

# Lafarge Africa Plc

## Impressive Performance despite COVID-19 Challenges

### INVESTMENT SUMMARY

The year 2020 was a tough year for many businesses due to the outbreak of coronavirus globally. This stalled economic activities, especially in H1'20, as most countries across the globe restricted movement to curtail the raging pandemic. However, with the lifting and gradual easing of the lockdown in H2'20, demand for cement gradually increased in Nigeria, which led to a strong recovery in the cement industry. The revenue of Lafarge Africa rose by 8.25% to ₦230.57 billion in FY'20 (vs. ₦213.00 billion in FY'19), driven by high cement price and high volume in the H2'20. Of the total revenue generated by Lafarge Africa Plc, cement segment contributed 97.30% to the overall revenue (FY'19: 98.09%) while aggregate & concrete segment contributed 1.86% to the overall revenue in FY'20 (FY'19: 2.70%). Although, the cost of sales rose by 4.00% to ₦163.33 billion (vs. ₦157.05 billion in FY'19), the company improved its cost minimisation strategy as cost-to-sales ratio fell to 70.84% in FY'20 (FY'19: 73.73%). The selling & marketing expenses declined by 17.16% to ₦4.22 billion in FY'20 (FY'19: ₦5.10 billion), due to significant drop in advertising expenses. However, the administrative expenses rose by 4.23% to ₦18.30 billion in FY'20 (FY'19: ₦17.56 billion). Consequently, EBITDA improved by 16.62% to ₦75.90 billion in FY'20 (vs. ₦65.08 billion in FY'19).

The finance costs improved by 51.87% to ₦9.71 billion in FY'20 (vs. ₦20.18 billion in FY'19), which was attributed to low interest regime and benefit derived from the sale of Lafarge South Africa Holdings, as the company has less debt to settle. Consequently, profit before tax improved significantly by 109.99% to ₦37.57 billion in FY'20 (vs. ₦17.89 billion in FY'19). The company made a higher provision of ₦6.73 billion for tax in FY'20 (vs. ₦2.37 billion in FY'19). As a result, profit after tax rose by 98.75% to ₦30.84 billion in FY'20 (vs. ₦15.52 billion in FY'19) and this translated to EPS of ₦1.91. Based on the recent figures released by the company, we maintain a **BUY** rating on the stock at the current price of ₦21.90. Our current forward estimate places the share price at ₦26.58 (Previous target price: ₦26.72).

Fig. 1: Quarterly results highlights

	4Q2020	3Q2020	4Q2019	Q/q Δ	Y/y Δ
Revenue (₦mn)	50,695	59,337	49,942	-14.56%	+1.51%
Op. Profit (₦mn)	4,562	8,302	-628	-45.05%	-826.4%
Net profit (₦mn)	2,646	4,867	-5,055	-45.63%	-152.3%

Source: NSE, Bloomberg, PAC Research

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Price:

- Current	₦21.90
- Target	₦26.58
<b>Recommendation:</b>	<b>BUY</b>

\* As at Thursday April 22, 2021

Fig. 2: Stock data

FYE	
December	
Price Mov't: YtD / 52wk	+4.04%/+92.11%
52-week range	₦9.75- ₦31.50
30-day Average vol.	2,280,637
Shares Outstanding (mn)	16,107.80
Market Cap. (₦bn)	352.76
EPS (₦) - 12months trailing	1.91
DPS (₦) - FY2020	1.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

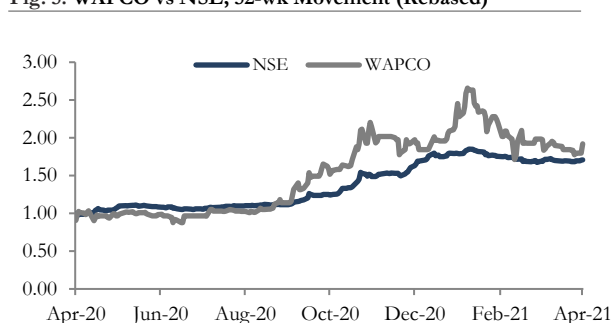
	FY'20	FY'19
Gross profit margin	29.16%	26.27%
Net profit margin	13.38%	7.29%
Equity multiplier	1.41x	1.44x
Asset turnover	0.45x	0.43x

Source: NSE, PAC Research

Fig. 4: Valuations

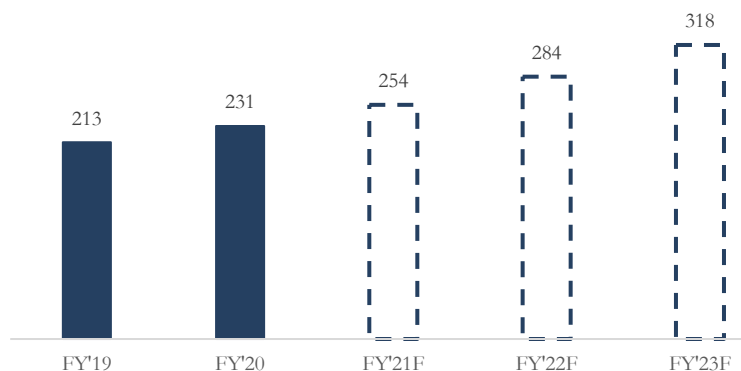
	FY2019	FY2020	FY2021F	FY2022F
P/E	22.73x	11.44x	8.75x	7.47x
P/B	1.02x	0.98x	0.95x	0.85x
Div Yield (%)	4.57	4.57	6.85	7.76
Pay-out Ratio	103.8%	52.23%	59.91%	58.02%
EV/EBITDA	5.99x	4.60x	3.97x	3.44x
Ev/Revenue	1.83	1.51	1.39	1.23
Sales Per Share	13.22	14.31	15.75	17.64
P/S Ratio	1.66	1.53	1.39	1.24

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



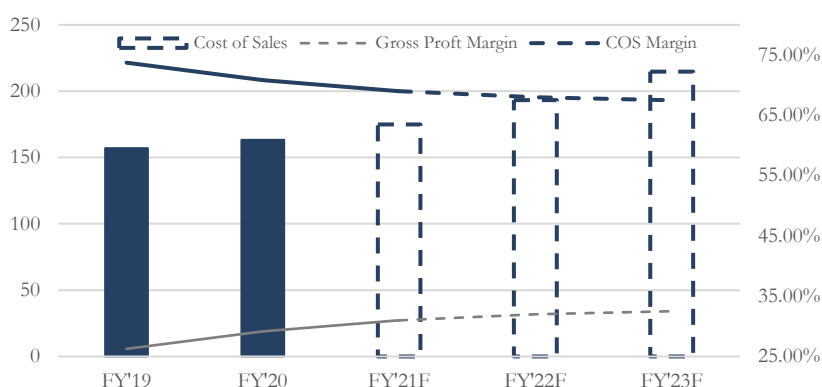
Source: Bloomberg, PAC Research

Fig. 6: Revenue – FY'19 – FY'23F (Billion NGN)



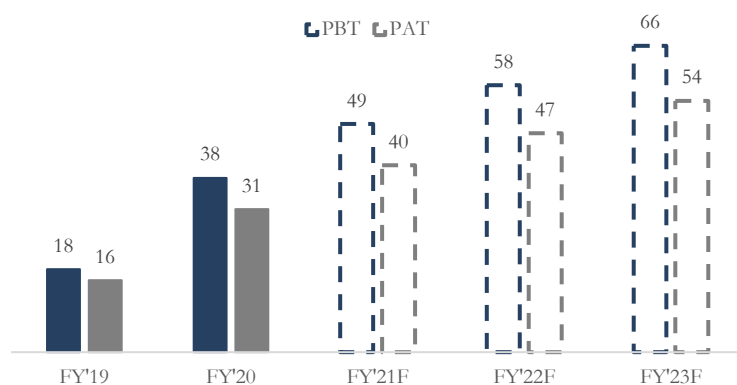
Source: NSE, PAC Research

Fig. 7: Cost of Sales, GP Margin and COS Margin – FY'19 – FY'23F (Billion NGN)



Source: NSE, PAC Research

Fig. 8: Profit before Tax and Profit after Tax – FY'19 – FY'23F (Billion NGN)



Source: NSE, PAC Research

**Balance sheet remains solid and strong as WAPCO rewards shareholders with a dividend per share of ₦1.00 in FY'20:** In full year 2020, the property, plant and equipment of Lafarge Africa Plc declined by 5.81% to ₦348.33 billion (vs. ₦369.80 billion in full year 2019), due to the sale of Lafarge South Africa Holdings (LSAH) which resulted to lower property, plant and equipment when compared with full year 2019.

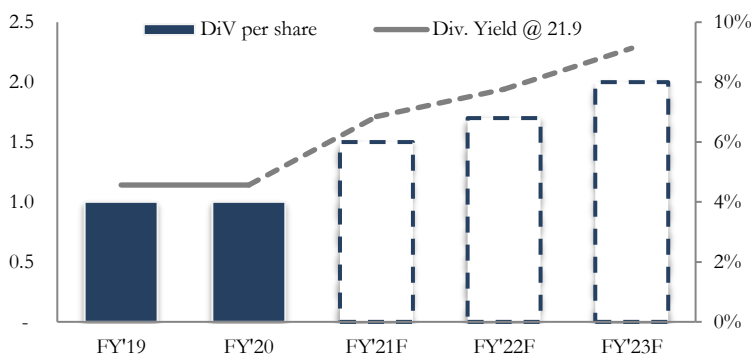
However, the company improved its cash & cash equivalent by 96.74% to ₦53.32 billion in FY'20 (vs. ₦27.10 billion in FY'19) and this offset the reduction in property, plants and equipment, as total assets of the company improved by 2.02% to ₦507.21 billion in FY'20 (vs. ₦497.15 billion in FY'19).

In addition, the total liabilities of the company declined by 3.06% to ₦147.58 billion in FY'20 (vs. ₦152.34 billion in FY'19) due to significant drop in long-term loans & borrowing. Consequently, net assets improved by 4.27% to ₦359.64 billion in full year 2020 (vs. ₦344.91 billion recorded in the corresponding fill year 2019), and this resulted in net asset per share of ₦22.33 (2019: ₦21.41).

With the robust balance sheet and progressive performance in operating and non-operating activities, the company rewarded the shareholder with a dividend per share of ₦1.00 in FY'20 (FY'19: ₦1.00) and this represented to a pay-out ratio of 52.23%. With expectation of impressive performance in cement industry, we may likely see improved dividend payment in full year 2021.

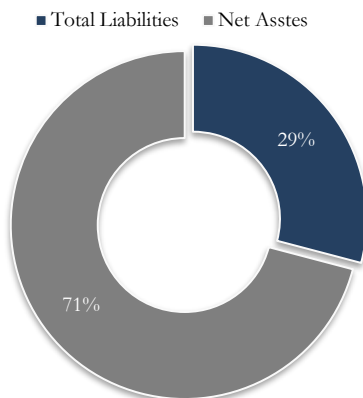
*... the company rewarded the shareholder with a dividend per share of ₦1.00 in FY'20 (FY'19: ₦1.00).*

Fig. 9: Dividend Per Share and Dividend Yield (FY'19-FY'23F)



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in FY'20



Source: NSE, Bloomberg, PAC Research

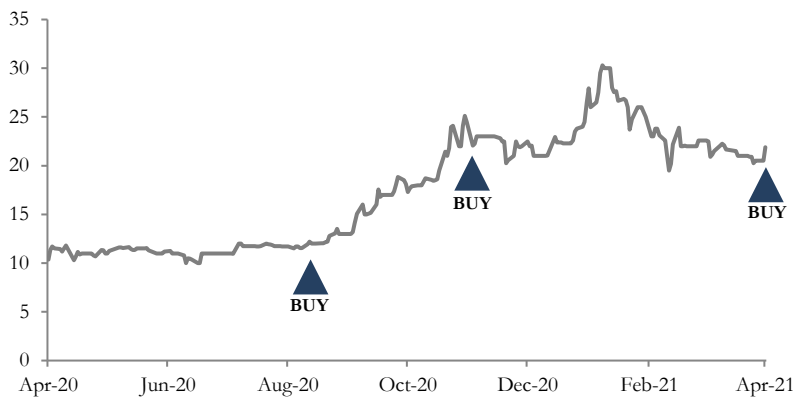
## Valuation

Our valuation puts the target price of the stock at ₦26.58, representing an increase of 21.38%, from the current price of ₦21.90. In arriving at the target price, we employed Discounted Cash Flow Valuation methodology. Consequently, we maintain a **BUY** recommendation on the stock of the company.

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.

*Our valuation puts the target price of the stock at N26.58, representing an increase of 21.38%, from the current price of N21.90.*

**Fig. 11: Share Price History (Naira)**



Source: NSE, PAC Research

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

	2019	2020	2021F	2022F
Revenue	212,999	230,573	253,630	284,066
Change		8.25%	10.00%	12.00%
Cost of Sales	(157,047)	(163,333)	(175,005)	(193,165)
Change		4.00%	7.15%	10.38%
Gross Profit	55,952	67,240	78,625	90,901
Change		20.17%	16.93%	15.61%
Selling and marketing expenses	(5,096)	(4,221)	(4,058)	(4,545)
Change		-17.16%	-3.86%	12.00%
Administrative expenses	(17,560)	(18,302)	(19,022)	(21,305)
Change		4.23%	3.94%	12.00%
Operating profit	34,910	45,673	57,802	67,210
Change		30.83%	26.56%	16.28%
Finance Income	3,159	1,176	1,522	1,704
Change		-62.77%	29.40%	12.00%
Finance Cost	(20,177)	(9,710)	(10,652)	(11,931)
Change		-51.87%	9.70%	12.00%
Profit Before Taxation	17,892	37,572	49,179	57,552
Change		109.99%	30.89%	17.03%
Taxation	(2,374)	(6,730)	(8,852)	(10,359)
Change		183.43%	31.53%	17.03%
Profit After Taxation	15,518	30,842	40,327	47,192
Change		98.75%	30.75%	17.03%

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

	2019	2020	2021F	2022F
Property, plant and equipment	369,797	348,328	360,155	397,692
Intangible assets	3,202	1,939	4,312	4,829
Deferred tax asset	27,994	23,404	25,363	28,407
LT Loans and borrowings	52,665	5,140	10,145	22,725
Inventories	32,441	31,053	30,436	34,088
Trade and other receivables	8,193	5,029	7,609	8,522
Cash and Cash Balances	47,758	64,852	53,323	60,871
Total Assets	597,198	597,198	577,455	490,761
Trade and other payables	69,718	76,858	81,162	88,060
ST Loans and borrowings	11,520	44,593	50,726	42,610
Bank overdraft	28	-	-	-
LT Loans and borrowings	52,665	5,140	10,145	22,725
Deferred tax liabilities	9,967	9,402	10,145	11,363
Total Liabilities	152,238	147,575	166,559	181,149
Net Assets	344,914	359,638	372,050	416,412

Fig. 14: Profitability Ratio

	2019	2020	2021F	2022F
Return on Equity	4.50%	8.58%	10.84%	11.33%
Return on Assets	3.12%	6.08%	7.49%	7.90%
Gross margin	26.27%	29.16%	31.00%	32.00%
EBITDA margin	30.55%	32.92%	34.99%	35.86%
PBT margin	8.40%	16.30%	19.39%	20.26%
Net Profit Margin	7.29%	13.38%	15.90%	16.61%

Fig. 15: Asset Utilization

	2019	2020	2021F	2022F
cash/sales	0.13	0.23	0.24	0.24
Sales to inventory (x)	6.57	7.43	8.33	8.33
Sales to total assets (x)	0.43	0.45	0.47	0.48
Sales to total fixed assets	0.58	0.66	0.70	0.71
Equity multiplier	1.44	1.41	1.45	1.44
fixed asset turnover	0.58	0.66	0.70	0.71

Fig. 16: Liquidity Ratios

	2019	2020	2021F	2022F
Quick ratio	0.50	0.56	0.60	0.68
Current ratio	0.89	0.81	0.82	0.92
Cash ratio	0.32	0.42	0.44	0.49
Interest Coverage	1.05	4.40	5.39	5.63
Debt/net income	4.14	1.61	1.51	1.38
Debt to asset	0.13	0.10	0.11	0.11
Debt to equity	0.19	0.14	0.16	0.16
Total liabilities/equities	0.44	0.41	0.45	0.44
Total liabilities/Asset	0.44	0.41	0.45	0.44
Inventory turnover	4.84	5.26	5.75	5.67
Inventory days	75.40	69.39	63.48	64.41
Account receivable days	14.04	7.96	10.95	10.95

Fig. 17: Shareholders' Investment Ratios

	2019	2020	2021F	2022F
EPS (₦)	0.96	1.91	2.50	2.93
DPS (₦)	1.00	1.00	1.50	1.70
NAVPS (₦)	21.41	22.33	23.10	25.85
Earnings yield (%)	4.40%	8.74%	11.43%	13.38%

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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