

Lafarge Africa Plc

Nigeria | Equities | Industrial Goods | May 21, 2021

PAC RESEARCH

Lafarge Africa Kicks Off 2021 with Double Digit Growth in Bottom-Line

INVESTMENT SUMMARY

Lafarge Africa started the year 2021 with impressive first quarter results as revenue increased by 12.21% to ₦71.47 billion (vs. ₦63.70 billion in the first quarter of 2020). The increase in the revenue may be attributed to improved cement demand in Nigeria during the period. The distribution of the revenue showed that cement segment contributed 97.83% (₦69.92 billion) to the overall revenue while aggregate and concrete segment contributed 2.17% (₦1.55 billion) to the overall revenue in Q1'21. However, cost of sales increased by 13.69% to ₦52.38 billion in Q1'21 (vs. ₦46.07 billion in Q1'20), due to 14.49% increase in variable costs, 13.45% increase in production costs and 44.89% increase in maintenance costs. This translated to a cost-to-sales ratio of 73.29% in Q1'21 (Q1'20: 72.33%). With the cost-minimisation strategy, selling & marketing expenses and administrative expenses fell by 10.58% and 14.95% to ₦0.75 billion (Q1'20: ₦0.84 billion) and ₦4.32 billion (Q1'20: ₦5.07 billion) in Q1'21 respectively. Consequently, operating profit increase by 24.19% to ₦14.70 billion in Q1'21 (vs. ₦11.84 billion in Q1'20).

The company benefited from the lower yield regime during the period under review as net finance costs fell by 21.36% to ₦1.93 billion in Q1'21 (vs. ₦2.46 billion in Q1'20). As a result of progressive performance across the board, profit before tax improved by 36.12% to ₦12.77 billion in Q1'21 (vs. ₦9.38 billion in Q1'20). However, the company made a higher provision of ₦3.64 billion for tax in Q1'21 (vs. ₦1.32 billion in Q1'20). Even with higher tax provision during the period, profit after tax increased by 13.26% to ₦9.14 billion in Q1'21 (vs. ₦8.07 billion in Q1'20). Impressively, the 12-month trailing EPS improved to ₦1.97 (vs. ₦1.07 recorded in the previous period). In the coming quarters, we anticipate improvement in cement demand for infrastructure, housing, commercial construction and government projects in Nigeria due to expectation of gradual economic recovery. Consequently, we upgrade the target price per share to ₦26.74 (Previous Target Price: ₦26.58) and maintain a **BUY** recommendation.

Fig. 1: Quarterly results highlights

	1Q2021	4Q2020	1Q2020	Q/q Δ	Y/y Δ
Revenue (₦'mn)	71,470	50,695	63,696	-14.56%	+1.51%
Op. Profit (₦'mn)	14,704	4,562	11,840	-45.05%	-826.4%
Net profit (₦'mn)	9,136	2,646	8,067	-45.63%	-152.3%

Source: NSE, Bloomberg, PAC Research

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Price:

- Current	₦20.20
- Target	₦26.74

Recommendation: **BUY**

* As at Friday May 21, 2021

Fig. 2: Stock data

FYE	
December	
Price Mov't: YtD / 52wk	-4.04%/+78.76%
52-week range	₦9.75- ₦31.50
30-day Average vol.	3,929,809
Shares Outstanding ('mn)	16,107.80
Market Cap. (₦bn)	325.38
EPS (₦) - 12months trailing	1.97
DPS (₦) - FY2020	1.00

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

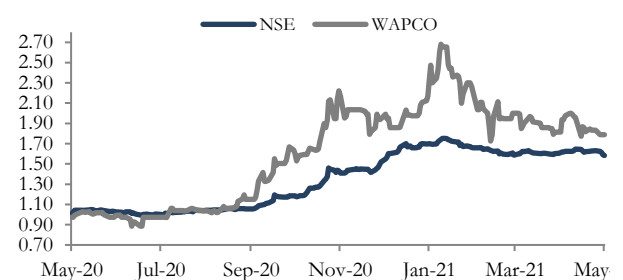
	Q1'21	Q1'20
Gross profit margin	26.71%	27.67%
Net profit margin	12.78%	12.66%
Equity multiplier	1.44x	1.39x
Asset turnover	0.13x	0.13x

Source: NSE, PAC Research

Fig. 4: Valuations

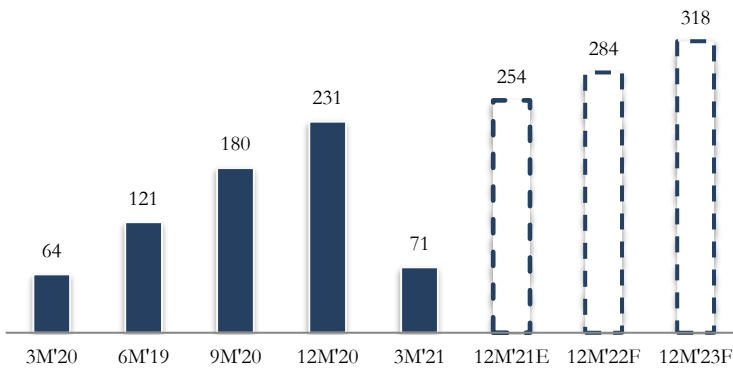
	FY2019	FY2020	FY2021F	FY2022F
P/E	20.97x	10.55x	9.23x	7.88x
P/B	0.94x	0.90x	0.87x	0.80x
Div Yield (%)	4.95	4.95	5.94	7.43
Pay-out Ratio	103.8%	52.23%	54.81%	58.55%
EV/EBITDA	5.57x	4.24x	3.67x	3.18x
Ev/Revenue	1.70	1.40	1.22	1.08
Sales Per Share	13.22	14.31	15.75	17.64

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



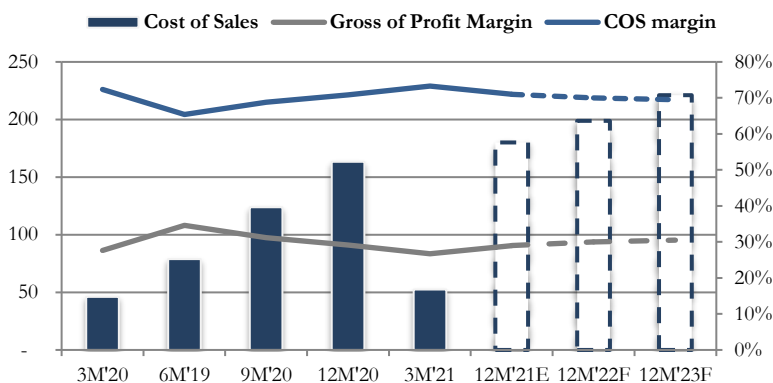
Source: Bloomberg, PAC Research

Fig. 6: Revenue – 3M'20 – 12M'23F (Billion NGN)



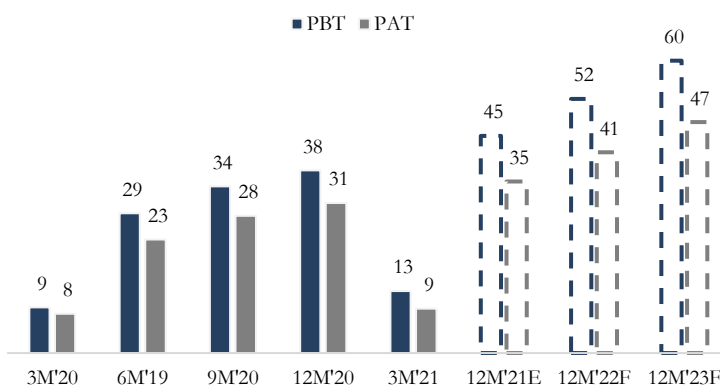
Source: NSE, PAC Research

Fig. 7: Cost of Sales, GP Margin and COS Margin – 3M'20 – 12M'23F (Billion NGN)



Source: NSE, PAC Research

Fig. 8: Profit before Tax and Profit after Tax – 3M'20 – 12M'23F (Billion NGN)



Source: NSE, PAC Research

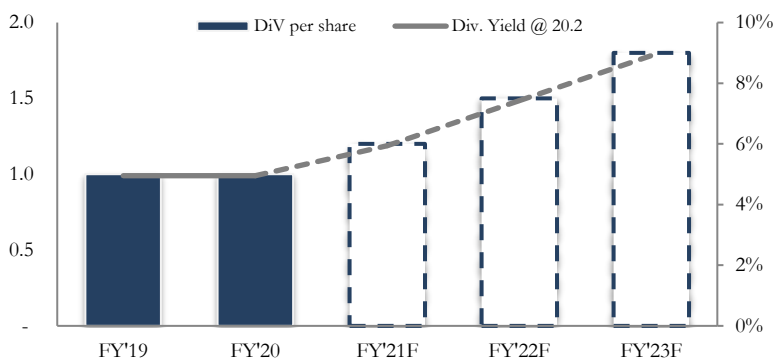
Balance sheet remains healthy: Expectation of impressive dividend payment in FY'20: Lafarge Africa reported improved balance sheet in the first quarter of 2021 as total assets of the company improved by 8.31% to ₦532.70 billion (vs. ₦491.81 billion in the first quarter of 2020), due to significant increase in the current assets of the company. As a result of 267.61% increase in the cash and cash equivalents in Q1'21, the current asset improved significantly by 88.79% to ₦133.97 billion (vs. ₦70.96 billion in Q1'20).

However, the total liabilities of the company rose by 18.07% to ₦163.92 billion in Q1'21 (vs. ₦138.83 billion in Q1'20) due to significant increase in short-term loans & borrowings and trades and other payables. During the period, the short-term borrowings and trades and other payables increased by 293.20% and 44.94% to ₦50.55 billion (Q1'20: ₦12.86 billion) and ₦88.48 billion (Q1'20: ₦61.04 billion) respectively. The increase in the total assets outweighed the increase in the total liabilities of the company as net assets improved by 4.47% to ₦368.78 billion in first quarter of 2021 (vs. ₦352.98 billion achieved in the corresponding quarter of the previous year), and this translated to a net asset per share of ₦22.89 in Q1'21 (Q1'20: ₦21.91).

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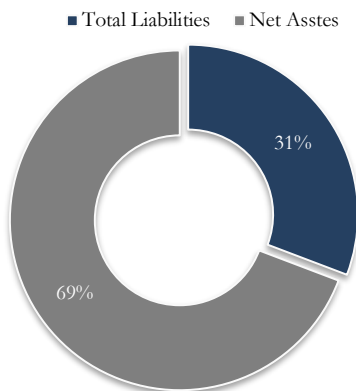
With the strong balance sheet position, improved operating performance and expectation of improved cement demand in coming quarters, we may likely see improved dividend payment in the full year of 2021.

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



Source: NSE, PAC Research

Fig. 10: Total Liabilities Vs Net Asset in Q1'21



Source: NSE, Bloomberg, PAC Research

Valuation

Our valuation puts the target price of the stock at ₦26.74, representing an increase of 32.36%, from the current price of ₦20.20. 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 N26.74, representing an increase of 32.36%, from the current price of N20.20.

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)	(180,077)	(198,846)
Change		4.00%	10.25%	10.42%
Gross Profit	55,952	67,240	73,553	85,220
Change		20.17%	9.39%	15.86%
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)	(17,754)	(19,885)
Change		4.23%	-2.99%	12.00%
Operating profit	34,910	45,673	53,262	61,898
Change		30.83%	16.62%	16.21%
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	44,639	52,240
Change		109.99%	18.81%	17.03%
Taxation	(2,374)	(6,730)	(9,374)	(10,970)
Change		183.43%	39.29%	17.03%
Profit After Taxation	15,518	30,842	35,265	41,269
Change		98.75%	14.34%	17.03%

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

	2019	2020	2021F	2022F
Property, plant and equipment	369,797	348,328	355,082	383,489
Intangible assets	3,202	1,939	2,130	2,386
Deferred tax asset	27,994	23,404	21,559	22,725
LT Loans and borrowings	52,665	5,140	3,804	7,102
Inventories	32,441	31,053	30,436	31,247
Trade and other receivables	8,193	5,029	7,609	8,522
Cash and Cash Balances	47,758	64,852	53,323	76,089
Total Assets	597,198	597,198	577,455	490,761
Trade and other payables	69,718	76,858	88,771	93,742
ST Loans and borrowings	11,520	44,593	55,799	56,813
Bank overdraft	28	-	-	-
LT Loans and borrowings	52,665	5,140	3,804	7,102
Deferred tax liabilities	9,967	9,402	10,145	11,363
Total Liabilities	152,238	147,575	172,900	185,410
Net Assets	344,914	359,638	372,913	404,595

Fig. 14: Profitability Ratio

	2019	2020	2021F	2022F
Return on Equity	4.50%	8.58%	9.46%	10.20%
Return on Assets	3.12%	6.08%	6.46%	6.99%
Gross margin	26.27%	29.16%	29.00%	30.00%
EBITDA margin	30.55%	32.92%	33.20%	33.99%
PBT margin	8.40%	16.30%	17.60%	18.39%
Net Profit Margin	7.29%	13.38%	13.90%	14.53%

Fig. 15: Asset Utilization

	2019	2020	2021F	2022F
cash/sales	0.13	0.23	0.30	0.29
Sales to inventory (x)	6.57	7.43	8.33	9.09
Sales to total assets (x)	0.43	0.45	0.46	0.48
Sales to total fixed assets	0.58	0.66	0.71	0.74
Equity multiplier	1.44	1.41	1.46	1.46
fixed asset turnover	0.58	0.66	0.71	0.74

Fig. 16: Liquidity Ratios

	2019	2020	2021F	2022F
Quick ratio	0.50	0.56	0.67	0.70
Current ratio	0.89	0.81	0.87	0.90
Cash ratio	0.32	0.42	0.50	0.52
Interest Coverage	1.05	4.40	4.89	5.11
Debt/net income	4.14	1.61	1.69	1.55
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	0.46	0.46
Total liabilities/Asset	0.44	0.41	0.46	0.46
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	2.19	2.56
DPS (₦)	1.00	1.00	1.20	1.50
NAVPS (₦)	21.41	22.33	23.15	25.12
Earnings yield (%)	4.77%	9.48%	10.84%	12.68%

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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