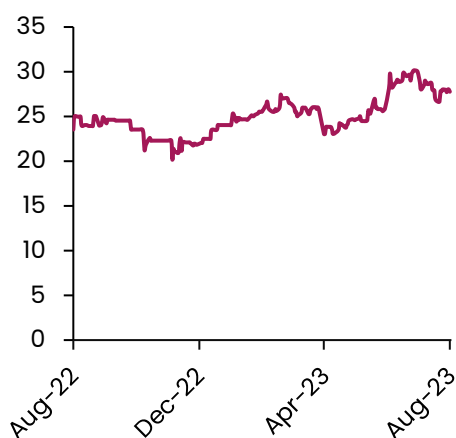




Price	NGN27.75
52-week range	NGN20.05-NGN31.5
TP	NGN45.01
Rating	STRONG BUY
Market Cap	NGN446.99bn

WAPCO-Share Price Trend



Analyst

Oyinkansola Aregbesola

oyinkansola.aregbesola@arm.com.ng

LAFARGE PLC. (WAPCO.NL)

Earnings Note: H1:2023

Performance Marked by Tepid Revenue Growth

H1:2023 financial statement for Lafarge Africa Plc. revealed a 5.95% YoY growth in revenue to NGN197.68bn. On the other hand, production cost of sales (adjusted for depreciation) rose marginally by 2.94% YoY to NGN81.02bn while total operating costs (ex-dep) advanced 9.76% YoY to NGN51.14bn. Despite the surge in finance income (+2,215.32% YoY to NGN4.44bn) and consequently, improvement in Profit Before Tax (PBT), Profit After Tax (PAT) declined by 5.16% YoY to NGN35.48bn. We associate the decline to higher effective tax rate (+109.50% YoY to NGN35.48bn) due to the expiration of the Pioneer Status Incentive (PSI). Overall, net profit margin deteriorated to 17.95% YoY in H1:2023 (vs. 20.05% YoY in H1:2022).

Considering the company's performance amid macroeconomic headwinds, our outlook for Lafarge Africa Plc remains positive. We based this on the expectation of an improved topline performance amid Management's cost-saving strategies. We also recognize the company's strong balance sheet position with free cash flow growing by 119% to NGN81.8bn in H1:2023. We maintain our 2023FY target price of NGN45.01.

Personnel and Energy related Costs Spurs Increase in Production Cost

Production Cost of Sales (adjusted for depreciation) rose marginally by 2.94% YoY to NGN81.02bn in H1:2023. The increase was associated with rising production fixed costs (personnel expenses, by products costs and electrical energy expenses), as it increased by 19.49% YoY to NGN13.55bn.

Total Operating Expenses (OPEX): Higher Distribution and Staff Costs

Administrative expenses (adjusted for depreciation) increased 21.55% YoY to NGN10.87bn in H1:2023. This was on the back of a surge in technical service fees (+24.44% YoY to NGN3.56bn), office and general expenses (+31.39% YoY to NGN2.59bn) and salaries and other staff related costs (+18.60% YoY to NGN3.81bn). Selling and Distribution expenses rose by 6.97% to NGN40.28bn in H1:2023. We attribute the increase to rising distribution variable cost (+3.64% YoY to NGN33.56bn) and marketing staff salaries and other costs (+39.45% YoY to NGN2.49bn). Overall, Operating Expenses (ex-dep) increased by 9.76% YoY to NGN51.14bn.

Although we note Management's effort in keeping costs low, we expect OPEX to climb higher due to rising energy costs.

Impressive Net Finance Income: Courtesy of FX Gains and Interest Income from Short Term Deposits

Net Finance income improved significantly to NGN3.03bn in H1:2023 from a loss of NGN1.67bn in H1:2022. We attribute the higher net finance income to impressive FX gains (NGN2.24bn) and interest from short term fixed deposits and current accounts (+1,388.90% YoY to NGN2.15bn). This was amid a decline in finance costs (-24.33% YoY to NGN1.41bn) in the period. Consequently, Profit Before Tax (PBT) rose by 18.00% YoY to NGN55.32bn.

Summary of Results

Item Lines (Millions of Naira)	H1:2023	H1:2022	% Change
Revenue	197,681	186,587	5.95%
Production Cost of sales	(94,286)	(90,516)	4.17%
Gross profit	103,395	96,071	7.62%
Selling and distribution costs	(40,276)	(37,653)	6.97%
Administrative expenses	(11,249)	(10,113)	11.24%
Other income	425	200	112.58%
Impairment reversal on receivables	(9)	42	-122.10%
EBIT	52,286	48,547	7.70%
Finance Income	4,437	192	2215.32%
Finance Costs	(1,407)	(1,860)	-24.33%
Profit before tax	55,315	46,879	18.00%
income tax	(19,836)	(9,468)	109.50%
Profit after Tax	35,479	37,410	-5.16%
Balance Sheet Extract	H1:2023	H1:2022	% Change
Total Asset	654,695	568,025	15.26%
Shareholders fund	419,365	399,863	4.88%
Long-term Liability	33,103	16,157	104.89%
Short-term Liability	202,227	152,006	33.04%
Ratios	H1:2023	H1:2022	% Change
Gross Margin	52.30%	51.49%	0.82%
Operating Margin	26.45%	26.02%	0.43%
Net Margin	17.95%	20.05%	-2.10%
Return on Asset	5.42%	6.59%	-1.17%
Return on Equity	8.46%	9.36%	-0.90%
EPS(NGN)	2.20	2.32	-5.17%

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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