



Lafarge Africa Plc H1 2020 8 September 2020



MPR: 12.50%
July '20 Inflation Rate: 12.82%
Q2 '20 GDP: -6.10%

TICKER:
Sector:
Price as at 8 September 2020:
Target Price:

WAPCO
Building Materials (Cement)
NGN12.05
NGN17.00

Upside Potential: 41.08%
Performance Rating: Bb (Long-term average historical rating is E)
Recommendation: MODERATE BUY
Suggested Entry Price: NGN11.50

Financial Summary (N'Bn)	H1 2020	H1 2019	Y-o-Y%Δ
Turnover	120.54	117.89	2.25%
Gross Profit	41.70	39.46	5.70%
Operating Expense	9.38	13.01	-27.91%
EBIT (Operating Profit)	32.81	27.85	17.81%
PAT	23.33	9.01	158.96%
Total Assets	495.79	546.16	-9.22%
Total Liabilities	143.66	406.78	-64.68%
Shareholders' Funds	352.14	139.38	152.64%

Source: Company Financials, Cowry Research

Financial Ratios	H1 2020	H1 2019	Industry Average
Gross Profit Margin	34.60%	33.47%	46.10%
Operating Profit Margin	27.22%	23.62%	34.63%
Return on Equity	9.49%	5.47%	12.04%
Return on Total Assets	6.30%	4.83%	8.48%
Interest Coverage Ratio	7.41	2.09	13.01
CCC (in days)	-126.37	52.44	-102.32
Quick Ratio	0.45	0.21	0.42
Debt to Capital	13.50%	66.39%	17.90%
Equity Multiplier	1.41	3.92	1.72
Debt to Cash	1.38x	14.08x	3.00x
Debt to EBITDA	1.17x	6.31x	2.50x

Source: Company Financials, Cowry Research

Investment Ratios	FY 2019	Industry Average
EPS TTM	1.39	5.16
F' EPS	2.90	6.59
NAV	21.86	25.67
EV/EBITDA	4.46x	14.69x
PER TTM	8.66x	13.57x
Weighted PER	0.44x	14.46x
P/B	0.55x	2.35x
Dividend yield at suggested entry price	8.69%	

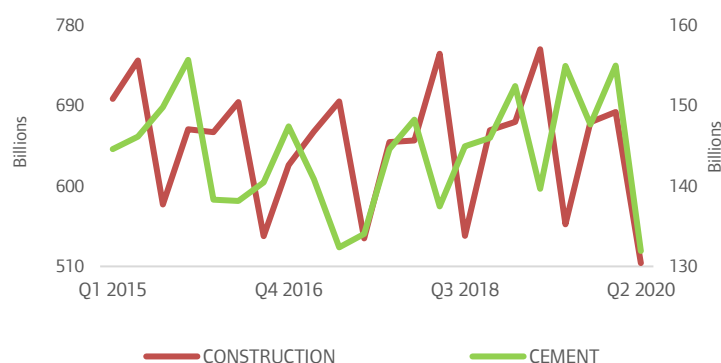
Source: NSE, Company Financials, Cowry Research

Key: EPS – Earnings Per Share; NAV – Net Asset Value; PER – Price to Earnings; P/B – Price to Book; F' – Full Year Forecast; TTM – Trailing Twelve Months; CCC – Cash Conversion Cycle

Buying Lafarge's Recovery Story as Profit Jumps by 158.96%...

Lafarge Africa Plc recorded strong operating performance in H1 2020 as its Profit After Tax (PAT) rose by 158.96% to N23.33 billion due to significant declines in finance costs and administrative expenses. Lafarge Africa's impressive performance was despite the COVID-19 pandemic which nearly shut-down economic activity, especially in the cement sector, amid Federal Government's imposed lockdown on some states such as Lagos, Ogun, Abuja and Kano where daily consumption of cement is relatively high; and, the dwindling revenue from its cementitious products such as aggregate and ready-mix concrete. The cement company's revenue increased marginally by 2.25% to N120.54 billion in H1 2020, hence increasing profit margin to 19.35% from 13.44% printed in H1 2019. The increase in revenue was chiefly from the company's segment revenue from cement (constituting 98.38% of the total revenue) which rose by 3.47% to N118.58 billion; however, segment revenue from aggregate and ready-mix concrete (comprising 1.62% of the total revenue) plunged by 26.20% to N1.44 billion in H1 2020. Notably, the third largest cement company in Nigeria stepped on the path of recovery after disposing its foreign subsidiary, Lafarge South Africa Holdings (Proprietary) Limited – which was a drain on the group's profitability given its relatively thin gross margins –, in July 2019 at a gain of N108.97 billion. Lafarge South Africa Holdings, before it was sold in July 2019, printed loss after tax of N6.83 billion in H1 2019, despite the N42.41 billion revenue recorded in the same period. Going forward, we expect WAPCO's increased profitability to be sustained, amid further ease in restriction of movements – which should stimulate the use of cement – and reduced cost lines, especially finance costs. Hence, our “MODERATE BUY” recommendation on WAPCO's shares.

Quarterly GDP Trend in Cement & Construction Sectors



Source: NBS, Cowry Research

...Nigeria's Huge Infrastructural Gap Presents Opportunity for Lafarge

The huge infrastructural gap in Nigeria presents huge opportunity for Lafarge Africa Plc, especially for its ready-mix concrete which is well suited for road construction – Lagos State Government constructed part of the Bus Rapid Transport (BRT) roads with WAPCO's ready-mix concrete. Given the relatively bad state of the roads in Nigeria today, coupled with the quest for stronger and durable roads by the Federal and State governments, we see increasing opportunity for Lafarge Africa Plc to further grow its revenue. Also, the use of cement is expected to be stimulated by the need to bridge the significant housing deficit in Nigeria in the face of a large population size and the worsened insecurity.

Lafarge Africa Plc's Long-term Average Financial Ratios

Financial Ratios	Nine-Year Historical Averages	
	Lafarge Africa Plc	Industry
CCC	0.5 days	39.61 days
Quick Ratio	0.39	0.58
Gross Profit Margin	26.8%	43.0%
Operating Profit Margin	13.6%	30.0%
Debt to Capital	41.5%	26.0%
Return on Equity	15.9%	22.0%

Source: Company Financial Reports, Cowry Research

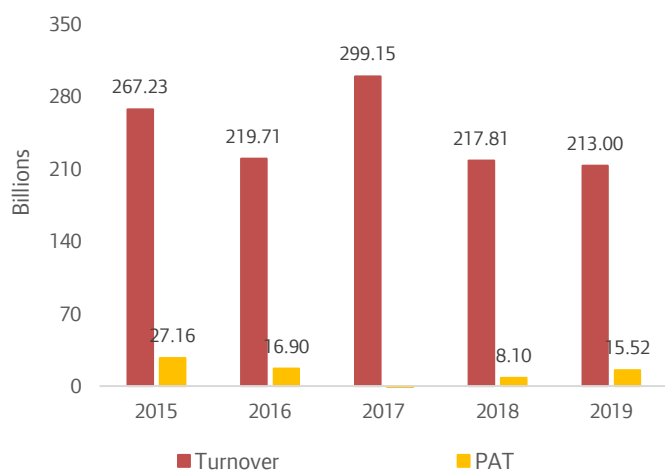
...Sale of Foreign Subsidiary Strengthened Balance Sheet Position

WAPCO significantly reduced its debt position to N54.95 billion as at H1 2020 from the humongous N275.26 billion printed as at H1 2019, using the proceeds from the sale of its foreign subsidiary (USD317 million). Hence, the group's total liability effectively fell to N143.66 billion from a high of N406.78 billion, even as its net debt position crashed to N15.07 billion as at H1 2020, from N255.72 billion as at H1 2019 amid improved cash position. The reduced debt position accounted for the lower finance costs, which stood at N4.42 billion in H1 2020 from N13.33 billion in H1 2019 – we expect the company to further widen its margin amid lower interest rate environment and low debt level. Similarly, with the sale of Lafarge South Africa Holdings, and the N89.2 billion rights issue in 2019, shareholder value increased to N352.14 billion, up from N139.38 billion, thus, lifting its shareholders value per share to N21.86 as at H1 2020 from N8.65 as at H1 2019. The recent positive developments boosted Lafarge Africa's financial performance to earn our 'Bb' rating, as it ranked favourably compared to other players in its industry.

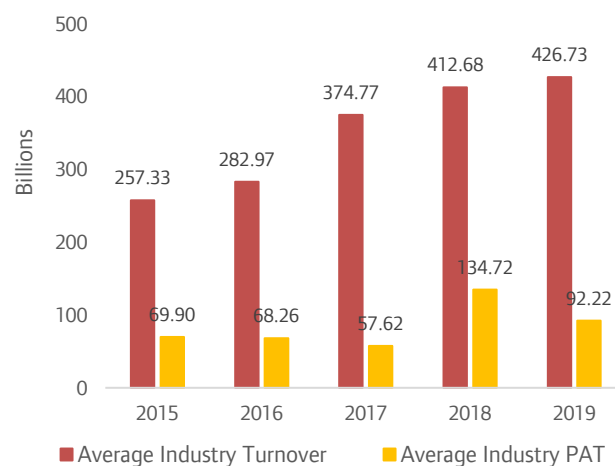
...Where in the Midst of Players Does WAPCO Stand?

With cement production plants in Ewekoro and Sagamu in the South West (4.5MMT production capacity), Mfamosing in the South South (5MMT production capacity) and Ashaka (1MMT production capacity) in the North East of Nigeria, totaling 10.5MMT, WAPCO is well positioned across the country to further increase its revenue. Also, Lafarge Readynix Nigeria Limited, one of the subsidiaries of the group and a market leader in quality concrete solutions, operates in three strategic regions of the country: Lagos, Port-Harcourt and Abuja. However, Lafarge Africa still needs to up its competitive strategy in order to gain more market share from its competitors such as Dangote Cement Plc (with 29.3MMT production capacity and 60.6% market share) and BUA which is ramping up production capacity to 14MMT by 2021.

WAPCO Turnover vs PAT



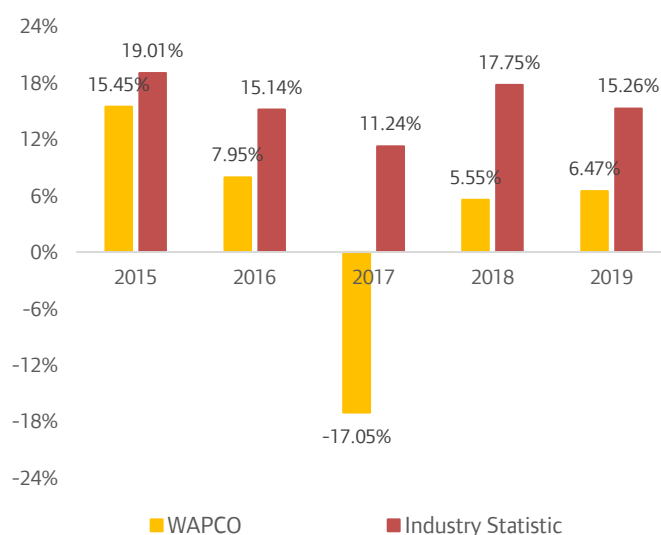
FY Industry Averages



WAPCO vs NSE ASI



Industry Historical Returns on Equity



Source: Company Financial Reports, Cowry Research



IMPORTANT DISCLOSURES:

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Performance Rating (PR)	Meaning
A	Security's Performance (Operating and Investment) rated ' Excellent '; scores $\geq 75\%$ in its industry
BB	Security's Performance rated ' Investment Grade '; scores between 65% and 75% in its industry
Bb	Security's Performance rated ' Acceptable '; scores between 50% and 65% in its industry
D-E	Security's Performance rated ' Not Acceptable '; scores below industry average

Analyst Recommendation (AR)	Meaning
BUY	PR is a 'BB' or 'A' and/or Security's Upside Potential is X: $X > 500\text{bps}$ above 364-day T-Bill rate
MODERATE BUY	PR is a 'Bb' or 'BB' and Security's Upside Potential is X: $364\text{-day T-Bill Rate} < X$
HOLD	PR is a 'Bb' and Security's Upside Potential is X: X is positive and $\leq 364\text{-day T-Bill Rate}$
MODERATE SELL/ REDUCE	PR is a 'Bb' and Security is Overvalued
SELL	PR is a 'D' or 'E' and Security is Overvalued