

Lafarge Africa Plc

Less Burden as Divestment of South African Business Yields Positive Results

INVESTMENT SUMMARY

The FY'19 audited report recently released by Lafarge Africa Plc showed a setback in the top-line as revenue fell by 2.21% to ₦213.00 billion (vs. ₦217.81 billion in FY'18). The decline in revenue can be mainly ascribed to the sale of Lafarge South Africa Holdings (LSAH) in July 2019, as the figures recorded for revenue in third quarter and fourth quarter of 2019 did not capture the activities in LSAH (which have been deconsolidated). Due to higher production costs, the cost of sales increased by 4.21% to ₦157.05 billion in FY'19 (vs. ₦150.70 billion in FY'18). During the period, the company also benefited from cost-reduction strategy as administrative expenses fell significantly fell by 29.42% to ₦17.56 billion in FY'19 (vs. ₦24.88 billion in FY'18). However, selling & marketing expenses increased by 30.73% to ₦5.10 billion (vs. ₦3.90 billion in FY'18), mainly as a result of higher advertising expenses. Consequently, operating profit fell by 9.39% to ₦34.91 billion in FY'19 (vs. ₦38.53 billion in FY'18).

The non-operating activity of the company, which used to be a burden as a result of debt owed to Caricement BV, recorded an impressive improvement after the sales of LSAH. The proceed from the sales of LSAH was used to clear the debt owed to Caricement BV and this translated to a lower finance costs of ₦20.18 billion in FY'19 (vs. ₦41.56 billion in FY'18). Consequently, a profit before tax of ₦17.89 billion was recorded in FY'19 (vs. a loss before tax of ₦1.51 billion in FY'18). There was a provision of ₦2.37 billion for tax (vs. tax credit of ₦9.61 billion in 9M'18) and as a result, the company achieved a profit after tax of ₦15.52 billion in FY'19 (vs. a loss after tax of ₦8.10 billion in FY'18). Impressively, the company rewarded the shareholders with ₦1.00 dividend per share in FY'19 (vs. ₦0.00 in FY'18). Due to the expectation of slowdown in cement demand in Nigeria as a result of impacts of COVID-19, we downgrade the target price per share to ₦11.88 (Previous Target Price: ₦15.75) and also downgrade to a HOLD recommendation on the company shares.

Fig. 1: Quarterly results highlights

	4Q2019	3Q2019	4Q2018	Q/q Δ	Y/y Δ
Revenue (₦mn)	49,942	2,761	52,186	+1708%	-4.30%
Op. Profit (₦mn)	(628)	13,151	7,078	-104.78%	-108.87%
Net profit (₦mn)	(5,056)	11,564	7,880	-143.7%	-164.16%

Source: NSE, Bloomberg, PAC Research

April 24, 2020

Oluwole Adeyeye

oluwole.adeyeye@panafricancapitalholdings.com

Price:

- Current	₦11.70
- Target	₦11.88
Recommendation:	HOLD

* As at Thursday April 23, 2020

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-23.53%/+2.18%
52-week range	₦8.95- ₦17.60
30-day Average vol.	7,228,530
Shares Outstanding ('mn)	16,107.80
Market Cap. (₦bn)	188.46
EPS (₦) - 12months trailing	0.96
DPS (₦) - FY2019	1.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	FY'19	FY'18
Gross profit margin	26.27%	30.81%
Net profit margin	7.29%	3.72%
Equity multiplier	1.44x	4.02x
Asset turnover	0.43x	0.40x

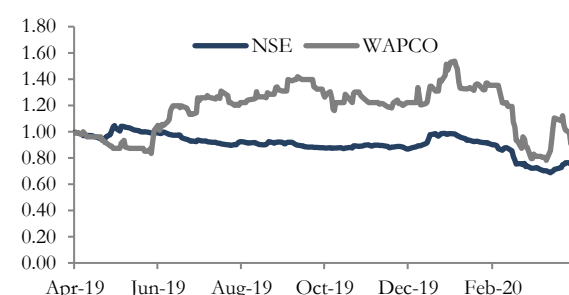
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2018	FY2019	FY2020F	FY2021F
P/E	23.28x	12.14x	16.65x	10.80x
P/B	1.40x	0.55x	0.57x	0.58x
Div Yield (%)	0.00	8.55	6.41	8.55
Pay-out Ratio	0.00%	103.8%	106.7%	92.33%
EV/EBITDA	7.21x	3.50x	4.26x	4.04x
Ev/Revenue	2.03	1.06	1.33	1.27
Sales Per Share	13.52	13.22	11.02	11.79
P/S Ratio	0.87	0.88	1.06	0.99

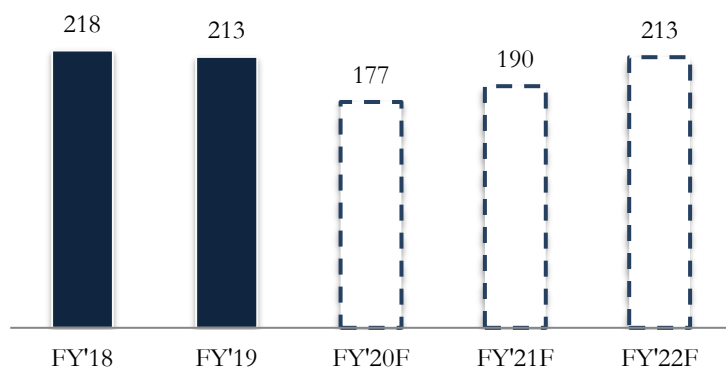
Source: NSE, PAC Research

Fig. 5: WAPCO vs NSE, 52-wk Movement (Rebased)



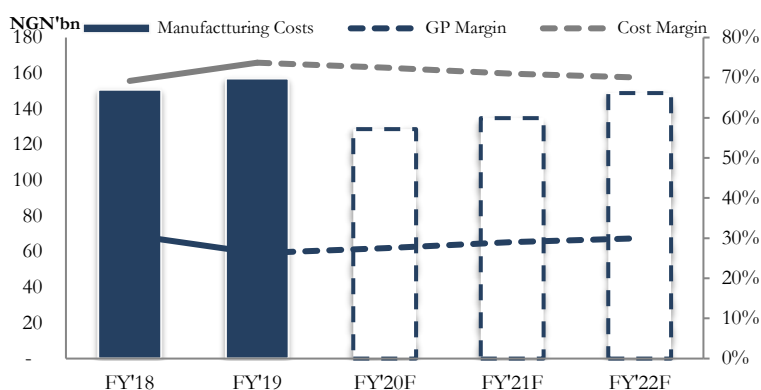
Source: Bloomberg, PAC Research

Fig. 6: Revenue – FY'18 - FY'22F (Billion NGN)



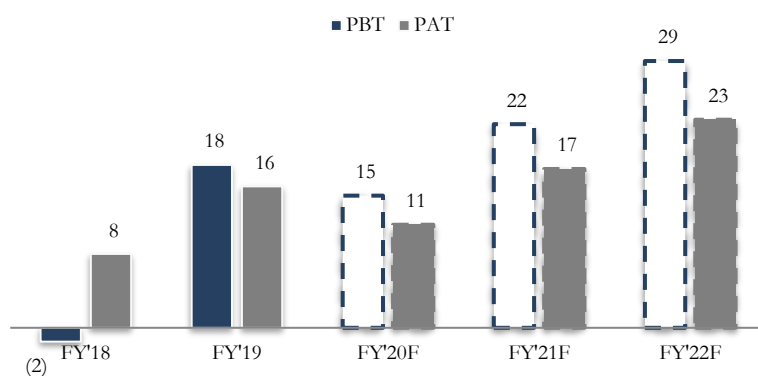
Source: NSE, Bloomberg, PAC Research

Fig. 7: Cost of Sales, GP Margin and COS Margin – FY'18 - FY'22F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

Fig. 8: Profit before Tax and Profit after Tax – FY'18- FY'22F (Billion NGN)



Source: NSE, Bloomberg, PAC Research

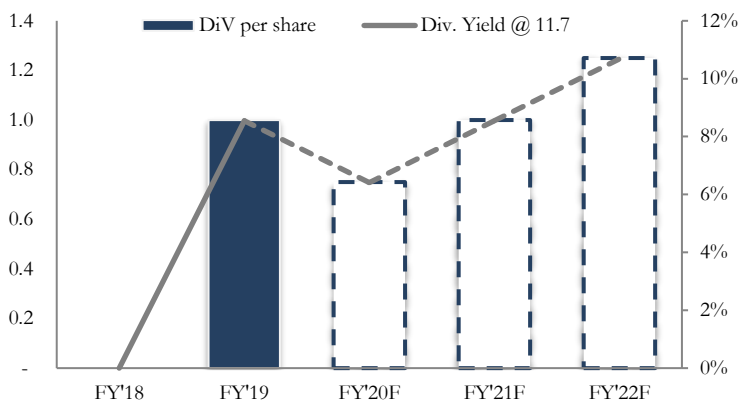
Improved Balance sheet due to lower loans and borrowings; Directors recommend dividend of ₦1.00 per share: The divestment of South African business delivered a strong balance sheet in FY'19 as the proceed from the divestment was used to settle debt owed to Caricement BV and this translated to a lower total loans and borrowings, which reduced significantly by 75.89% to ₦64.18 billion (vs. ₦266.21 billion in FY'18).

Consequently, total liabilities declined by 62.52% to ₦152.24 billion in FY'19, from ₦406.20 billion in FY'18. However, total assets fell by 8.06% to ₦497.15 billion in FY'19 (vs. ₦540.74 recorded in FY'18), due to decline in property, plant, & equipment. Impressively, the fall in total liabilities significantly outweighed the decline in total assets and as a result, net assets improved by 156.36% to ₦344.91 billion in FY'19 (vs. ₦134.54 billion in FY'18). This resulted in a net asset per share of ₦21.41 (vs. ₦8.35 in FY'18).

With the robust balance sheet, the company compensated the shareholders by paying the entire profit after tax as dividends in FY'19. The directors recommended a dividend of ₦1.00 per share in 2019 (2018: ₦0.00) and if approved, the dividend will be paid electronically on the 26th of May 2020 to all shareholders whose names appear on the Register of Members at the close of business on Thursday, 30th of April 2020.

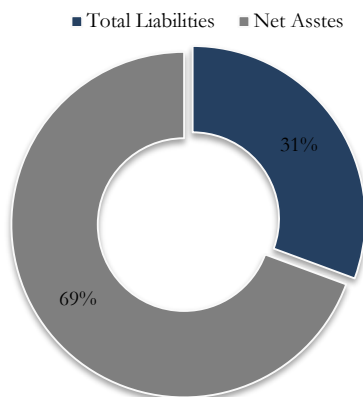
The directors recommended a dividend of ₦1.00 per share in 2019 (2018: ₦0.00) and if approved, the dividend will be paid electronically on the 26th of May 2020

Fig. 9: Dividend Per Share and Dividend Yield (FY'18-FY'22F)



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in Q1'19



Source: NSE, Bloomberg, PAC Research

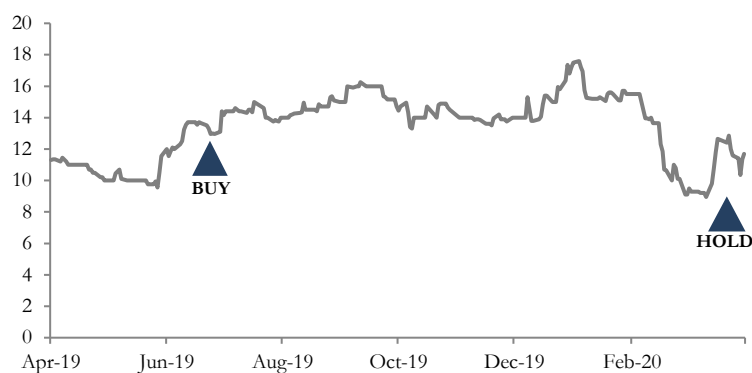
Valuation

Our valuation puts the target price of the stock at ₦11.88, representing an increase of 1.50%, from the current price of ₦11.70. In arriving at the target price, we employed Discounted Cash flow Valuation methodology. Consequently, we recommend a **HOLD** on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company, the impact of COVID-19 on the cement industry in 2020 and the outlook of the management.

Our valuation puts the target price of the stock at N11.88, representing an increase of 1.50%, from the current price of N11.70.

Fig. 11: Share Price History (Naira)



Source: NSE, PAC Research

Fig. 12: Statement of Profit or Loss, N'mn

	2018	2019	2020F	2021F
Revenue	217,813	212,999	177,450	189,871
Change		-2.21%	-16.69%	7.00%
Cost of Sales	(150,701)	(157,047)	(128,651)	(134,808)
Change		4.21%	-18.08%	4.79%
Gross Profit	67,112	55,952	48,799	55,063
Change		-16.63%	-12.79%	12.84%
Selling and marketing expenses	(3,898)	(5,096)	(3,709)	(3,968)
Change		30.73%	-27.22%	7.00%
Administrative expenses	(24,878)	(17,560)	(16,858)	(15,949)
Change		-29.42%	-4.00%	-5.39%
Operating profit	38,528	34,910	29,066	36,038
Change		-9.39%	-16.74%	23.98%
Finance Income	1,525	3,159	1,420	1,519
Change		107.15%	-55.06%	7.00%
Finance Cost	(41,563)	(20,177)	(15,970)	(15,190)
Change		-51.46%	-20.85%	-4.89%
Profit Before Taxation	(1,510)	17,892	14,515	22,367
Change		-1285.10%	-18.87%	54.09%
Taxation	9,607	(2,374)	(3,193)	(4,921)
Change		-124.72%	34.49%	54.09%
Profit After Taxation	8,097	15,518	11,322	17,446
Change		91.65%	-27.04%	54.09%

Fig. 13: Statement of Financial Position, N'mn

	2018	2019	2020F	2021F
Property, plant and equipment	394,489	369,797	363,772	370,248
Intangible assets	6,195	3,202	3,017	3,228
Deferred tax asset	28,720	27,994	23,352	24,987
LT Loans and borrowings	447,376	422,106	410,547	418,400
Inventories	47,157	32,441	35,490	29,430
Trade and other receivables	21,164	8,193	10,647	7,595
Cash and Cash Balances	12,551	47,758	27,104	16,680
Total Assets	93,360	75,046	70,643	56,012
Trade and other payables	80,538	69,718	69,205	66,455
ST Loans and borrowings	93,834	11,520	11,534	11,392
Bank overdraft	35,281	28	27	28
LT Loans and borrowings	172,373	52,665	53,235	53,164
Deferred tax liabilities	10,200	9,967	8,872	8,544
Total Liabilities	406,196	152,238	150,947	148,128
Net Assets	134,541	344,914	330,242	326,284

Fig. 14: Profitability Ratio

	2018	2019	2020F	2021F
Return on Equity	6.02%	4.50%	3.43%	5.35%
Return on Assets	1.50%	3.12%	2.35%	3.68%
Gross margin	30.81%	26.27%	27.50%	29.00%
EBITDA margin	28.15%	30.24%	28.88%	31.48%
PBT margin	-0.69%	8.40%	8.18%	11.78%
Net Profit Margin	3.72%	7.29%	6.38%	9.19%

Fig. 15: Asset Utilization

	2018	2019	2020F	2021F
cash/sales	0.06	0.13	0.09	0.06
Sales to inventory (x)	4.62	6.57	5.00	6.45
Sales to total assets (x)	0.40	0.43	0.37	0.40
Sales to total fixed assets	0.55	0.58	0.49	0.51
Equity multiplier	4.02	1.44	1.46	1.45
fixed asset turnover	0.55	0.58	0.49	0.51

Fig. 16: Liquidity Ratios

	2018	2019	2020F	2021F
Quick ratio	0.22	0.50	0.42	0.33
Current ratio	0.44	0.89	0.85	0.69
Cash ratio	0.06	0.32	0.20	0.14
Interest Coverage	0.04	1.05	1.00	1.64
Debt/net income	37.23	4.14	5.72	3.70
Debt to asset	0.56	0.13	0.13	0.14
Debt to equity	2.24	0.19	0.20	0.20
Total liabilities/equities	3.02	0.44	0.46	0.45
Total liabilities/Asset	3.02	0.44	0.46	0.45
Inventory turnover	3.20	4.84	3.63	4.58
Inventory days	114.21	75.40	100.69	79.68
Account receivable days	35.47	14.04	21.90	14.60

Fig. 17: Shareholders' Investment Ratios

	2018	2019	2020F	2021F
EPS (₦)	0.50	0.96	0.70	1.0
DPS (₦)	0.00	1.00	0.75	1.0
NAVPS (₦)	8.35	21.41	20.50	20.2
Earnings yield (%)	4.30%	8.23%	6.01%	9.26%

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

IMPORTANT DISCLOSURES

This research report has been prepared by the analyst(s), whose name(s) appear on the front page of this document, to provide background information about the issues which are the subject matter of this report. It is given for information purposes only.

Each analyst hereby certifies that with respect to the issues discussed herein, all the views expressed in this document are his or her own and reflect his or her personal views about any and all of such matters. These views are not necessarily held or shared by PanAfrican Capital or any of its affiliate companies. The analyst(s) views herein are expressed in good faith and every effort has been made to base our opinion on reliable comprehensive information but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither the analysts nor PanAfrican Capital is under any obligation to notify you or make public any announcement with respect to such change.

This report is produced independently of PanAfrican Capital and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of the analysts. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the recommendations, forecasts, opinions, estimates, expectations and views contained herein are fair and reasonable, none of the analysts, PanAfrican Capital nor any of its directors, officers or employees has verified the contents hereof and accordingly, none of the analysts, PanAfrican Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof.

With the exception of information regarding PanAfrican Capital, reports prepared by PanAfrican Capital analysts are based on public information. Facts and views presented in this report have not been reviewed and may not reflect information known to professionals on other PanAfrican Capital business areas including investment banking. This report does not provide individually tailored investment advice. Reports are prepared without regard to individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. It is recommended that investors independently evaluate particular investments and strategies. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances or objectives. Neither the analyst(s), PanAfrican Capital, any of its respective directors, officers nor employees accepts any liability whatsoever for any loss so ever arising from any use of this report or its contents or otherwise arising in connection therewith. Each analyst and/or any person connected with any analyst may have acted upon or used the information herein contained, or the research or analysis on which it is based prior to its publication date. This document may not be relied upon by any of its recipients or any other person in making investment decisions.

Each research analyst certifies that no part of his or her compensation was, or will be directly or indirectly related to the specific recommendations (if any), opinions, forecasts, estimates or views in this report. Analysts' compensation is based upon activities and services intended to benefit clients of PanAfrican Capital. As with other employees of PanAfrican Capital, analysts' compensation is impacted by the overall profitability of PanAfrican Capital, which includes revenues from all business areas of PanAfrican Capital.

PanAfrican Capital Holdings Ltd

8A, Elsie Femi Pearse Street

Victoria Island

Lagos, Nigeria

Tel: +234 (1) 2716899, 2718630

www.panafricancapitalholdings.com