Lafarge Africa Plc.

First Glance: Q2-17 PAT; Strong Delivery, Amidst Energy and Leverage Challenges

Lafarge Africa Plc (LAFARGE) released Q2-17 result this afternoon, wherein revenue grew by 33.8% y/y while net profit was N14.57 billion, from a loss of N28.37 billion same period of last year. Compared to Q1-17 however, revenue and PBT were down 9.6% and 7.7% respectively, while net profit, helped by a N6.2 billion deferred tax credit, grew by 182.3%. **The revenue of N73.5 billion was in line with consensus while the net profit of N14.6 billion almost doubled consensus' N7.7 billion.**

The y/y revenue growth was expected, as relatively higher Nigerian and South African cement prices continue to compensate for softer demand. But given the stability of prices (especially in Nigeria) since the increases implemented thus far this year, including in April, we link the q/q revenue contraction to lower sales volume. **We note that in addition to the impact of rising prices on demand, the long, heavy rainy season in Nigeria between April and June may have contributed to lower cement consumption.** On segment basis, cement revenue declined by 16% q/q while aggregate/concrete and other revenues grew by 19% and 29% q/q respectively.

Noteworthy from the second quarter result is the strong rebound in gross margin to 32%, from 25.7% in Q1-17 and 14.9% in Q1-16. While noting possibly transmission from (1) additional increase in cement price and (2) underlying exchange rate-related cost savings, **we would seek management guidance on this line, given that similar growth in Q4-16 was subsequently attributed (by the management of LAFARGE) to higher by one-offs relating to accounting treatment of some costs and gas contracts. Meanwhile, we suspect from the significant increase in variable cost (84% q/q), notwithstanding lower sales volume, that LAFARGE is still faced with production cost challenges (we understand the company's South West operation had issues with energy).**

On the negative , operating expenses increased by 77.3% y/y and 22.4% q/q, driven by admin expenses which increased by 21% y/y (42% q/q), in continuation from the 53% y/y increase recorded in Q1.

Also on the negative, net finance charge increased 200.6% y/y, driven by declines in interest income on short term fixed deposits and loan receivable, but principally, by the increase in interest expenses on borrowings (+42.7% q/q and +77.3% y/y). **Total borrowings at the end of the period was N244.7 billion, from N127.6 billion at the end of 2016FY and N142.1 billion in Q1-17.** LAFARGE is in the process of raising N140 billion via Rights Issue, the proceeds of which would be utilized for the repayment of shareholder loans worth USD581 million at the end of 2016FY.

As stated earlier, LAFARGE's recognition of a deferred tax credit of N6.2 billion was a major boost to net profit. Recall that the company recognized sizeable tax credits in the third and final quarters of 2016. Overall, over H1, LAFARGE has reported net profit of N19.7 billion, well-ahead of consensus' N12.9 billion. We look for positive reaction to the latest result on expected upward revision to forecasts. Our estimates are under review.

BUY

Target Price (N)	80.56
Current Price (N)	54.60
Implied Return (%)	47.55

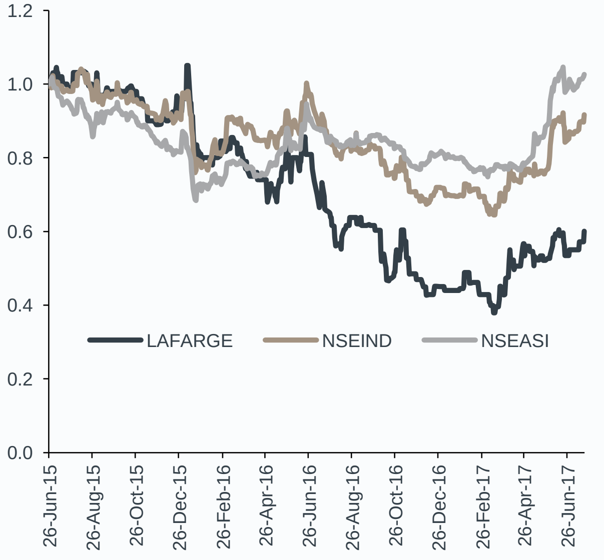
Company Data

NSE Code	WAPCO
Bloomberg Code	WAPCO:NL
Reuters Code	WAPCO.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	299.25
Free Float (%)	34.97

Ratios	Q2-17	Q2-16	2016FY
Gross margin	32.04%	13.44%	18.51%
Opex margin	13.90%	10.50%	13.99%
EBIT margin	20.03%	-47.26%	-5.00%
PBT margin	11.85%	-1.44%	-10.39%
RoAE	38.00*	-11.34*	7.95%
EPS (N)	2.66	-5.44	3.15

*Trailing 12m

Price movement (LAFARGE vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (N'billion).

Statement of Comprehensive Income	2014a	2015a	2016a	2017f	2018f
Turnover	260,810	267,234	219,714	275,954	287,307
Cost of sales	(177,783)	(184,589)	(179,052)	(193,168)	(200,827)
Gross profit	83,028	82,645	40,662	82,786	86,479
Gross opex	(29,061)	(31,509)	(30,735)	(35,874)	(37,637)
Other operating income/(expenses)	(5,676)	(13,096)	(20,905)	(1,104)	(1,034)
Operating profit	49,875	52,838	13,769	45,808	47,808
Interest income	3,334	1,953	3,676	1,695	1,770
Interest expenses	(11,266)	(10,702)	(15,504)	(16,701)	(14,000)
Share of net loss from associate	-	(5)	(13)	-	-
Profit before tax	40,358	29,287	(22,819)	30,343	35,472
Taxation	(6,538)	(2,124)	39,717	(4,551)	(5,321)
Profit for the year - continued	**33,820**	**27,163**	**16,899**	**25,792**	**30,151**

Financial Position	2014a	2015a	2016a	2017f	2018f
Property, plant and equipment	331,257	364,397	390,489	428,891	448,425
Intangible assets	2,197	1,549	1,563	1,717	1,801
Investment in Associate	43	27	90	98	109
Other long term investment	8	6	6	7	13
Deferred tax asset	295	-	7,641	8,392	8,780
Long term receivables	6,248	9,975	-	-	-
Total non current assets	***343,732***	***378,434***	***404,147***	***443,893***	***464,144***
Inventories	31,545	33,027	44,531	48,910	51,143
Trade and other receivables	19,830	21,590	25,801	28,339	29,635
Current tax receivable	509	2,138	8,746	9,606	10,050
Cash and cash equivalents	20,330	16,493	19,265	21,160	22,065
Current assets	***72,214***	***73,249***	***98,344***	***108,015***	***112,893***
TOTAL ASSETS	**415,947**	**451,683**	**502,491**	**551,908**	**577,037**
Trade and other payables	67,463	75,012	100,808	111,361	117,901
Provisions	1,334	1,864	1,177	1,300	1,379
Financial liabilities	5,134	12,823	59,483	63,980	57,714
Deferred revenue	235	235	235	259	277
Current tax payable	1,554	387	825	911	967
Total current liabilities	***75,720***	***93,726***	***175,987***	***192,680***	***193,983***
Financial liabilities	116,002	135,465	68,047	76,434	64,747
Retirement benefits obligation	8,979	7,542	3,780	4,176	4,424
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
Total non-current liabilities	***164,647***	***181,805***	***77,551***	***87,398***	***102,537***
TOTAL LIABILITIES	**240,367**	**275,531**	**253,538**	**280,078**	**296,520**
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
TOTAL EQUITY	**175,580**	**176,152**	**248,953**	**271,830**	**280,517**

Source: Company Accounts, Cordros Research

Profitability Ratios	2014a	2015a	2016a	2017f	2018f
Gross profit margin	31.8%	30.9%	18.5%	30.0%	30.1%
EBITDA margin	25.0%	25.8%	13.5%	23.3%	23.4%
Operating profit margin	19.1%	19.8%	6.3%	16.6%	16.6%
PBT margin	15.5%	11.0%	-10.4%	11.0%	12.3%
Net prof it margin	13.0%	10.2%	7.7%	9.3%	10.5%
RoAE	19.5%	15.4%	8.0%	9.9%	10.9%
RoAA	9.5%	6.3%	3.5%	4.9%	5.3%
RoACE	13.6%	8.7%	4.8%	6.5%	7.4%

Liquidity Ratios	2014a	2015a	2016a	2017f	2018f
Working capital (N'm)	-3,506	-20,478	-77,644	-84,665	-81,091
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

Efficiency Ratios	2014a	2015a	2016a	2017f	2018f
Fixed assets turnover	0.8x	0.7x	0.6x	0.6x	0.6x
Current assets turnover	3.6x	3.6x	2.2x	2.6x	2.5x
Total assets turnover	0.6x	0.6x	0.4x	0.5x	0.5x
Inventory turnover	6.7x	5.7x	4.6x	4.1x	4.0x
Receivables turnover	16.0x	12.9x	9.3x	10.2x	9.9x
Payables turnover	3.2x	2.6x	2.0x	1.8x	1.8x
Days inventory outstanding	55	64	79	88	91
Days collection outstanding	23	28	39	36	37
Days payable outstanding	139	148	205	210	214
Cash conversion cycle	-61	-56	-87	-86	-87

Solvency Ratios	2014a	2015a	2016a	2017f	2018f
Debt-to-capital ratio	0.4x	0.5x	0.3x	0.3x	0.3x
Net debt-to-equity ratio	45.8x	57.9x	39.5x	43.5x	36.6x
Interest coverage	4.4x	4.9x	0.9x	2.7x	3.4x

Investment Ratios	2014a	2015a	2016a	2017f	2018f
Earnings per share (N)	7.7	6.0	3.1	4.7	5.5
Dividend per share (N)	3.6	3.0	1.1	2.4	2.8
Dividend Payout	47%	50%	34%	50%	50%
Dividend yield	4.5%	3.1%	2.4%	5.3%	6.2%

Disclosures.

Analyst:

Christian Orajekwe (*christian.orajekwe@cordros.com)*

Analyst's Certification and Disclaimer

The research analyst(s) whose name(s) appear(s) on the cover of this report certifies (y) that:

(1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers;

(2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report; and

(3) all analysis made by the analyst(s) were in good faith and the views expressed reflect their opinion, without undue influence or any intervention.

Rating Summary & Definitions

Cordros Capital uses the following rating system:

BUY (OVERWEIGHT) - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

HOLD (NEUTRAL) - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

SELL (UNDERWEIGHT) - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

Important Disclosure

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.