

Lafarge Africa Plc

Nigeria | Equities | Industrial Goods | July 30, 2021

PAC RESEARCH

Resilient Performance Maintained in the First Half of 2021

INVESTMENT SUMMARY

Lafarge Africa continued with impressive performance in the first half of 2021 as revenue increased by 20.30% to ₦145.02 billion (vs. ₦120.54 billion in the first half of 2020). The increase in the revenue could be attributed to improved demand for cement and higher prices in Nigeria during the period. In the first half of 2021, the Cement segment contributed 97.52% (₦141.43 billion) to the overall revenue while Aggregate and Concrete segment contributed 2.48% (₦3.59 billion) to the overall revenue of the company. However, cost of sales rose by 23.02% to ₦96.94 billion in H1'21 (vs. ₦78.83 billion in H1'20). The increase in the cost of sales could be attributed to improved production volumes and higher input costs. This translated to a cost-to-sales ratio of 66.87% in H1'21 (H1'20: 65.40%). In addition, the selling, marketing expenses and administrative increased by 13.27% to ₦10.62 billion in H1'21 (H1'20: ₦9.38 billion). Despite the setback recorded in operating expenses, the operating profit of the company rose by 16.49% to ₦38.22 billion in H1'21 (vs. ₦32.81 billion in H1'20).

As a result of reduction in loans and borrowing and improved foreign exchange gain of ₦1.15 billion during the period, the net finance costs fell significantly by 43.30% to ₦2.30 billion in H1'21 (vs. ₦4.05 billion in H1'20). Consequently, profit before tax improved by 27.79% to ₦36.75 billion in H1'21 (vs. ₦28.76 billion in H1'20). However, the company made a higher provision of ₦8.43 billion for tax in H1'21 (vs. ₦5.43 billion in H1'20). Despite the increase in tax provision, profit after tax rose by 21.40% to ₦28.32 billion in H1'21 (vs. ₦23.33 billion in H1'20). Impressively, the 12-month trailing EPS improved to ₦2.22, from ₦1.85 recorded in the corresponding period of last year. In the second half of 2021, we expect improved cement demand for infrastructure, housing, constructions and government projects as we anticipate economic growth. Consequently, we upgrade the target price per share to ₦28.47 (Previous Target Price: ₦26.74) and maintain a **BUY** recommendation.

Fig. 1: Quarterly results highlights

| | 2Q2021 | 1Q2020 | 2Q2020 | Q/q Δ | Y/y Δ |
|-------------------|--------|--------|--------|---------|---------|
| Revenue (₦'mn) | 73,546 | 71,470 | 56,845 | +2.90% | +29.38% |
| Op. Profit (₦'mn) | 23,515 | 14,704 | 20,969 | +59.92% | +12.14% |
| Net profit (₦'mn) | 19,189 | 9,136 | 15,262 | +110.0% | +25.73% |

Source: NSE, Bloomberg, PAC Research

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Price:

| | |
|------------------------|------------|
| - Current | ₦22.90 |
| - Target | ₦28.47 |
| Recommendation: | BUY |

* As at Thursday July 29, 2021

Fig. 2: Stock data

| FYE | |
|-----------------------------|----------------|
| December | |
| Price Mov't: YtD / 52wk | +8.79%/+90.83% |
| 52-week range | ₦11.50- ₦31.50 |
| 30-day Average vol. | 1,586,920 |
| Shares Outstanding ('mn) | 16,107.80 |
| Market Cap. (₦bn) | 368.87 |
| EPS (₦) - 12months trailing | 2.22 |
| DPS (₦) - FY2020 | 1.00 |

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

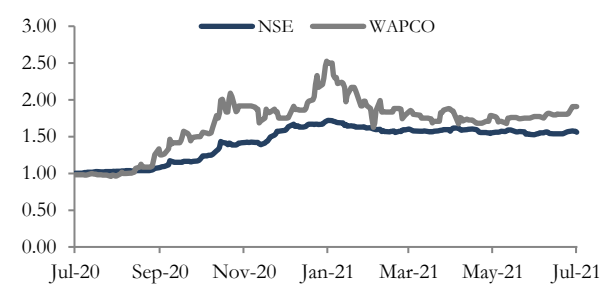
| | H1'21 | H1'20 |
|---------------------|--------|--------|
| Gross profit margin | 33.13% | 34.60% |
| Net profit margin | 19.53% | 19.35% |
| Equity multiplier | 1.38x | 1.41x |
| Asset turnover | 0.28x | 0.24x |

Source: NSE, PAC Research

Fig. 4: Valuations

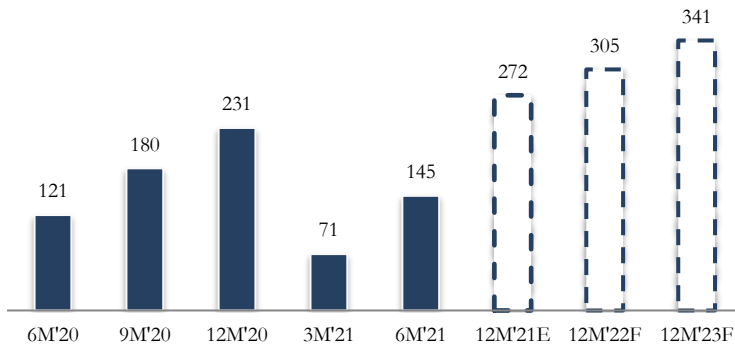
| | FY2019 | FY2020 | FY2021F | FY2022F |
|-----------------|--------|--------|---------|---------|
| P/E | 23.77x | 11.96x | 8.67x | 7.55x |
| P/B | 1.07x | 1.03x | 0.98x | 0.89x |
| Div Yield (%) | 4.37 | 4.37 | 6.11 | 6.99 |
| Pay-out Ratio | 103.8% | 52.23% | 52.98% | 52.76% |
| EV/EBITDA | 6.24x | 4.81x | 3.76x | 3.33x |
| Ev/Revenue | 1.91 | 1.58 | 1.26 | 1.13 |
| Sales Per Share | 13.22 | 14.31 | 16.89 | 18.92 |

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



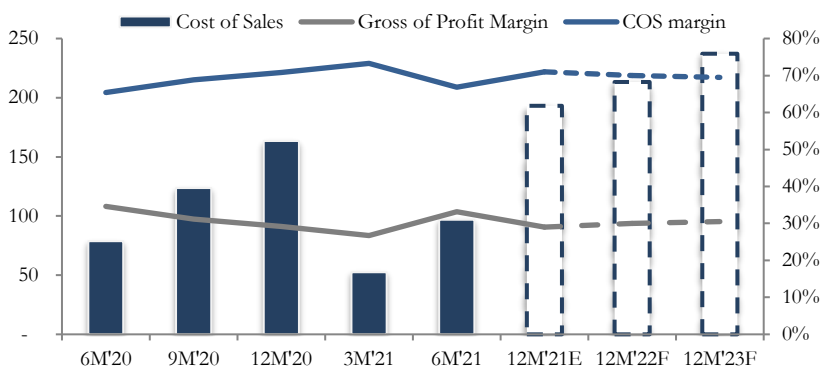
Source: Bloomberg, PAC Research

Fig. 6: Revenue – 6M'20 – 12M'23F (Billion NGN)



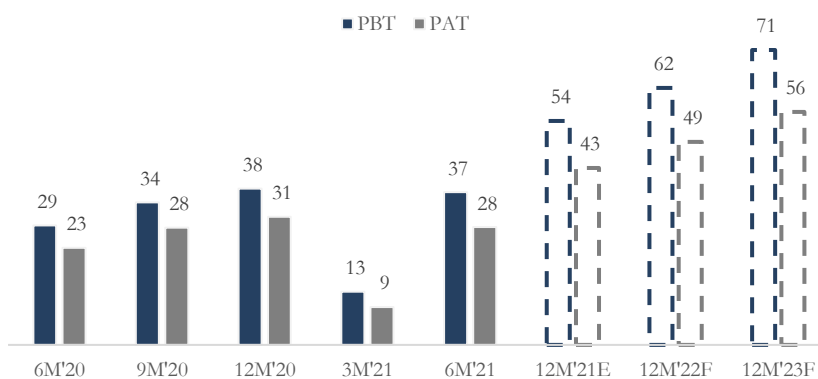
Source: NSE, PAC Research

Fig. 7: Cost of Sales, GP Margin and COS Margin – 6M'20 – 12M'23F (Billion NGN)



Source: NSE, PAC Research

Fig. 8: Profit before Tax and Profit after Tax – 6M'20 – 12M'23F (Billion NGN)



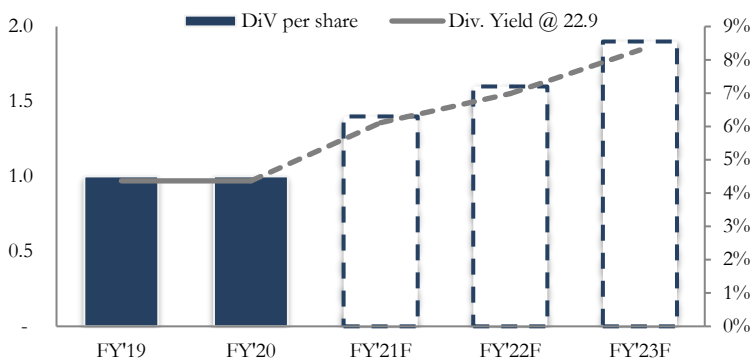
Source: NSE, PAC Research

Balance sheet remains strong and healthy: Expectation of improved dividend payment in FY'21: Lafarge Africa continue to report improved balance sheet as the total assets of the company improved by 3.21% to ₦511.52 billion in the first half of 2021 (vs. ₦495.79 billion in the first half of 2020), due to significant increase in the current assets of the company. As a result of 45.05% increase in the cash and cash equivalents and 21.10% rise in inventory in H1'21, the current asset improved significantly by 36.68% to ₦116.53 billion (vs. ₦85.26 billion in H1'20).

Impressively, the total liabilities of the company declined by 2.64% to ₦139.86 billion in H1'21 (vs. ₦143.66 billion in H1'20), mainly because of significant fall in total loans & borrowings. During the period, the short-term and long-term loans and borrowing declined by 63.96% and 64.50% to ₦16.23 billion (H1'20: ₦45.03 billion) and ₦3.52 billion (H1'20: ₦9.92 billion) respectively. Consequently, the net assets improved by 5.60% to ₦371.85 billion in the first half of 2021 (vs. ₦352.14 billion reported in the corresponding period of the previous year), and this translated to a net asset per share of ₦23.09 (H1'20: ₦21.86).

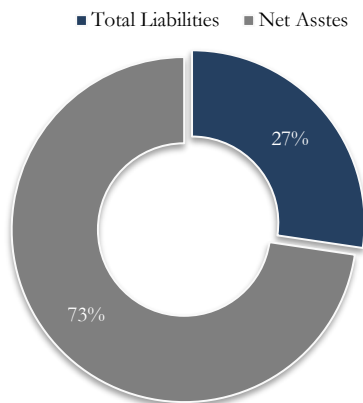
With the improved performance across board in the first half of 2021, assumption of improved cement demand in the second half of 2021 and bullish outlook from the management, we may likely see improved dividend payment in the full year of 2021.

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



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in H1'21



Source: NSE, Bloomberg, PAC Research

Valuation

Our valuation puts the target price of the stock at ₦28.47, representing an increase of 24.34%, from the current price of ₦22.90. 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.

Our valuation puts the target price of the stock at ₦28.47, representing an increase of 24.34%, from the current price of ₦22.90

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 | 272,076 | 304,725 |
| Change | | 8.25% | 18.00% | 12.00% |
| Cost of Sales | (157,047) | (163,333) | (193,174) | (213,308) |
| Change | | 4.00% | 18.27% | 10.42% |
| Gross Profit | 55,952 | 67,240 | 78,902 | 91,418 |
| Change | | 20.17% | 17.34% | 15.86% |
| Selling and marketing expenses | (5,096) | (4,221) | (4,353) | (4,876) |
| Change | | -17.16% | 3.13% | 12.00% |
| Administrative expenses | (17,560) | (18,302) | (19,045) | (21,331) |
| Change | | 4.23% | 4.06% | 12.00% |
| Operating profit | 34,910 | 45,673 | 57,136 | 66,400 |
| Change | | 30.83% | 25.10% | 16.21% |
| Finance Income | 3,159 | 1,176 | 816 | 914 |
| Change | | -62.77% | -30.59% | 12.00% |
| Finance Cost | (20,177) | (9,710) | (5,442) | (6,095) |
| Change | | -51.87% | -43.96% | 12.00% |
| Profit Before Taxation | 17,892 | 37,572 | 53,882 | 61,829 |
| Change | | 109.99% | 43.41% | 14.75% |
| Taxation | (2,374) | (6,730) | (11,315) | (12,984) |
| Change | | 183.43% | 68.13% | 14.75% |
| Profit After Taxation | 15,518 | 30,842 | 42,567 | 48,845 |
| Change | | 98.75% | 38.01% | 14.75% |

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

| | 2019 | 2020 | 2021F | 2022F |
|-------------------------------|---------|---------|---------|---------|
| Property, plant and equipment | 369,797 | 348,328 | 353,699 | 390,048 |
| Intangible assets | 3,202 | 1,939 | 2,285 | 2,560 |
| Deferred tax asset | 27,994 | 23,404 | 20,406 | 21,331 |
| LT Loans and borrowings | 52,665 | 5,140 | 4,081 | 7,618 |
| Inventories | 32,441 | 31,053 | 32,649 | 33,520 |
| Trade and other receivables | 8,193 | 5,029 | 8,162 | 9,142 |
| Cash and Cash Balances | 47,758 | 64,852 | 53,323 | 70,740 |
| Total Assets | 597,198 | 597,198 | 577,455 | 490,761 |
| Trade and other payables | 69,718 | 76,858 | 95,227 | 100,559 |
| ST Loans and borrowings | 11,520 | 44,593 | 40,811 | 45,709 |
| Bank overdraft | 28 | - | - | - |
| LT Loans and borrowings | 52,665 | 5,140 | 4,081 | 7,618 |
| Deferred tax liabilities | 9,967 | 9,402 | 10,883 | 12,189 |
| Total Liabilities | 152,238 | 147,575 | 166,429 | 183,658 |
| Net Assets | 344,914 | 359,638 | 378,267 | 414,213 |

Fig. 14: Profitability Ratio

| | 2019 | 2020 | 2021F | 2022F |
|-------------------|--------|--------|--------|--------|
| Return on Equity | 4.50% | 8.58% | 11.25% | 11.79% |
| Return on Assets | 3.12% | 6.08% | 7.81% | 8.17% |
| Gross margin | 26.27% | 29.16% | 29.00% | 30.00% |
| EBITDA margin | 30.55% | 32.92% | 33.50% | 33.99% |
| PBT margin | 8.40% | 16.30% | 19.80% | 20.29% |
| Net Profit Margin | 7.29% | 13.38% | 15.65% | 16.03% |

Fig. 15: Asset Utilization

| | 2019 | 2020 | 2021F | 2022F |
|-----------------------------|------|------|-------|-------|
| cash/sales | 0.13 | 0.23 | 0.26 | 0.26 |
| Sales to inventory (x) | 6.57 | 7.43 | 8.33 | 9.09 |
| Sales to total assets (x) | 0.43 | 0.45 | 0.50 | 0.51 |
| Sales to total fixed assets | 0.58 | 0.66 | 0.77 | 0.78 |
| Equity multiplier | 1.44 | 1.41 | 1.44 | 1.44 |
| fixed asset turnover | 0.58 | 0.66 | 0.77 | 0.78 |

Fig. 16: Liquidity Ratios

| | 2019 | 2020 | 2021F | 2022F |
|----------------------------|-------|-------|-------|-------|
| Quick ratio | 0.50 | 0.56 | 0.69 | 0.70 |
| Current ratio | 0.89 | 0.81 | 0.92 | 0.92 |
| Cash ratio | 0.32 | 0.42 | 0.49 | 0.50 |
| Interest Coverage | 1.05 | 4.40 | 11.65 | 11.94 |
| Debt/net income | 4.14 | 1.61 | 1.05 | 1.09 |
| Debt to asset | 0.13 | 0.10 | 0.08 | 0.09 |
| Debt to equity | 0.19 | 0.14 | 0.12 | 0.13 |
| Total liabilities/equities | 0.44 | 0.41 | 0.44 | 0.44 |
| Total liabilities/Asset | 0.44 | 0.41 | 0.44 | 0.44 |
| Inventory turnover | 4.84 | 5.26 | 5.92 | 6.36 |
| Inventory days | 75.40 | 69.39 | 61.69 | 57.36 |
| 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 | 2.64 | 3.03 |
| DPS (₦) | 1.00 | 1.00 | 1.40 | 1.60 |
| NAVPS (₦) | 21.41 | 22.33 | 23.48 | 25.72 |
| Earnings yield (%) | 4.21% | 8.36% | 11.54% | 13.24% |

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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