



Lafarge Africa Plc (WAPCO.NL)

Price	₦22.25
52-week range	₦9.75-₦31.5
Market Cap. (₦'bn)	358.39
1-month Avg. Vol	406,030.51
Curr. PE	11.61

Initial View

Earnings lifted by strong volume and operating efficiency

WAPCO.NL - Share Price Trend



Analyst

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- Lafarge Africa Plc. recently released its Q1'21 financial scorecard, showing an impressive YoY growth in top line and bottom line by 12.21% and 13.26% to ₦71.47bn and ₦9.14bn respectively. A closer look at the result revealed that revenue was primarily supported by increased volumes as gross margin weakened by 96bps YoY to 26.71% while gross profit expanded by 8.32% over the same period. We suspect the lingering inflationary cost pressure and FX scarcity may have continued to impact negatively on the company's cost line, thus, inducing a 13.69% YoY rise in cost of sales.
- We observed continued operational efficiency as OPEX/Sales ratio printed at 7.09%, down by 220bps YoY, and lowest in the last three quarters. This decline was premised on the reduction in administrative (-14.95%) and Selling & Distribution expenses (-10.58%). Thus, operating profit jumped by 24.19% YoY to ₦14.70bn, with operating margin also improving by 199bps to 20.57% on the back of improved operational efficiency.
- Furthermore, we noticed a 21.36% YoY decline in net finance cost in Q1'21. This was mostly driven by the 9.46% YoY moderation in the company's total loans and borrowings which stemmed down interest on borrowing by 20.89% to ₦1.66bn during the quarter. We noticed the company has continued to pay attention to its financing cost structure, thus keeping financing leverage at levels lower than industry peers. This combined with its improved operating efficiency as highlighted above induced a 36.12% YoY increase in PBT to ₦12.77bn while PAT grew by 13.26% to ₦9.14bn, on the back of higher deferred tax charged during the period.
- Finally, we observed material improvement in Lafarge's cashflow from operations largely supported by significant increase in its trade and other payable during the quarter compared to a reduction in Q1'20. Although management guided towards a \$60m to \$70m CAPEX spend in 2021, Q1'21 results revealed that not much has been done in this regard as total CAPEX spend printed at ₦3.48bn. Our last communicated FVE was ₦28.61, which still implies a STRONG BUY rating on the stock based on the current market price of ₦22.25. We await management's conference call on its Q1'21 numbers to adjust our fair value estimate.

Summary of Results

Income Statement (N'million)	Q1'21	Q1'20	YoY Growth	QoQ Growth
Revenue	71,470	63,696	12.21%	40.98%
COGS	52,377	46,069	13.69%	32.34%
Gross Profit	19,093	17,627	8.32%	71.74%
OPEX	5,065	5,912	-14.33%	-24.77%
Operating Profit (EBIT)	14,704	11,840	24.19%	222.29%
Net finance cost	1,932	2,457	-21.36%	12.70%
PBT	12,772	9,382	36.12%	348.50%
Tax	3,635	1,315	176.36%	472.35%
PAT	9,136	8,067	13.26%	312.94%
Key Ratios	Q1'21	Q1'20	YoY Change (pps)	QoQ Change (pps)
Gross margin	26.71%	27.67%	-0.96%	4.78%
EBIT margin	20.57%	18.59%	1.99%	11.57%
PBT margin	17.87%	14.73%	3.14%	12.25%
PAT margin	12.78%	12.66%	0.12%	8.42%
Effective Tax rates	28.46%	14.02%	14.44%	22.3%

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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