cost of sales (adjusted for depreciation) rose by 17.42% YoY to NGN105.36bn while total operating costs (ex-dep) surged 46.26% YoY to NGN16.86bn. Furthermore, Net finance costs spiked 269.57% YoY to NGN10.52bn following the devaluation of Naira amid elevated interest rate environment in the period. Consequently, Profit Before Tax (PBT) and Profit After Tax (PAT) rose marginally by 2.75% YoY and 3.67% YoY to NGN76.43bn and NGN63.62bn respectively. Overall, net profit margin deteriorated to 28.78% YoY in HI:2023 (vs. 32.54% YoY in HI:2022).

We believe BUA Cement is poised for growth in its revenue and would feed into its bottom-line performance barring any significant devaluation later in the year. Hence, we retain our 2023FY target price of NGN110.81.

Production Costs Spikes amid Higher Material and Energy Costs

Production Cost of Sales (adjusted for depreciation) grew by 17.42% YoY to NGN105.36bn in HI:2023. This was on the back of rising material costs (+38.09% YoY to NGN39.42bn), energy costs (+9.93% YoY to NGN47.91bn) and operations, maintenance, and technical fees (+26.21% YoY to NGN10.71bn).

We expect energy cost to remain elevated following the PMS subsidy removal which would contribute to surging production expenses in 2023FY.

Distribution, Admin and Staff Cost Pushed OPEX Higher

Administrative expenses (adjusted for depreciation) increased by 12.29% YoY to NGN6.13bn in H1:2023. We attribute the increase to rising staff costs (+33.76% YoY to NGN1.63bn), other admin expenses (+48.17% YoY to NGN1.36bn) and legal and other professional fees (+213.61% YoY to NGN390.51mn) in the period. Selling and Distribution expenses (adjusted for depreciation) surged 73.88% to NGN11.27bn in H1:2023. This was on the back of surging distribution costs (+84.19% YoY to NGN10.00bn) and marketing expenses and other overheads (+85.45% YoY to NGN492.90mn). Overall, Operating Expenses (ex-dep) increased by 46.26% YoY to NGN16.86bn.

Given current macroeconomic realities, we maintain our previous view that OPEX would remain elevated. Our stance feeds off from the recent PMS subsidy removal and its attendant effect on energy costs and consequently distribution expenses.

Net Finance Cost Spiraled Due to FX Losses & Higher Interest Payments

Net Finance costs jumped by 269.57% YoY to NGN10.52bn despite higher interest income (+54.80% YoY to NGN2.22bn) reported in the period. We attribute the higher net finance cost to surging interest expenses (+228.70% YoY to NGN10.59bn) on the back of higher borrowings amid elevated interest rate environment and FX losses (+102.85% YoY to NGN2.14bn).

We expect net finance costs to remain elevated due to the current elevated interest rate environment. However, we anticipate that the company would post decent bottom-line performance for 2023FY.

Summary of Results

Item Lines (Million of Naira)	H1:2023	H1:2022	% Change
Revenue	221,067	188,562	17.24%
Production Cost of sales (ex-dep)	(105,360)	(89,732)	17.42%
Gross profit	115,707	98,829	17.08%
Administrative expenses (ex-dep)	(5,588)	(5,045)	10.77%
Selling and distribution expenses (ex-dep)	(11,273)	(6,483)	73.88%
EBITDA	98,846	87,301	13.22%
Depreciation and Amortization	(12,889)	(9,764)	32.00%
EBIT	85,957	77,536	10.86%
Other income	983	200	391.33%
Net Finance Cost	(10,515)	(2,845)	269.57%
minimum tax	0	(513)	-100.00%
Profit before tax	76,425	74,378	2.75%
income tax	(12,809)	(13,014)	-1.58%
Profit after Tax	63,616	61,364	3.67%
Balance Sheet Extract	H1:2023	H1:2022	% Change
Total Asset	1,037,822	861,040	20.53%
Shareholders fund	474,729	459,481	3.32%
Longterm Liability	707,746	642,175	10.21%
Shortterm Liability	330,076	218,865	50.81%
Ratios	H1:2023	H1:2022	% Change
Gross Margin	52.34%	52.41%	-0.07%
EBITDA Margin	44.71%	46.30%	-1.59%
Operating Margin	38.88%	41.12%	-2.24%
Net Margin	28.78%	32.54%	-3.77%
Return on Asset	6.13%	7.13%	-1.00%
Return on Equity	13.40%	13.36%	0.05%
EPS(NGN)	1.88	1.81	3.87%

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%	N/A	
SELL	<-5%		

RECOMMENDATION	
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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