

Lafarge Africa Plc

Nigeria | Equities | Industrial Goods | August 17, 2022

PAC RESEARCH

Net Income Grows by 32% as Lafarge Africa Maintains Impressive Performance in H1-2022

INVESTMENT SUMMARY

Lafarge Africa continued to benefit from improved activities in the real estate segment of the Nigerian economy as revenue of the company grew significantly by 28.67% to ₦186.59 billion in the first half of 2022 (vs. ₦145.02 billion recorded in the first half of 2021). The increase in cement prices across the nation might have been one of the major contributory factors to the improvement in the top-line during the period. In addition to the higher cement price, the improved infrastructure development and growth in real-estate investment by private and commercial home builders might have been another driving force during the period. Of the total revenue generated in H1'22, cement products accounted for 97.06% (H1'21: 97.41%); aggregates & concrete products accounted for 2.80% (H1'21: 2.48%) and mortar products accounted for 0.15% (H1'21: 0.11%). However, the inflationary pressure and rising energy costs bit hard on the cost of sales as it increased by 24.78% to ₦90.52 billion in H1'22 (vs. ₦72.54 billion in H1'21). Although, there was a significant increase in the cost of sales, the company upheld its cost minimization strategy as cost-to-sales ratio fell by 151 bps to 48.51% in H1'22 (H1'21: 50.02%). The inflationary pressure also reflected in total selling, distribution & administrative expenses which rose by 36.24% to ₦47.77 billion in H1'22 (H1'21: ₦35.06 billion). Notwithstanding the higher operating expenses, the operating profit of the company rose by 27.02% to ₦48.55 billion in H1'22 (vs. ₦38.22 billion in H1'21).

However, the net finance costs fell significantly by 27.40% to ₦1.67 billion in H1'22 (vs. ₦2.30 billion in H1'21) as the company reduced its financial leverage. Consequently, profit before tax rose by 27.57% to ₦46.88 billion in H1'22 (vs. ₦36.75 billion in H1'21). The company made a higher provision of ₦9.47 billion for tax in H1'22 (H1'21: ₦8.43 billion). Despite the higher tax, net profit rose by 32.09% to ₦37.41 billion in H1'22 (vs. ₦28.32 billion in H1'21), resulting in a 12-month trailing EPS of ₦3.73. With the impressive performance across board, we maintain a **BUY** rating as present forward estimates places the company share price at ₦30.47 (Previous TP: ₦30.84)

Table 1: Quarterly results highlights

	2Q2022	1Q2022	2Q2021	Q/q Δ	Y/y Δ
Revenue (₦mn)	95,981	90,606	73,546	+5.93%	+30.50%
Op. Profit (₦mn)	26,514	22,117	23,515	+19.88%	+12.75%
Net profit (₦mn)	19,852	17,558	19,186	+13.07%	+3.47%

Source: NGX, Bloomberg, PAC Research

August 17, 2022

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Price:

- Current	₦24.95
- Target	₦30.47
Recommendation:	BUY

* As at Tuesday August 16, 2022

Table 2: Stock data

FYE	
December	
Price Mov't: YtD / 52wk	+4.18%/+11.88%
52-week range	₦21.15 - ₦33.70
30-day Average vol.	3,571,146
Shares Outstanding (mn)	16,107.80
Market Cap. (₦bn)	401.89
EPS (₦) - 12months trailing	3.73
DPS (₦) - FY2021	2.00

Source: NGX, Bloomberg, PAC Research

Tab. 3: Key ratios

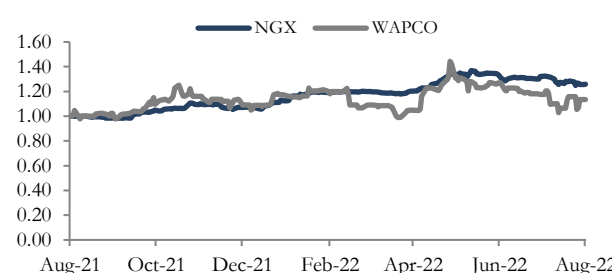
	H1'22	H1'21
Gross profit margin	51.49%	49.98%
Net profit margin	20.05%	19.53%
Equity multiplier	1.42x	1.38x
Asset turnover	0.33x	0.28x

Source: NGX, PAC Research

Table 4: Valuations

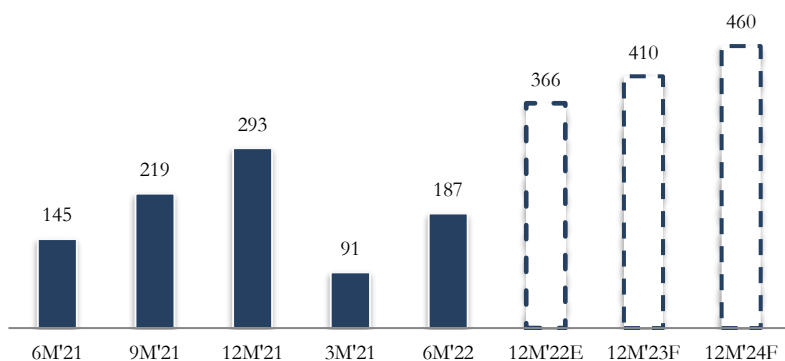
	FY2020	FY2021	FY2022E	FY2023F
P/E	13.03x	7.88x	6.36x	5.69x
P/B	1.12x	1.06x	0.99x	0.92x
Div Yield (%)	4.01	8.02	8.82	9.62
Pay-out Ratio	52.23%	63.16%	56.12%	54.69%
EV/EBITDA	5.25x	3.81x	3.02x	2.67x
Ev/Revenue	1.73	1.28	1.01	0.89
Sales Per Share	14.31	18.20	22.74	25.47
P/S Ratio	1.74	1.37	1.10	0.98

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



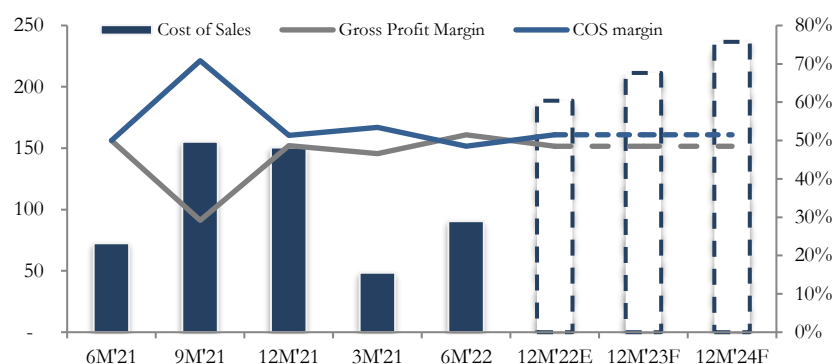
Source: Bloomberg, PAC Research

Fig. 2: Revenue – 6M'21 – 12M'24F (Billion NGN)



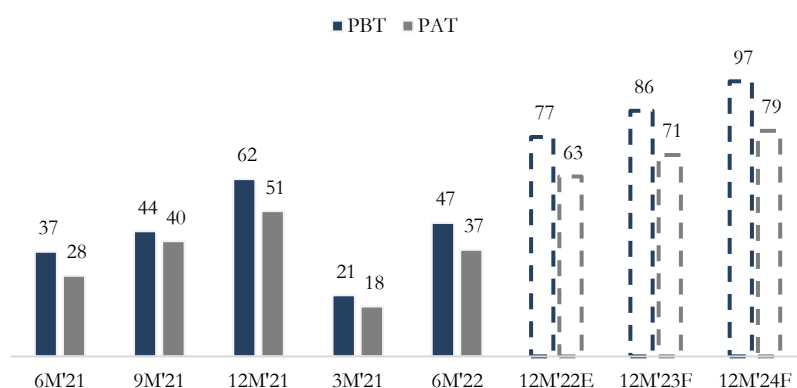
Source: NGX, PAC Research

Fig. 3: Cost of Sales, GP Margin and COS Margin – 6M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

Fig. 4: Profit before Tax and Profit after Tax – 6M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

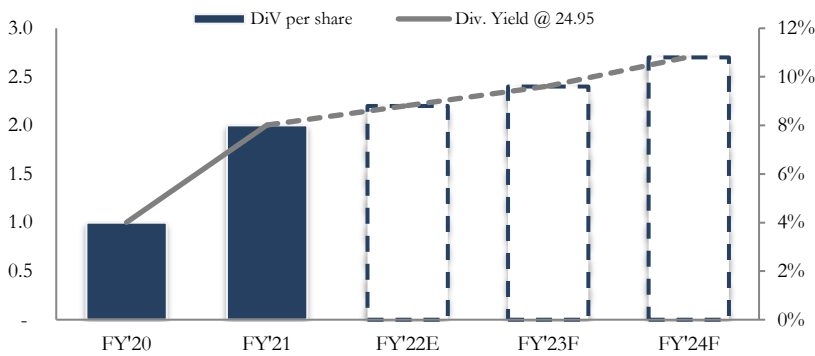
Balance sheet remains strong and healthy: Expectation of improved dividend in FY'22: Lafarge Africa retained outstanding financial position in the first half of 2022 as total assets improved by 11.00% to ₦568.03 billion in Q2'22 (vs. ₦511.72 billion in Q2'21). The improvement recorded in the total assets of the company was mainly driven by 34% growth in inventories, 102% increase in trade & other receivables and about 73% improvement in other financial assets during the period.

However, the total liabilities of the company increased by 20.23% to ₦168.16 billion in Q2'22 (vs. ₦139.86 billion in Q2'21), mainly driven by significant increase in the short-term loans & borrowings. During the period, the short-term loans of the company accelerated by 54.91% to ₦25.14 billion in Q2'22 (vs. ₦16.22 billion reported in Q2'21), due to a notable increase in bank loans. The trade and other payables, which increased by 20.42% to ₦121.61 billion in Q2'22 (vs. ₦100.98 billion in Q2'21), also contributed significantly to the increase recorded in the total liabilities. Impressively, the growth in the total assets outweighed the increase in the total liabilities of the company during the period. As a result, the net assets rose by 7.53% to ₦399.86 billion in Q2'22 (vs. ₦371.85 billion in Q2'21), which translated to a net asset per share of ₦24.82 (Q2'21: ₦23.09).

We maintain that the rising energy costs and higher inflation rate will continue to be major threats to the cost of production and other operating expenses in coming quarters.

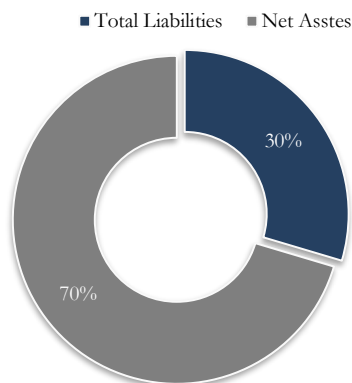
Cement sector may witness slowdown in cement demand in the third quarter of 2022 due to the raining season which may affect the activities of private/commercial home builders and constructions in the country. Nevertheless, we expect the current high cement prices in the market to outweigh the lower cement demand in the market in the third quarter of 2022. Hence, expectation of impressive top-line in the third quarter of 2022 and improved dividend payment in the full year of 2022. We maintain that the rising energy costs and higher inflation rate will continue to be major threats to the cost of production and other operating expenses in coming quarters.

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



Source: NGX, PAC Research

Fig. 6: Total Liabilities Vs Net Asset in Q2'22



Source: NGX, Bloomberg, PAC Research

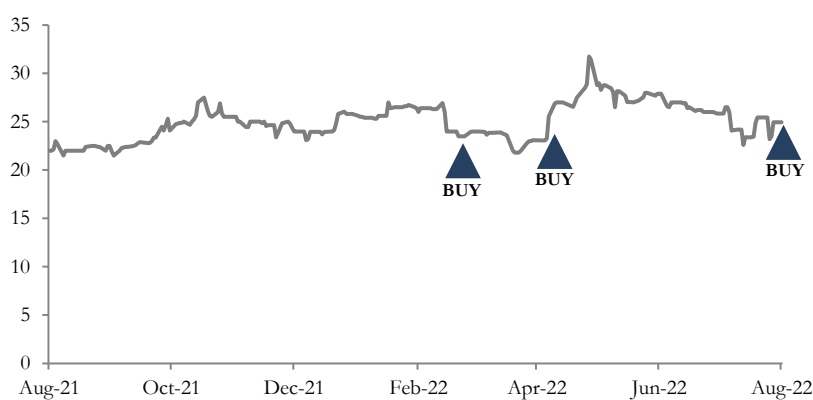
Valuation

Our valuation puts the target price of the stock at ₦30.47, representing an increase of 22.14%, from the current price of ₦24.95. 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 ₦30.47, representing an increase of 22.14%, from the current price of ₦24.95.

Fig. 7: Share Price History (Naira)



Source: NGX, PAC Research

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

	2020	2021	2022E	2023F
Revenue	230,573	293,086	366,358	410,321
<i>Change</i>		27.11%	25.00%	12.00%
Cost of Sales	(121,717)	(150,506)	(188,674)	(211,315)
<i>Change</i>		23.65%	25.36%	12.00%
Gross Profit	108,856	142,581	177,683	199,006
<i>Change</i>		30.98%	24.62%	12.00%
Selling and marketing expenses	(45,837)	(56,976)	(73,272)	(82,064)
<i>Change</i>		24.30%	28.60%	12.00%
Administrative expenses	(18,302)	(21,158)	(27,477)	(30,774)
<i>Change</i>		15.61%	29.86%	12.00%
Operating profit	45,673	65,107	77,924	87,234
<i>Change</i>		42.55%	19.69%	11.95%
Finance Income	1,176	1,740	1,832	2,052
<i>Change</i>		47.98%	5.26%	12.00%
Finance Cost	(9,710)	(5,276)	(3,664)	(4,103)
<i>Change</i>		-45.66%	-30.57%	12.00%
Profit Before Taxation	37,572	62,254	77,008	86,208
<i>Change</i>		65.69%	23.70%	11.95%
Taxation	(6,730)	(11,251)	(13,862)	(15,518)
<i>Change</i>		67.18%	23.20%	11.95%
Profit After Taxation	30,842	51,004	63,147	70,691
<i>Change</i>		65.37%	23.81%	11.95%

Table 6: Statement of Financial Position, N'mn

	2020	2021	2022E	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	120,898	135,406
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	179,149	200,647
Net Assets	359,638	378,561	407,207	435,555

Table 7: Profitability Ratio

	2020	2021	2022E	2023F
Return on Equity	8.58%	13.47%	15.51%	16.23%
Return on Assets	6.08%	9.68%	10.77%	11.11%
Gross margin	47.21%	48.65%	48.50%	48.50%
EBITDA margin	32.92%	33.59%	33.52%	33.51%
PBT margin	16.30%	21.24%	21.02%	21.01%
Net Profit Margin	13.38%	17.40%	17.24%	17.23%

Table 8: Asset Utilization

	2020	2021	2022E	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	0.62	0.64
Sales to total fixed assets	0.66	0.87	1.05	1.11
Equity multiplier	1.41	1.39	1.44	1.46
fixed asset turnover	0.66	0.87	1.05	1.11

Table 9: Liquidity Ratios

	2020	2021	2022E	2023F
Quick ratio	0.56	0.70	0.73	0.73
Current ratio	0.81	1.04	1.08	1.08
Cash ratio	0.42	0.38	0.40	0.40
Interest Coverage	4.40	17.61	42.04	42.02
Debt/net income	1.61	0.46	0.49	0.49
Debt to asset	0.10	0.04	0.05	0.05
Debt to equity	0.14	0.06	0.08	0.08
Total liabilities/equities	0.41	0.39	0.44	0.46
Total liabilities/Asset	0.41	0.39	0.44	0.46
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

Table 10: Shareholders' Investment Ratios

	2020	2021	2022E	2023F
EPS (₦)	1.91	3.17	3.92	4.39
DPS (₦)	1.00	2.00	2.20	2.40
NAVPS (₦)	22.33	23.50	25.28	27.04
Earnings yield (%)	7.67%	12.69%	15.71%	17.59%

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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