

Lafarge Africa Plc

Nigeria | Equities | Industrial Goods | November 5, 2021

PAC RESEARCH

Lafarge Records Impressive Performance in 9M'21; Declares Interim Dividend of ₦1.00/Share

INVESTMENT SUMMARY

Lafarge Africa reported impressive performance in nine-month to September 2021 as revenue grew by 21.86% to ₦219.20 billion (vs. ₦179.88 billion recorded in nine-month to September 2020). The increase in the revenue could be attributed to growth in demand for cement and increase in prices in Nigeria during the period. The Cement segment contributed 97.50% (₦213.72 billion) to the overall revenue while Aggregate and Concrete segment contributed 1.74% (₦5.48 billion) to the overall revenue of the company. However, the cost of sales rose by 25.66% to ₦155.24 billion in 9M'21 (vs. ₦123.54 billion in 9M'20). The increase in the cost of sales could be attributed to inflationary pressure and higher cement volumes, which resulted in 28.01% increase in the production and distribution variable costs during the period. This translated to a cost-to-sales ratio of 70.82% in 9M'21 (9M'20: 68.68%). In addition, the selling, marketing and administrative expenses grew by 4.96% to ₦16.80 billion in 9M'21 (9M'20: ₦16.00 billion). Despite the increase in total operating expenses, the operating profit of the company rose by 17.09% to ₦48.14 billion in 9M'21 (vs. ₦41.11 billion in 9M'20).

The net finance costs fell significantly by 25.74% to ₦5.06 billion in 9M'21 (vs. ₦6.82 billion in 9M'20), mainly as a result of reduction in loans and borrowings which resulted in 39.98% fall in interest on borrowings. Consequently, profit before tax grew by 28.02% to ₦43.90 billion in 9M'21 (vs. ₦34.29 billion in 9M'20). The company made a lower provision of ₦3.51 billion for tax in 9M'21 (vs. ₦6.10 billion in 9M'20). As a result, the profit after tax improved significantly by 43.26% to ₦40.40 billion in 9M'21 (vs. ₦28.20 billion in 9M'20). Impressively, the 12-month trailing EPS grew to ₦2.67 (vs ₦1.44 in the corresponding period of last year). With the impressive figures released by the company and expectation of improved cement demand in coming quarters, we upgrade the target price per share to ₦29.02 (Previous TP: ₦28.47) and maintain a **BUY** recommendation.

Table 1: Quarterly results highlights

	3Q2021	2Q2021	3Q2020	Q/q Δ	Y/y Δ
Revenue (₦mn)	74,182	73,546	59,337	+0.86%	+25.02%
Op. Profit (₦mn)	9,920	23,515	8,302	-57.81%	+19.49%
Net profit (₦mn)	12,072	19,189	4,867	-37.09%	+148.04%

Source: NSE, Bloomberg, PAC Research

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Price:

- Current	₦25.50
- Target	₦29.02

Recommendation: **BUY**

* As at Friday November 5, 2021

Table 2: Stock data

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December	
Price Mov't: YtD / 52wk	+21.14%/+41.08%
52-week range	₦18.45- ₦31.50
30-day Average vol.	3,960,487
Shares Outstanding ('mn)	16,107.80
Market Cap. (₦bn)	410.75
EPS (₦) - 12months trailing	2.67
DPS (₦) - FY2020	1.00

Source: NSE, Bloomberg, PAC Research

Table 3: Key ratios

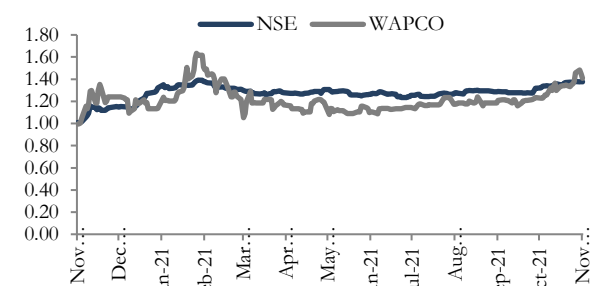
	9M'21	9M'20
Gross profit margin	29.18%	31.32%
Net profit margin	18.43%	15.68%
Equity multiplier	1.33x	1.43x
Asset turnover	0.43x	0.35x

Source: NSE, PAC Research

Table 4: Valuations

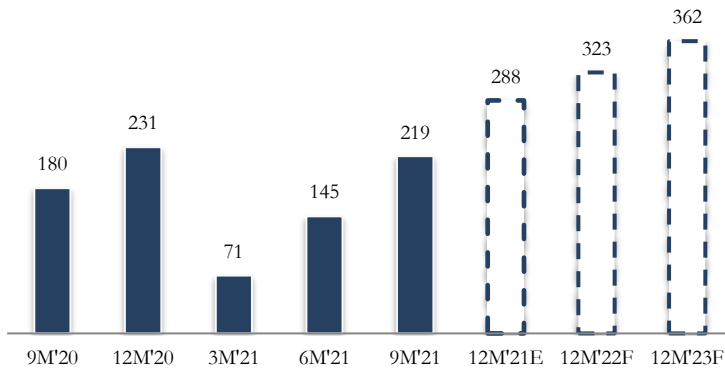
	FY2019	FY2020	FY2021F	FY2022F
P/E	26.47x	13.32x	8.34x	7.70x
P/B	1.19x	1.14x	1.06x	1.00x
Div Yield (%)	3.92	3.92	6.27	7.06
Pay-out Ratio	103.8%	52.23%	52.30%	54.38%
EV/EBITDA	6.88x	5.36x	3.98x	3.48x
Ev/Revenue	2.10	1.77	1.32	1.19
Sales Per Share	13.22	14.31	17.89	20.04

Fig. 1: WAPCO vs NSE, 52-wk Movement (Rebased)



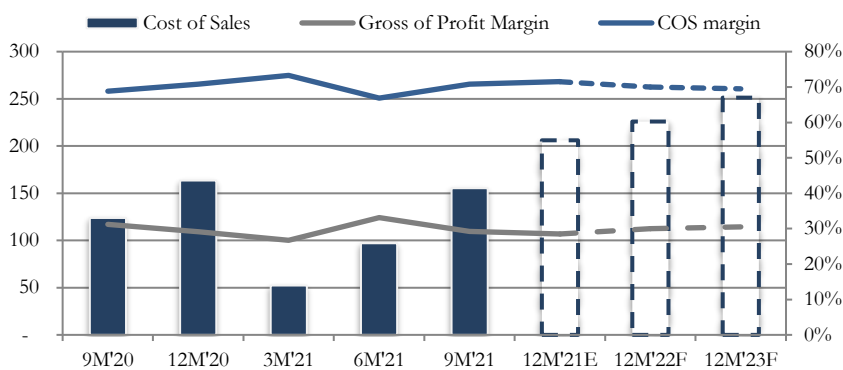
Source: Bloomberg, PAC Research

Fig. 2: Revenue – 9M'20 – 12M'23F (Billion NGN)



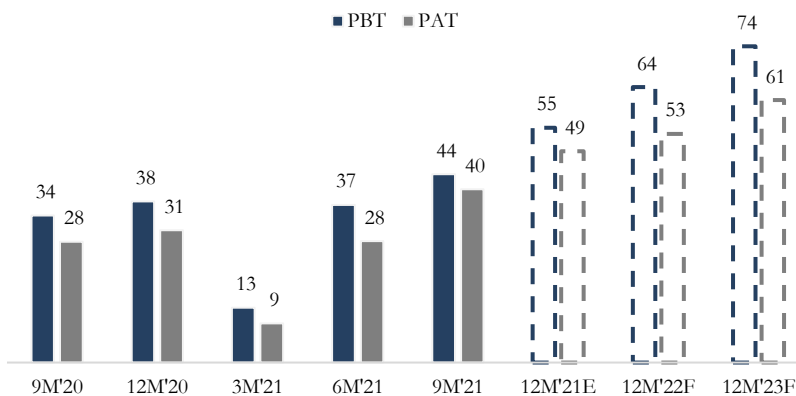
Source: NSE, PAC Research

Fig. 3: Cost of Sales, GP Margin and COS Margin – 9M'20 – 12M'23F (Billion NGN)



Source: NSE, PAC Research

Fig. 4: Profit before Tax and Profit after Tax – 6M'20 – 12M'23F (Billion NGN)



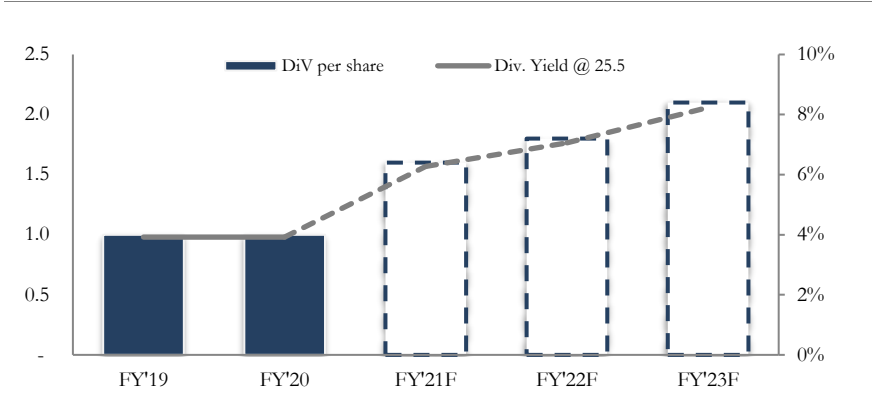
Source: NSE, PAC Research

Balance sheet remains solid as Lafarge Africa rewards the shareholders with interim dividend of ₦1:00 per share: In the third quarter of 2021, Lafarge Africa maintain a strong financial position as total assets improved marginally by 0.33% to ₦512.37 billion (vs. ₦510.69 billion in the third quarter of 2020), due to the growth recorded in the current assets of the company during the period. The current asset improved by 4.60% to ₦115.08 billion Q3'21 (vs. ₦110.02 billion in Q3'20), mainly as a result of 29.95% increase in inventories and 64.39% growth in other financial assets.

Impressively, the total liabilities of the company fell by 16.43% to ₦128.44 billion in Q3'21 (vs. ₦153.69 billion in Q3'20), driven by significant decline in total loans & borrowings. During the period, the short-term and long-term loans & borrowing declined by 58.49% and 54.87% to ₦19.15 billion (Q3'20: ₦46.14 billion) and ₦3.29 billion (Q3'20: ₦7.29 billion) respectively. Consequently, the net assets improved by 7.54% to ₦383.93 billion in the third quarter 2021 (vs. ₦357.00 billion reported in the corresponding period of the previous year), and this resulted in a net asset per share of ₦23.83 (Q3'20: ₦22.16).

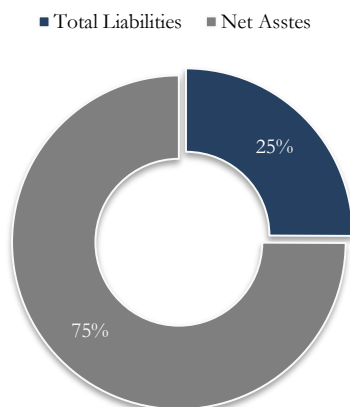
With the robust balance sheet and impressive operating performance during the period, the company rewarded its shareholders with an interim dividend of ₦1.00 per share, equalling the total dividend per share paid for the FY 2020. We expect Lafarge to pay additional dividend (final) in the full year of 2021 as we anticipate growth in demand for cement in the fourth quarter of 2021.

Fig. 5: Dividend Per Share and Dividend Yield (FY'19-FY'23F)



Source: NSE, PAC Research

Fig. 6: Total Liabilities Vs Net Asset in 9M'21



Source: NSE, Bloomberg, PAC Research

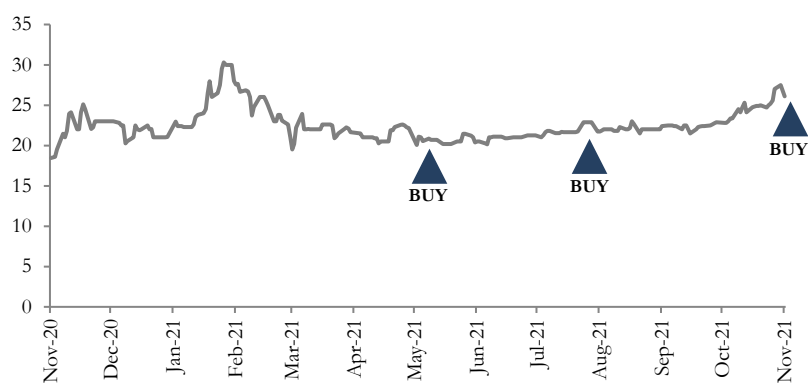
Valuation

Our valuation puts the target price of the stock at ₦29.02, representing an increase of 13.81%, from the current price of ₦25.50. In arriving at the target price, we employed Discounted Cash Flow Valuation methodology.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are: previous financial reports of the company, the current figures released by the company, recovery in cement industry and outlook of the management.

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Fig. 7: Share Price History (Naira)



Source: NSE, PAC Research

Table 5: Statement of Profit or Loss, N'mn

	2019	2020	2021E	2022F
Revenue	212,999	230,573	288,216	322,802
<i>Change</i>		8.25%	25.00%	12.00%
Cost of Sales	(157,047)	(163,333)	(206,075)	(225,961)
<i>Change</i>		4.00%	26.17%	9.65%
Gross Profit	55,952	67,240	82,142	96,841
<i>Change</i>		20.17%	22.16%	17.89%
Selling and marketing expenses	(5,096)	(4,221)	(3,603)	(4,358)
<i>Change</i>		-17.16%	-14.65%	20.96%
Administrative expenses	(17,560)	(18,302)	(20,175)	(22,596)
<i>Change</i>		4.23%	10.24%	12.00%
Operating profit	34,910	45,673	59,690	70,694
<i>Change</i>		30.83%	30.69%	18.44%
Finance Income	3,159	1,176	865	968
<i>Change</i>		-62.77%	-26.48%	12.00%
Finance Cost	(20,177)	(9,710)	(7,205)	(8,070)
<i>Change</i>		-51.87%	-25.80%	12.00%
Profit Before Taxation	17,892	37,572	54,752	64,238
<i>Change</i>		109.99%	45.73%	17.32%
Taxation	(2,374)	(6,730)	(5,475)	(10,920)
<i>Change</i>		183.43%	-18.64%	99.45%
Profit After Taxation	15,518	30,842	49,277	53,317
<i>Change</i>		98.75%	59.77%	8.20%

Table 6: Statement of Financial Position, N'mn

	2019	2020	2021E	2022F
Property, plant and equipment	369,797	348,328	345,859	371,222
Intangible assets	3,202	1,939	2,421	2,712
Deferred tax asset	27,994	23,404	21,616	22,596
LT Loans and borrowings	52,665	5,140	4,323	8,070
Inventories	32,441	31,053	38,909	43,578
Trade and other receivables	8,193	5,029	5,764	6,456
Cash and Cash Balances	47,758	64,852	53,323	57,643
Total Assets	597,198	597,198	577,455	490,761
Trade and other payables	69,718	76,858	86,465	96,841
ST Loans and borrowings	11,520	44,593	23,057	25,824
Bank overdraft	28	-	-	-
LT Loans and borrowings	52,665	5,140	4,323	8,070
Deferred tax liabilities	9,967	9,402	11,529	12,912
Total Liabilities	152,238	147,575	141,716	162,273
Net Assets	344,914	359,638	387,161	409,087

Table 7: Profitability Ratio

	2019	2020	2021E	2022F
Return on Equity	4.50%	8.58%	12.73%	13.03%
Return on Assets	3.12%	6.08%	9.32%	9.33%
Gross margin	26.27%	29.16%	28.50%	30.00%
EBITDA margin	30.55%	32.92%	33.20%	34.10%
PBT margin	8.40%	16.30%	19.00%	19.90%
Net Profit Margin	7.29%	13.38%	17.10%	16.52%

Table 8: Asset Utilization

	2019	2020	2021E	2022F
cash/sales	0.13	0.23	0.20	0.19
Sales to inventory (x)	6.57	7.43	7.41	7.41
Sales to total assets (x)	0.43	0.45	0.54	0.56
Sales to total fixed assets	0.58	0.66	0.83	0.87
Equity multiplier	1.44	1.41	1.37	1.40
fixed asset turnover	0.58	0.66	0.83	0.87

Table 9: Liquidity Ratios

	2019	2020	2021E	2022F
Quick ratio	0.50	0.56	0.69	0.66
Current ratio	0.89	0.81	1.02	0.99
Cash ratio	0.32	0.42	0.49	0.47
Interest Coverage	1.05	4.40	8.63	9.05
Debt/net income	4.14	1.61	0.56	0.64
Debt to asset	0.13	0.10	0.05	0.06
Debt to equity	0.19	0.14	0.07	0.08
Total liabilities/equities	0.44	0.41	0.37	0.40
Total liabilities/Asset	0.44	0.41	0.37	0.40
Inventory turnover	4.84	5.26	5.30	5.19
Inventory days	75.40	69.39	68.92	70.39
Account receivable days	14.04	7.96	7.30	7.30

Table 10: Shareholders' Investment Ratios

	2019	2020	2021E	2022F
EPS (₦)	0.96	1.91	3.06	3.31
DPS (₦)	1.00	1.00	1.60	1.80
NAVPS (₦)	21.41	22.33	24.04	25.40
Earnings yield (%)	3.78%	7.51%	12.00%	12.98%

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top-down and bottom-up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

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