

# Lafarge Africa Plc

Nigeria | Equities | Industrial Goods | April 26, 2022

PAC RESEARCH

## Impressive Start to the Year as Net Income Grows by 92% in Q1-2022

### INVESTMENT SUMMARY

Lafarge Africa recorded stellar performance in the first quarter of 2022 on ramp-up in infrastructure and real estate development in Nigeria. The revenue of the company grew by 26.77% to ₦90.61 billion in the period against ₦71.47 billion recorded in the first quarter of 2021. The impressive top-line was bolstered by growth in demand for cement as Nigeria continued its campaign for infrastructure development. Also, growth in real-estate investment by private and commercial home builders in the period was another driving force. Cement products accounted for 97.11% of the total revenue generated in Q1'22 (Q1'21: 97.74%); aggregates & concrete products accounted for 2.78% (Q1'21: 2.17%) and mortar products accounted for 0.11% (Q1'21: 0.09%). However, the cost of sales accelerated by 20.26% to ₦48.43 billion in Q1'22 (vs. ₦40.27 billion in Q1'21) due to higher production volume and inflationary pressure during the period. Impressively, the company upheld its cost minimization strategy as cost-to-sales ratio fell to 53.45% in Q1'22 (Q1'21: 56.35%). In addition to the higher cost of sales, the selling, distribution & administrative expenses rose by 17.97% to ₦20.26 billion in Q1'22 (Q1'21: ₦17.17 billion), driven by improved volume, higher distribution costs, improved salaries, among others. Despite higher operating expenses, the EBITDA of the company rose by 31.50% to ₦29.07 billion in Q1'22 (vs. ₦22.10 billion in Q1'21).

During the period, the net finance costs fell significantly by 66.39% to ₦0.65 billion in Q1'22 (vs. ₦1.93 billion in Q1'21) as the company reduced its financial leverage. Consequently, profit before tax rose by 68.09% to ₦21.47 billion in Q1'22 (vs. ₦12.77 billion in Q1'21). The company made a higher provision of ₦3.91 billion for tax in Q1'22 (Q1'21: ₦3.64 billion). Notwithstanding the higher tax, profit after tax rose by 92.18% to ₦17.56 billion in Q1'22 (vs. ₦9.14 billion in Q1'21), which resulted in a 12-month trailing EPS of ₦3.26. With the impressive performance across, we upgrade the target price per share to ₦30.84 (Previous Target Price: ₦29.44) and maintain a **BUY** recommendation.

Table 1: Quarterly results highlights

	1Q2022	4Q2021	1Q2021	Q/q Δ	Y/y Δ
Revenue (₦mn)	90,606	73,889	71,470	+22.62%	+26.77%
Op. Profit (₦mn)	22,117	16,969	14,704	+30.34%	+50.41%
Net profit (₦mn)	17,558	10,609	9,136	+65.50%	+92.18%

Source: NGX, Bloomberg, PAC Research

Oluwole Adeyeye

oluwole.adeyeye@panafricancapitalholdings.com

Price:

- Current	₦26.90
- Target	₦30.84
Recommendation:	BUY

\* As at Monday April 25, 2022

Table 2: Stock data

FYE	
December	
Price Mov't: YtD / 52wk	+12.32%/+19.29%
52-week range	₦20.05- ₦28.80
30-day Average vol.	3,571,146
Shares Outstanding (mn)	16,107.80
Market Cap. (₦bn)	433.30
EPS (₦) - 12months trailing	3.91
DPS (₦) - FY2021	2.00

Source: NGX, Bloomberg, PAC Research

Tab. 3: Key ratios

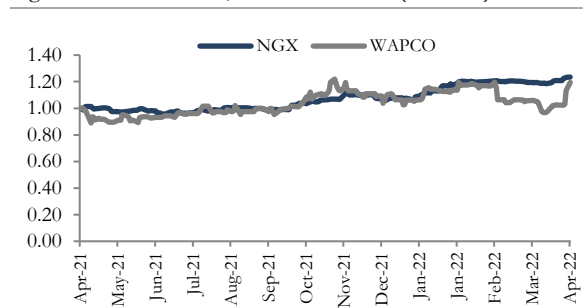
	Q1'22	Q1'21
Gross profit margin	46.55%	43.65%
Net profit margin	19.38%	12.78%
Equity multiplier	1.35x	1.44x
Asset turnover	0.17x	0.13x

Source: NGX, PAC Research

Table 4: Valuations

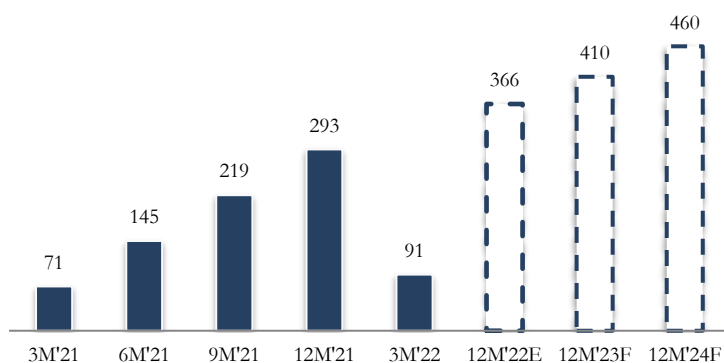
	FY2020	FY2021	FY2022E	FY2023F
P/E	14.05x	8.50x	6.80x	6.80x
P/B	1.20x	1.14x	1.06x	0.99x
Div Yield (%)	3.72	7.43	8.18	8.92
Pay-out Ratio	52.23%	63.16%	55.59%	54.17%
EV/EBITDA	5.66x	4.13x	3.27x	2.90x
Ev/Revenue	1.86	1.39	1.10	0.97
Sales Per Share	14.31	18.20	22.74	25.47
P/S Ratio	1.88	1.48	1.18	1.06

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



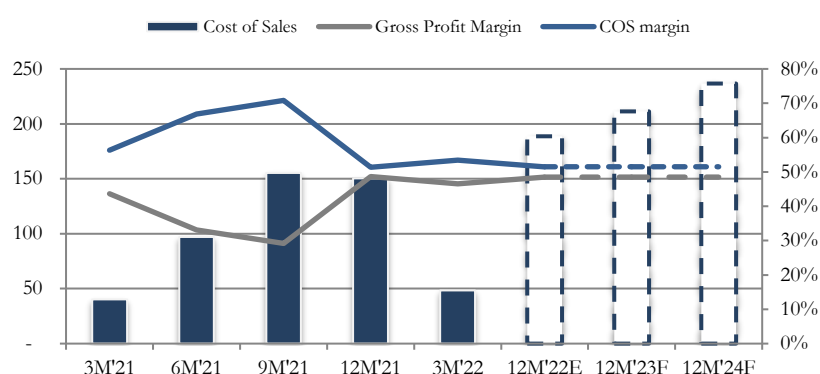
Source: Bloomberg, PAC Research

Fig. 2: Revenue – 3M'21 – 12M'24F (Billion NGN)



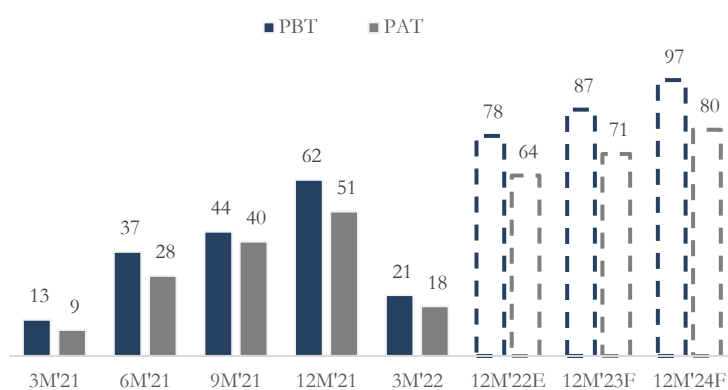
Source: NGX, PAC Research

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



Source: NGX, PAC Research

Fig. 4: Profit before Tax and Profit after Tax – 3M'21 – 12M'24F (Billion NGN)



Source: NGX, PAC Research

### Balance sheet remains solid and healthy: Expectation of impressive dividend

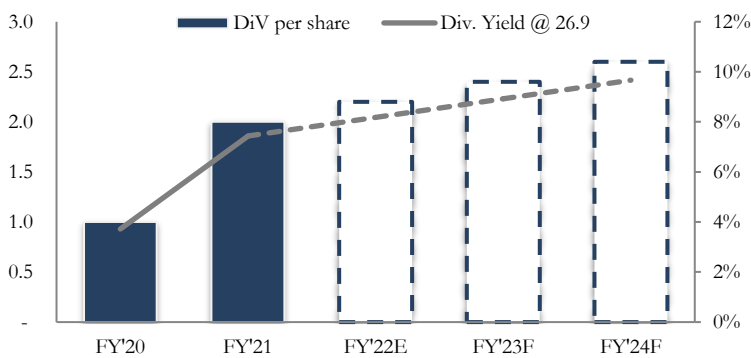
**in FY'22:** The impressive operating performance in the first quarter of 2022 reflected in the financial position of Lafarge Africa as total assets improved slightly by 0.55% to ₦535.64 billion in Q1'22 (vs. ₦532.70 billion in Q1'21) - driven mainly by 32% growth in inventories, 15% increase in trade & other receivables and 83% improvement in other financial assets during the period.

In addition, the total liabilities of the company fell by 14.89% to ₦139.52 billion in Q1'22 (vs. ₦163.92 billion in Q1'21), thanks to decline in the total loans & borrowings. 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 continued to have impact on the total loans and borrowings as it fell significantly by 54.70% to ₦24.64 billion in Q1'22 (vs. ₦54.38 billion reported in Q1'21). However, the growth in the total assets outweighed the increase in the total liabilities of the company. Consequently, net assets improved by 7.41% to ₦396.12 billion in Q1'22 (vs. ₦368.78 billion in Q1'21), which translated to a net asset per share of ₦24.59 (Q1'21: ₦22.89).

*With expectation of growth in government expenditure on infrastructure and assumption of higher real-estate investment by private and commercial home builders, we project growth in revenue...*

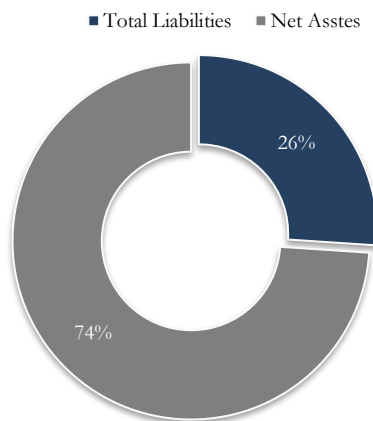
With expectation of growth in government expenditure on infrastructure and assumption of higher real-estate investment by private and commercial home builders, we project growth in revenue of the company in the coming quarters. We maintain that the rising energy costs and higher inflation rate still 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 Q1'22**



Source: NGX, Bloomberg, PAC Research

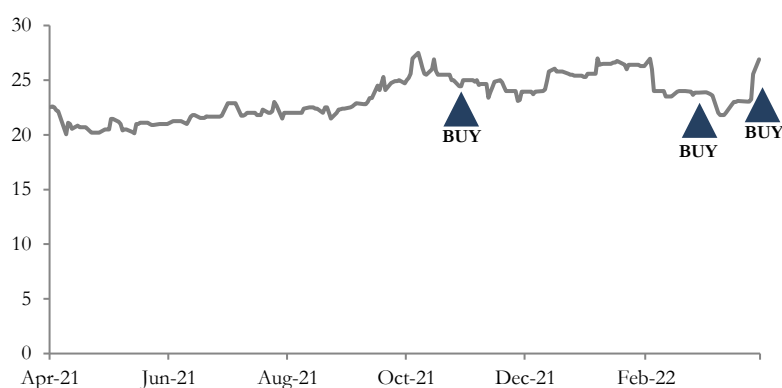
## Valuation

Our valuation puts the target price of the stock at ₦30.84, representing an increase of 14.63%, from the current price of ₦26.90. 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 ₦30.84, representing an increase of 14.63%, from the current price of ₦26.90.*

Fig. 7: Share Price History (Naira)



Source: NGX, PAC Research

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

	2020	2021	2022E	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	77,924	87,234
Change		42.55%	19.69%	11.95%
Finance Income	1,176	1,740	1,832	2,052
Change		47.98%	5.26%	12.00%
Finance Cost	(9,710)	(5,276)	(2,931)	(3,283)
Change		-45.66%	-44.45%	12.00%
Profit Before Taxation	37,572	62,254	77,741	87,029
Change		65.69%	24.88%	11.95%
Taxation	(6,730)	(11,251)	(13,993)	(15,665)
Change		67.18%	24.38%	11.95%
Profit After Taxation	30,842	51,004	63,748	71,364
Change		65.37%	24.99%	11.95%

Fig. 9: 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

Fig. 10: Profitability Ratio

	2020	2021	2022E	2023F
Return on Equity	8.58%	13.47%	15.65%	16.38%
Return on Assets	6.08%	9.68%	10.87%	11.22%
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%	21.22%	21.21%
Net Profit Margin	13.38%	17.40%	17.40%	17.39%

Fig. 11: 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

Fig. 12: 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	70.73	70.70
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

Fig. 13: Shareholders' Investment Ratios

	2020	2021	2022E	2023F
EPS (₦)	1.91	3.17	3.96	4.43
DPS (₦)	1.00	2.00	2.20	2.40
NAVPS (₦)	22.33	23.50	25.28	27.04
Earnings yield (%)	7.12%	11.77%	14.71%	16.47%

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

**IMPORTANT DISCLOSURES**

This research report has been prepared by the analyst(s), whose name(s) appear on the front page of this document, to provide background information about the issues which are the subject matter of this report. It is given for information purposes only.

Each analyst hereby certifies that with respect to the issues discussed herein, all the views expressed in this document are his or her own and reflect his or her personal views about any and all of such matters. These views are not necessarily held or shared by PAC Research or any of its affiliate companies. The analyst(s) views herein are expressed in good faith and every effort has been made to base our opinion on reliable comprehensive information, but no representation is made as to its accuracy or completeness. The opinions and information contained in this report are subject to change and neither the analysts nor PAC Research is under any obligation to notify you or make public any announcement with respect to such change.

This report is produced independently of PAC Research and the recommendations (if any), forecasts, opinions, estimates, expectations and views contained herein are entirely those of the analysts. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the recommendations, forecasts, opinions, estimates, expectations and views contained herein are fair and reasonable, none of the analysts, PAC Research nor any of its directors, officers or employees has verified the contents hereof and accordingly, none of the analysts, PAC Research nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof.

With the exception of information regarding PAC Research, reports prepared by PAC Research analysts are based on public information. Facts and views presented in this report have not been reviewed and may not reflect information known to professionals on other PAC Research business areas including investment banking. This report does not provide individually tailored investment advice. Reports are prepared without regard to individual financial circumstances and the objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. It is recommended that investors independently evaluate particular investments and strategies. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances or objectives. Neither the analyst(s), PAC Research, any of its respective directors, officers nor employees accepts any liability whatsoever for any loss so ever arising from any use of this report or its contents or otherwise arising in connection therewith. Each analyst and/or any person connected with any analyst may have acted upon or used the information herein contained, or the research or analysis on which it is based prior to its publication date. This document may not be relied upon by any of its recipients or any other person in making investment decisions.

Each research analyst certifies that no part of his or her compensation was or will be directly or indirectly related to the specific recommendations (if any), opinions, forecasts, estimates or views in this report. Analysts' compensation is based upon activities and services intended to benefit clients of PAC Research. As with other employees of PAC Research, analysts' compensation is impacted by the overall profitability of PAC Research, which includes revenues from all business areas of PAC Research.

**PanAfrican Capital Holdings Ltd**

8A, Elsie Femi Pearse Street

Victoria Island

Lagos, Nigeria

Tel: +234 (1) 2716899, 2718630

[www.panafricancapitalholdings.com](http://www.panafricancapitalholdings.com)