

# Lafarge Africa Plc

Nigeria | Equities | Industrial Goods | March 31, 2022

PAC RESEARCH

## Improved Cement Demand in Nigeria Raises Revenue by 27% in FY-2021

### INVESTMENT SUMMARY

Lafarge Africa benefited from improved economic activities in Nigeria in 2021 as the company's revenue accelerated by 27.11% to ₦293.09 billion (vs. ₦230.57 billion reported in 2020), driven by higher price and elevated cement volume. The growth in cement volume was attributed to the increase in government expenditure on infrastructure and improvement in real-estate investment by private and commercial home builders during the period. Of the total revenue generated by the company in FY'21, cement segment accounted for 97.28% (FY'20: 98.09%) while ready-mix products segment accounted for 2.60% of the overall revenue in FY'21 (FY'20: 1.86%). Meanwhile, the cost of sales grew by 23.65% to ₦150.51 billion in FY'21 (vs. ₦121.72 billion in FY'20), driven by higher production volume, inflationary pressure, and depreciation of naira. Nevertheless, the company reduced cost-to-sales ratio to 51.35% in FY'21 (FY'20: 52.79%) as it maintained cost-minimisation strategy. In addition, the selling, distribution & administrative expenses rose by 21.82% to ₦78.14 billion in FY'21 (FY'20: ₦64.14 billion), due to improved volume, higher distribution costs, improved salaries, among others. Despite the higher operating expenses, the EBITDA of the company improved by 29.71% to ₦98.45 billion in FY'21 (vs. ₦75.90 billion in FY'20).

During the period, the net finance costs fell significantly by 58.57% to ₦3.54 billion in FY'21 (vs. ₦8.53 billion in FY'20), due to the redemption of the last tranche of the company's corporate bond (₦33.6 billion) in June 2021 and the principal repayment of ₦2.1 billion on the Bank of Industry/Central Bank of Nigeria Intervention Fund on Power. Consequently, profit before tax rose by 67.18% to ₦62.25 billion in FY'21 (vs. ₦37.57 billion in FY'20). The company made a higher provision of ₦11.25 billion for tax in FY'21 (vs. ₦6.73 billion in FY'20). Despite the higher tax provision, profit after tax rose by 65.37% to ₦51.00 billion in FY'21 (vs. ₦30.84 billion in FY'20), which resulted in EPS of ₦3.17 (FY'20: ₦1.91). With the impressive performance across board, we upgrade the target price per share slightly to ₦29.44 (Previous Target Price: ₦29.02) and maintain a **BUY** recommendation.

Table 1: Quarterly results highlights

	4Q2021	3Q2021	4Q2020	Q/q Δ	Y/y Δ
Revenue (₦mn)	73,889	74,182	50,695	-0.39%	+45.75%
Op. Profit (₦mn)	16,969	9,920	4,562	+71.06%	+271.96%
Net profit (₦mn)	10,609	12,072	2,646	-12.12%	+300.94%

Source: NGX, Bloomberg, PAC Research

March 31, 2022

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#### Price:

- Current	₦23.80
- Target	₦29.44
<b>Recommendation:</b>	<b>BUY</b>

\* As at Wednesday March 30, 2022

Table 2: Stock data

FYE	
December	
Price Mov't: YtD / 52wk	-0.21%/+8.39%
52-week range	₦20.05- ₦28.80
30-day Average vol.	2,421,232
Shares Outstanding (mn)	16,107.80
Market Cap. (₦bn)	383.37
EPS (₦) - 12months trailing	3.17
DPS (₦) - FY2021	2.00

Source: NGX, Bloomberg, PAC Research

Tab. 3: Key ratios

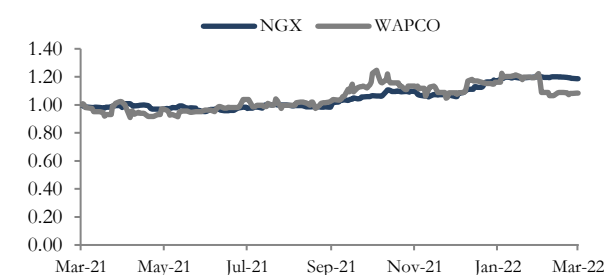
	FY'21	FY'20
Gross profit margin	48.68%	47.21%
Net profit margin	17.40%	13.38%
Equity multiplier	1.36x	1.41x
Asset turnover	0.56x	0.45x

Source: NGX, PAC Research

Table 4: Valuations

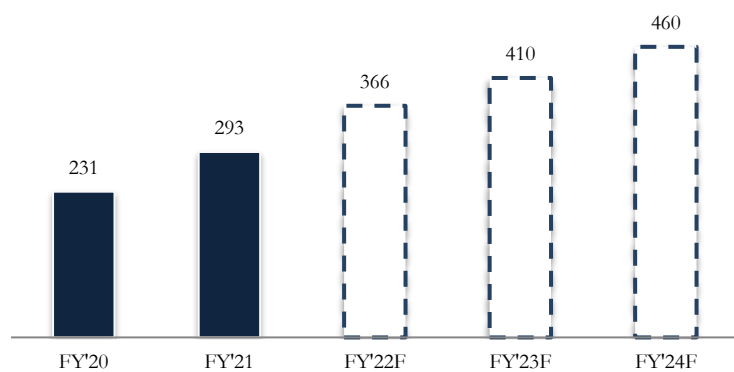
	FY2020	FY2021	FY2022F	FY2023F
P/E	12.43x	7.52x	6.26x	5.65x
P/B	1.07x	1.01x	0.97x	0.91x
Div Yield (%)	4.20	8.40	9.24	10.08
Pay-out Ratio	52.23%	63.16%	57.91%	56.99%
EV/EBITDA	5.00x	3.62x	2.85x	2.53x
Ev/Revenue	1.65	1.22	0.96	0.85
Sales Per Share	14.31	18.20	22.74	25.47
P/S Ratio	1.66	1.31	1.05	0.93

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



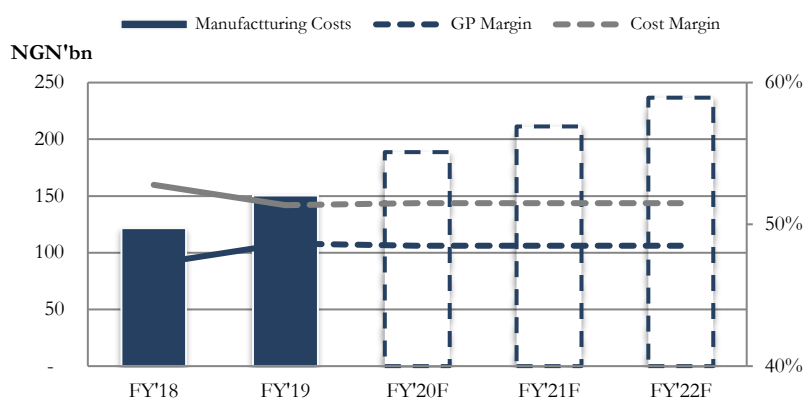
Source: Bloomberg, PAC Research

Fig. 2: Revenue – FY'20 – FY'24F (Billion NGN)



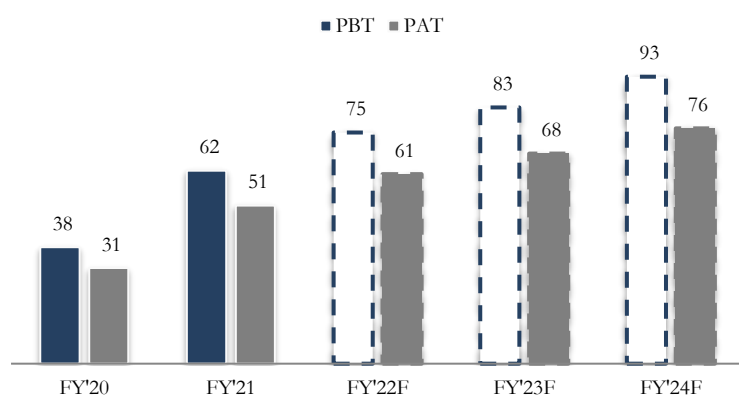
Source: NGX, PAC Research

Fig. 3: Cost of Sales, GP Margin and COS Margin – FY'20 – FY'24F (Billion NGN)



Source: NGX, PAC Research

Fig. 4: Profit before Tax and Profit after Tax – FY'20 – FY'24F (Billion NGN)



Source: NGX, PAC Research

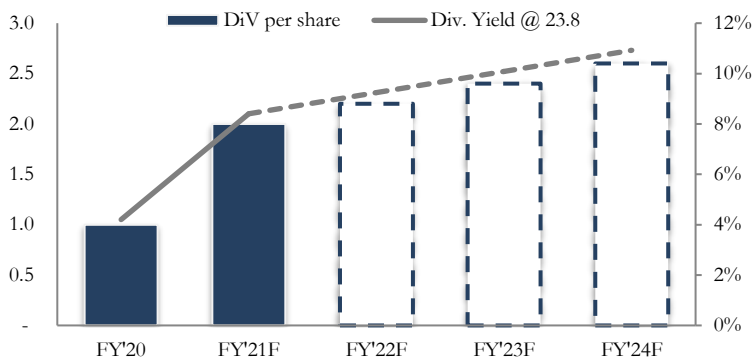
**Impressive operating performance reflects on the balance sheet: Dividend increases by 100% to ₦2.00 per share in FY'21:** The balance sheet position of Lafarge Africa remained solid and strong as the total assets of the company improved by 3.87% to ₦526.84 billion in FY'21 (vs. ₦507.21 billion in FY'20), driven mainly by 45% increase in inventories, 43% growth in trade and other receivables and 144% improvement in other financial assets during the period.

Meanwhile, the total liabilities of the company increased slightly by 0.48% to ₦148.28 billion in FY'21 (vs. ₦147.58 billion in FY'20) mainly because of significant drop in the total loans & borrowings. As a result of the redemption of the last tranche of the company's corporate bond (₦33.6 billion) in June 2021 and the principal repayment of ₦2.1 billion on the Bank of Industry/Central Bank of Nigeria Intervention Fund on Power, the total loans and borrowings fell significantly by 53.18% to ₦23.29 billion in FY'21 (vs. ₦49.73 billion reported in FY'20). However, the growth in the total assets outweighed the increase in the total liabilities of the company. Consequently, net assets improved by 5.26% to ₦378.56 billion in FY'21 (vs. ₦359.64 billion in FY'20), and this resulted in net asset per share of ₦23.50 (FY'20: ₦22.33).

The company rewarded the shareholders with a final dividend of ₦1.00 per share in 2021 (2020 Final dividend: ₦1.00) after the payment of ₦1.00 as interim dividend per share in 2021 (2020 interim dividend: Nil), totalling ₦2.00 in FY'21 (FY'20: ₦1.00). We may likely see significant improvement in the revenue of the company in the coming quarters due to the assumption of improvement in government expenditure on infrastructure and improvement in real-estate investment by private and commercial home builders. However, the rising energy costs and higher inflation rate remain major threats to the cost of production and other operating expenses.

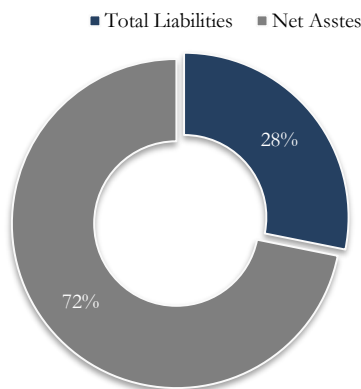
*... rising energy costs and higher inflation rate remain major threats to the cost of production and other operating expenses.*

Fig. 5: Dividend Per Share and Dividend Yield (FY'20-FY'24F)



Source: NGX, PAC Research

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



Source: NGX, Bloomberg, PAC Research

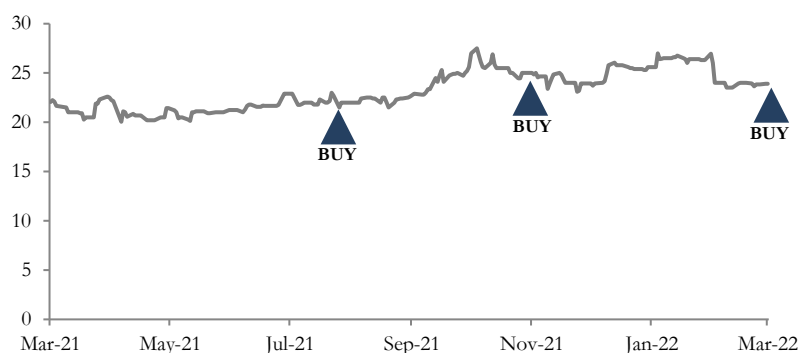
## Valuation

Our valuation puts the target price of the stock at ₦29.44, representing an increase of 23.71%, from the current price of ₦23.80. In arriving at the target price, we employed Dividend Discount Model and Residual Income 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: the 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 N29.44, representing an increase of 23.71%, from the current price of N23.80.*

**Fig. 7: Share Price History (Naira)**



Source: NGX, PAC Research

Fig. 8: Statement of Profit or Loss, N'mn

	2020	2021	2022F	2023F
Revenue	230,573	293,086	366,358	410,321
Change		27.11%	25.00%	12.00%
Cost of Sales	(121,717)	(150,506)	(188,674)	(211,315)
Change		23.65%	25.36%	12.00%
Gross Profit	108,856	142,581	177,683	199,006
Change		30.98%	24.62%	12.00%
Selling and marketing expenses	(45,837)	(56,976)	(73,272)	(82,064)
Change		24.30%	28.60%	12.00%
Administrative expenses	(18,302)	(21,158)	(27,477)	(30,774)
Change		15.61%	29.86%	12.00%
Operating profit	45,673	65,107	78,657	87,234
Change		42.55%	20.81%	10.90%
Finance Income	1,176	1,740	2,381	2,667
Change		47.98%	36.84%	12.00%
Finance Cost	(9,710)	(5,276)	(7,327)	(8,206)
Change		-45.66%	38.87%	12.00%
Profit Before Taxation	37,572	62,254	74,627	82,721
Change		65.69%	19.87%	10.85%
Taxation	(6,730)	(11,251)	(13,433)	(14,890)
Change		67.18%	19.39%	10.85%
Profit After Taxation	30,842	51,004	61,194	67,831
Change		65.37%	19.98%	10.85%

Fig. 9: Statement of Financial Position, N'mn

	2020	2021	2022F	2023F
Property, plant and equipment	348,328	338,722	348,040	369,289
Intangible assets	1,939	714	916	1,026
Deferred tax asset	23,404	15,292	19,417	21,747
LT Loans and borrowings	5,140	2,482	3,664	4,103
Inventories	31,053	45,010	54,954	61,548
Trade and other receivables	5,029	7,197	9,159	10,258
Cash and Cash Balances	64,852	64,852	53,323	62,281
Total Assets	597,198	597,198	577,455	490,761
Trade and other payables	76,858	103,177	131,889	147,715
ST Loans and borrowings	44,593	20,805	27,477	30,774
Bank overdraft	-	-	-	-
LT Loans and borrowings	5,140	2,482	3,664	4,103
Deferred tax liabilities	9,402	9,117	10,991	12,310
Total Liabilities	147,575	148,278	190,140	212,956
Net Assets	359,638	378,561	393,285	419,963

Fig. 10: Profitability Ratio

	2020	2021	2022F	2023F
Return on Equity	8.58%	13.47%	15.56%	16.15%
Return on Assets	6.08%	9.68%	10.49%	10.72%
Gross margin	47.21%	48.65%	48.50%	48.50%
EBITDA margin	32.92%	33.59%	33.72%	33.51%
PBT margin	16.30%	21.24%	20.37%	20.16%
Net Profit Margin	13.38%	17.40%	16.70%	16.53%

Fig. 11: Asset Utilization

	2020	2021	2022F	2023F
cash/sales	0.23	0.17	0.17	0.17
Sales to inventory (x)	7.43	6.51	6.67	6.67
Sales to total assets (x)	0.45	0.56	0.63	0.65
Sales to total fixed assets	0.66	0.87	1.05	1.11
Equity multiplier	1.41	1.39	1.48	1.51
fixed asset turnover	0.66	0.87	1.05	1.11

Fig. 12: Liquidity Ratios

	2020	2021	2022F	2023F
Quick ratio	0.56	0.70	0.69	0.69
Current ratio	0.81	1.04	1.01	1.01
Cash ratio	0.42	0.38	0.37	0.37
Interest Coverage	4.40	17.61	15.09	14.93
Debt/net income	1.61	0.46	0.51	0.51
Debt to asset	0.10	0.04	0.05	0.06
Debt to equity	0.14	0.06	0.08	0.08
Total liabilities/equities	0.41	0.39	0.48	0.51
Total liabilities/Asset	0.41	0.39	0.48	0.51
Inventory turnover	3.92	3.34	3.43	3.43
Inventory days	93.12	109.16	106.31	106.31
Account receivable days	7.96	8.96	9.13	9.13

Fig. 13: Shareholders' Investment Ratios

	2020	2021	2022F	2023F
EPS (₦)	1.91	3.17	3.80	4.21
DPS (₦)	1.00	2.00	2.20	2.40
NAVPS (₦)	22.33	23.50	24.42	26.07
Earnings yield (%)	8.05%	13.30%	15.96%	17.69%

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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