

# Lafarge Africa Plc.

## First Glance: Q1-17 PAT; Strong Delivery, As Expected

Lafarge Africa Plc (LAFARGE) announced Q1-17 PAT of N5.2 billion (vs. –N1.9 billion in Q1-16) this morning, driven by (1) 55% y/y increase in revenue, (2) comparatively higher gross margin, and (3) higher investment and other incomes. The PAT, however, was behind consensus, owing to higher effective tax rate.

Compared to our estimate, the realized revenue was ahead by 23%, and beat consensus by 12%, on higher-than-expected aggregates/concrete revenue (N6 billion est., vs. N12.8 billion reported). Cement revenue grew by 61% y/y (vs. Cordros' 44% estimate), as relatively higher price in both Nigeria and South Africa more than offset the lower sales volume experienced in both markets. In Nigeria, sales volume grew by 6% compared to Q4-16, but was down by 12% y/y. In absolute terms, the N81.3 billion revenue reported during the period is the second largest (behind the N99.1 billion reported in Q4-15) since the emergence of Lafarge Africa.

Gross margin increased by 1086 bps y/y, as higher average price offset higher average per tonne cost of production. Compared to Q4-16 however, gross margin was lower by 1247 bps, and contradicts management's claim that it continues to witness savings from (1) energy efficiency, via increasing substitution of alternative fuel) and (2) de-correlation of FX, via local sourcing and energy diversification. Although gross margin has recovered quite impressively from the Q1-Q3 2016 low levels, it remains well-below the pre-2015 price-crash levels.

Also supporting profitability during the period were other income (via capital gain from the disposal of property) and finance income (via interest on loan receivable). In addition, opex margin fell by 206 bps y/y and 767 bps q/q, in line with management's overall cost savings programme towards the restoration of EBITDA margins.

Finance charges more than doubled y/y, and beat our estimate by 23%. Although lower by 16% y/y, gross debt increased by 11% from end-2016 level. Given the lower book value of debt, we attribute the higher finance charges relative to Q1-16 to a higher average cost of borrowings (+217 bps).

LAFARGE reported effective tax rate of 45.4% (way above the CIT and education tax rate of 32%), which in our view, is the readjustment of the deferred tax credit (N36.8 billion) the company claimed in the final quarter of 2016. A deferred tax charge of N2.9 billion (vs. N106 million credit in Q1-16) was recorded during the period.

Overall, LAFARGE's latest result, excluding one-offs, is consistent with the performance in Q4-16, and in line with consensus expectation of an improvement in the company's performance following the challenge it faced in 2016. Management retained its 0-2% demand growth, and flat to declining outlook, for both the Nigerian and South African markets respectively. **We retain BUY recommendation on the stock. Our estimates are under review.**

# BUY

Target Price (N)	80.56
Current Price (N)	46.00
Implied Return (%)	76.68

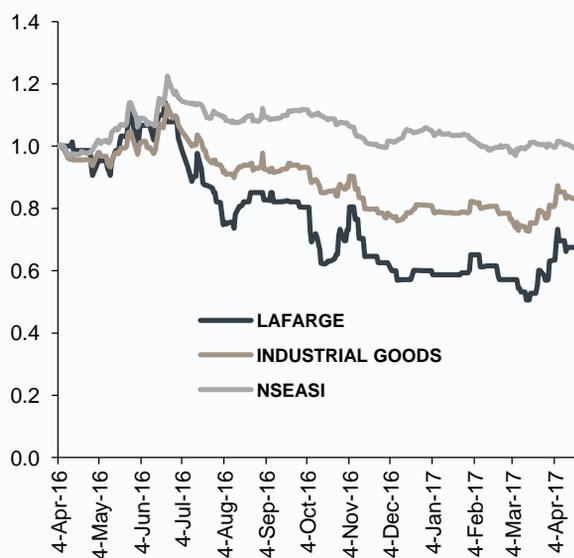
### Company Data

NSE Code	WAPCO
Bloomberg Code	WAPCO:NL
Reuters Code	WAPCO.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	252.11
Free Float (%)	34.97

Ratios	Q4-16	Q4-15	2016FY
Gross margin	25.70%	214.84%	18.51%
Opex margin	10.27%	12.33%	13.99%
EBIT margin	16.47%	-0.34%	-5.00%
PBT margin	11.62%	-4.24%	-10.39%
RoAE	10.82*	10.33*	7.95%
EPS (N)	0.93	-0.19	3.15

\*Trailing 12m

### Price movement (WAPCO vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

# Financial Statement (N'billion).

Statement of Comprehensive Income						Profitability Ratios					
	2014a	2015a	2016a	2017f	2018f		2014a	2015a	2016a	2017f	2018f
Turnover	260,810	267,234	219,714	275,954	287,307	Gross profit margin	31.8%	30.9%	18.5%	30.0%	30.1%
Cost of sales	(177,783)	(184,589)	(179,052)	(193,168)	(200,827)	EBITDA margin	25.0%	25.8%	13.5%	23.3%	23.4%
Gross profit	83,028	82,645	40,662	82,786	86,479	Operating profit margin	19.1%	19.8%	6.3%	16.6%	16.6%
Gross opex	(29,061)	(31,509)	(30,735)	(35,874)	(37,637)	PBT margin	15.5%	11.0%	-10.4%	11.0%	12.3%
Other operating income/(expenses)	(5,676)	(13,096)	(20,905)	(1,104)	(1,034)	Net prof it margin	13.0%	10.2%	7.7%	9.3%	10.5%
Operating profit	49,875	52,838	13,769	45,808	47,808	RoAE	19.5%	15.4%	8.0%	9.9%	10.9%
Interest income	3,334	1,953	3,676	1,695	1,770	RoAA	9.5%	6.3%	3.5%	4.9%	5.3%
Interest expenses	(11,266)	(10,702)	(15,504)	(16,701)	(14,000)	RoACE	13.6%	8.7%	4.8%	6.5%	7.4%
Share of net loss from associate	-	(5)	(13)	-	-						
Profit before tax	40,358	29,287	(22,819)	30,343	35,472	Liquidity Ratios					
Taxation	(6,538)	(2,124)	39,717	(4,551)	(5,321)	Working capital (N'm)	-3,506	-20,478	-77,644	-84,665	-81,091
<b>Profit for the year - continued</b>	<b>33,820</b>	<b>27,163</b>	<b>16,899</b>	<b>25,792</b>	<b>30,151</b>	Current ratio	1.0x	0.8x	0.6x	0.6x	0.6x
						Quick ratio	0.5x	0.4x	0.3x	0.3x	0.3x
						Cash ratio	0.3x	0.2x	0.1x	0.1x	0.1x
Financial Position						Efficiency Ratios					
	2014a	2015a	2016a	2017f	2018f		2014a	2015a	2016a	2017f	2018f
Property, plant and equipment	331,257	364,397	390,489	428,891	448,425	Fixed assets turnover	0.8x	0.7x	0.6x	0.6x	0.6x
Intangible assets	2,197	1,549	1,563	1,717	1,801	Current assets turnover	3.6x	3.6x	2.2x	2.6x	2.5x
Investment in Associate	43	27	90	98	109	Total assets turnover	0.6x	0.6x	0.4x	0.5x	0.5x
Other long term investment	8	6	6	7	13	Inventory turnover	6.7x	5.7x	4.6x	4.1x	4.0x
Deferred tax asset	295	-	7,641	8,392	8,780	Receivables turnover	16.0x	12.9x	9.3x	10.2x	9.9x
Long term receivables	6,248	9,975	-	-	-	Payables turnover	3.2x	2.6x	2.0x	1.8x	1.8x
<b>Total non current assets</b>	<b>343,732</b>	<b>378,434</b>	<b>404,147</b>	<b>443,893</b>	<b>464,144</b>	Days inventory outstanding	55	64	79	88	91
Inventories	31,545	33,027	44,531	48,910	51,143	Days collection outstanding	23	28	39	36	37
Trade and other receivables	19,830	21,590	25,801	28,339	29,635	Days payable outstanding	139	148	205	210	214
Current tax receivable	509	2,138	8,746	9,606	10,050	Cash conversion cycle	-61	-56	-87	-86	-87
Cash and cash equivalents	20,330	16,493	19,265	21,160	22,065						
<b>Current assets</b>	<b>72,214</b>	<b>73,249</b>	<b>98,344</b>	<b>108,015</b>	<b>112,893</b>	Solvency Ratios					
<b>TOTAL ASSETS</b>	<b>415,947</b>	<b>451,683</b>	<b>502,491</b>	<b>551,908</b>	<b>577,037</b>	Debt-to-capital ratio	0.4x	0.5x	0.3x	0.3x	0.3x
Trade and other payables	67,463	75,012	100,808	111,361	117,901	Net debt-to-equity ratio	45.8x	57.9x	39.5x	43.5x	36.6x
Provisions	1,334	1,864	1,177	1,300	1,379	Interest coverage	4.4x	4.9x	0.9x	2.7x	3.4x
Financial liabilities	5,134	12,823	59,483	63,980	57,714						
Deferred revenue	235	235	235	259	277	Investment Ratios					
Current tax payable	1,554	387	825	911	967	Earnings per share (N)	7.7	6.0	3.1	4.7	5.5
<b>Total current liabilities</b>	<b>75,720</b>	<b>93,726</b>	<b>175,987</b>	<b>192,680</b>	<b>193,983</b>	Dividend per share (N)	3.6	3.0	1.1	2.4	2.8
Financial liabilities	116,002	135,465	68,047	76,434	64,747	Dividend Payout	47%	50%	34%	50%	50%
Retirement benefits obligation	8,979	7,542	3,780	4,176	4,424	Dividend yield	4.5%	3.1%	2.4%	5.3%	6.2%
Deferred tax	34,173	32,937	-	-	-						
Provisions	3,125	2,577	2,448	2,705	2,866						
Deferred revenue	2,368	2,134	1,555	1,717	1,821						
Liabilities associated with assets held for sale	-	1,150	1,721	2,366	28,678						
<b>Total non-current liabilities</b>	<b>164,647</b>	<b>181,805</b>	<b>77,551</b>	<b>87,398</b>	<b>102,537</b>						
<b>TOTAL LIABILITIES</b>	<b>240,367</b>	<b>275,531</b>	<b>253,538</b>	<b>280,078</b>	<b>296,520</b>						
Share capital	2,202	2,277	2,740	2,740	2,740						
Share premium	173,998	186,420	217,528	217,609	217,609						
Retained earnings	87,206	100,993	102,843	114,479	123,165						
Foreign currency translation reserve	(1,341)	(10,157)	(8,660)	2,501	2,501						
Other reserves arising on business combination	(161,690)	(162,185)	(256,900)	(256,900)	(256,900)						
Non-controlling interest	75,204	58,803	191,401	191,401	191,401						
<b>TOTAL EQUITY</b>	<b>175,580</b>	<b>176,152</b>	<b>248,953</b>	<b>271,830</b>	<b>280,517</b>						

Source: Company Accounts, Cordros Research

# Disclosures

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