



Lafarge Africa Plc H1 2021

6 October 2021



MPR: 11.50%

Aug '21 Inflation Rate: 17.01%

Q2 '21 GDP: 5.01%

TICKER: WAPCO
Sector: Building Materials (Cement)
Price as at 6 October 2021: NGN22.80
Target Price: NGN30.00

Upside Potential: 31.58%
Performance Rating: D (Long-term average historical rating is E)
Recommendation: MODERATE BUY
Suggested Entry Price: NGN22.80

Financial Summary (N'Bn)	H1 2021	H1 2020	Y-o-Y%Δ
Turnover	145.01	120.54	20.30%
Gross Profit	48.04	41.71	15.18%
Operating Expense	10.62	9.38	13.27%
EBIT (Operating Profit)	38.22	32.81	16.49%
PAT	28.32	23.33	21.40%
Total Assets	511.72	495.79	3.21%
Total Liabilities	139.86	143.66	-2.64%
Shareholders' Funds	371.85	352.14	5.60%

Source: Company Financials, Cowry Research

Financial Ratios	H1 2021	H1 2020	Industry Average
Gross Profit Margin	33.13%	34.60%	46.64%
Operating Profit Margin	26.35%	27.22%	36.92%
Return on Equity	7.82%	8.05%	14.75%
Return on Total Assets	7.59%	6.11%	10.56%
Interest Coverage Ratio	14.37	7.41	26.19
CCC (in days)	39.38	-64.84	-12.88
Quick Ratio	0.64	0.45	0.62
Debt to Capital	5.04%	13.50%	26.90%
Equity Multiplier	1.38	1.41	1.95
Debt to Cash	0.34x	1.38x	3.00x
Debt to EBITDA	0.37x	1.17x	2.50x

Source: Company Financials, Cowry Research

Investment Ratios	FY 2019	Industry Average
EPS TTM	2.22	8.07
F' EPS	3.52	9.52
NAV	23.09	26.53
EV/EBITDA	6.22x	10.51x
PER TTM	10.25x	17.39x
Weighted PER	0.51x	18.13x
P/B	0.99x	4.48x
Dividend yield at suggested entry price	4.39%	

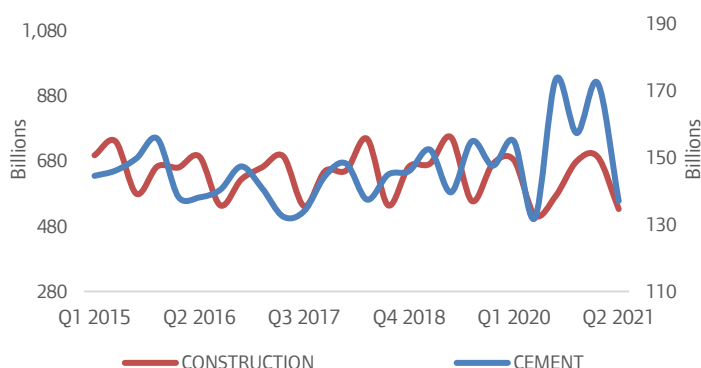
Source: NSE, Company Financials, Cowry Research

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

Lafarge Sets for Profitability after Business Re-organizations...

Lafarge Africa Plc appears to be set for strong performance in FY 2021 after it had gone through different business combinations and re-organisations in the past few years. Specifically, Lafarge Africa disposed of its Lafarge South Africa Holdings (Proprietary) Limited business and issued additional capital to significantly reduce its borrowings – a move that birthed stronger and higher quality balance sheet and increased profitability. Speaking to the numbers, the company's H1 2021 Profit After Tax (PAT) rose by 21.40% to N28.32 billion amid higher revenue and significant declines in finance costs. Lafarge Africa's impressive performance was due to the relative ease in lockdown, amid sustained improvement in COVID-19 vaccination, especially in major states such as Lagos, Ogun, Abuja and Kano where daily consumption of cement is relatively high. Hence, its revenue increased considerably by 20.30% to N145.01 billion in H1 2021, albeit gross profit margin fell to 33.13% from 34.60% printed in H1 2020 amid rising input costs, such as by-products and electrical energy expenses. Further break down of the revenue components showed that the company's segment revenue from cement (constituting 97.52% of the total revenue) rose by 19.26% to N141.43 billion; also, segment revenue from aggregate and ready-mix concrete (comprising 2.48% of the total revenue) ballooned by 83.49% to N3.59 billion in H1 2021. Going forward, we expect WAPCO's increased profitability to be sustained, amid increasing demand for housing infrastructure, commercial constructions and government projects which include roads and railways. Also, the cost lines should boost margins, especially the declining net finance costs. Hence, we recommended "MODERATE BUY" on WAPCO's shares despite the "D" performance rating.

Quarterly GDP Trend in Cement & Construction Sectors



Source: NBS, Cowry Research

...WAPCO Expanding Capacity amid Product Diversification

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 Readymix 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. The Ready Mix operations currently has installed annual capacity of over 400,000 cubic meters. It provides Mobile Plant Services which can be set up within short lead time to support projects in remote and logistically challenging sites, anywhere in Nigeria.

Lafarge Africa Plc's Long-term Average Financial Ratios

Financial Ratios	Nine-Year Historical Averages	
	Lafarge Africa Plc	Industry
Quick Ratio	0.40	0.55
Gross Profit Margin	27.1%	38.1%
Operating Profit Margin	14.4%	31.3%
Debt to Capital	36.5%	25.7%
Return on Equity	13.5%	19.7%

Source: Company Financial Reports, Cowry Research

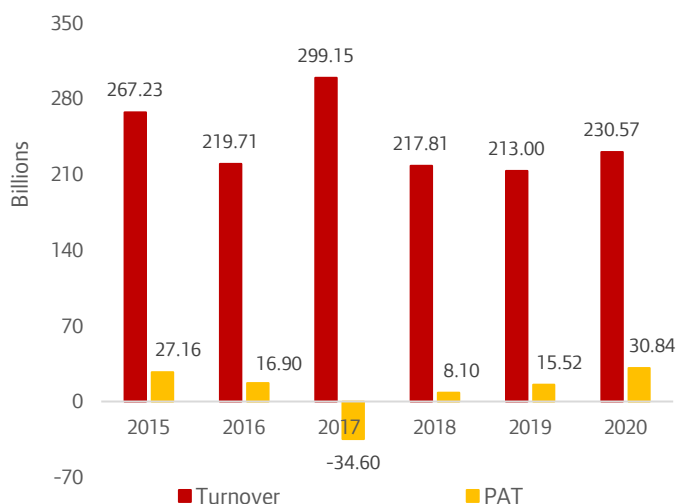
...Robust Balance Sheet Would Further Boost Profitability

Lafarge Africa's balance sheet looks tidier and well positioned to deliver optimal returns to its shareholders. WAPCO's borrowing significantly reduced to N19.75 billion as at H1 2021 from N54.95 billion and N275.26 billion billion printed as at H1 2020 and H1 2019 respectively, using the proceeds from the sale of its foreign subsidiary (USD317 million). Hence, the group's total liability effectively fell to N139.86 billion from a high of N143.66 billion, even as its net debt position changed to net cash of N38.09 billion as at H1 2021, from net debt of N15.07 billion as at H1 2020 amid significant improvement in cash position, especially cash from operations. The net cash position accounted for the lower finance costs, which stood at N2.66 billion in H1 2021 from N4.43 billion in H1 2020 – we expect the company to further widen its margin amid lower interest rate environment and low debt level. Interestingly, out of the total assets worth N511.72 billion, shareholder value accounted for 72.67% (N371.85 billion) while other stakeholders' claims on the total assets was only 27.33% (N139.86 billion) – hence, passing through chunk of the operational profit to the equity holders as the company operates on low leverage. Consequently, shareholders value per share rose to N23.09 as at H1 2021 from N21.86 and N8.65 respectively recorded as at H1 2020 and H1 2019 respectively. Given WAPCO's huge cash position worth N57.84 billion (cash per share was N3.59 in H1 2021), and the low debt level, we expect Lafarge Africa to reward its shareholders by increasing dividend payout from the N1.00 it paid for FY 2020.

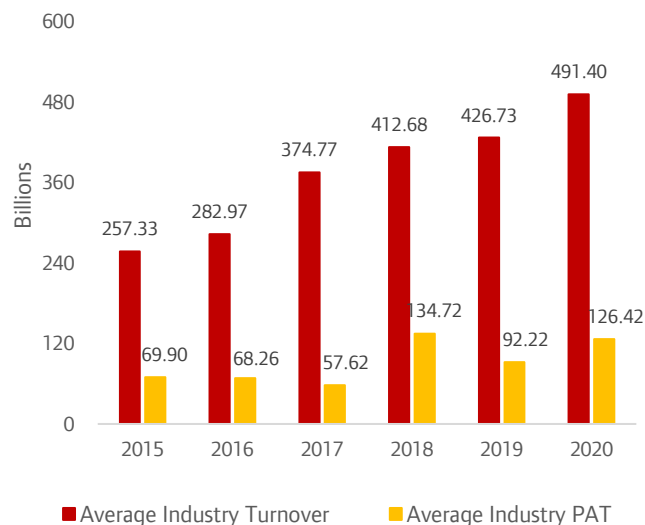
...Launches a New Product Line - Supafix Tile Adhesive

Lafarge Supafix is a cementitious tile adhesive made of cement aggregates, as well as organic and inorganic additives which is specifically designed for tiling. With the new product line, the company would further boost its market penetration and increase its revenue going forward.

Wapco Turnover vs PAT



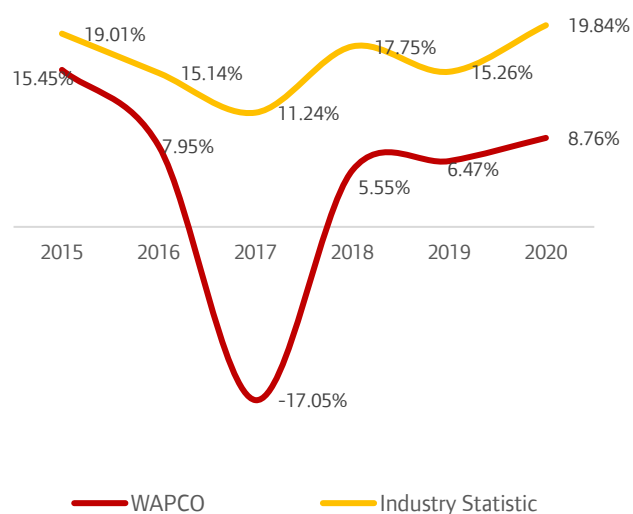
FY Industry Averages



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