

Lafarge Africa Plc.

First Glance: Q3-17; A Whooping Loss After Tax

LAFARGE released Q3-17 result late on Friday, showing revenue growth of 28.2% y/y, and a loss after tax of N18.8 billion which almost erased the N19.73 billion profit reported as at H1. **The revenue of N68.8 billion was well above our N53.3 billion estimate (and consensus N59.7 billion) while the LAT also beat the N2.3 billion loss we estimated (consensus estimate was for N5.2 billion profit).**

Given the largely stable cement prices across markets, we attribute the higher-than-expected revenue to both higher (than expected) sales volume in Nigeria and the stronger performance of the aggregate and concrete business. **Management did confirmed that cement demand in Nigeria was significantly lower than the previous year's, on the lingering impact of higher prices, weak construction activities nationwide, and longer rainy days. Management also said industrial challenges were experienced at the Lichtenburg plant in South Africa, wherein the challenges of cement overcapacity persisted.** On segment basis, cement revenue grew by 33% y/y in Q3 while aggregate/concrete and other revenues grew by 13.7% and 31% respectively. For 9 months, Nigerian revenue was up 45% while South African revenue (supported by a stronger Rand) grew by 27%.

Noteworthy from this result was the crashing of gross margin to 19.6%, from 32% in Q2, and also below our conservative estimate of 24%. Energy issues in the South West persisted, with gas supply below 50% on average in the region in nine months.

Also on the negative, operating expenses increased by 73% y/y and 25% q/q, and as a proportion of revenue, opex ratio increased to 20%, from 13.9% in Q2-17, 14.9% in Q3-16, and above the 15.9% we estimated. Again, admin expenses, which increased by 114.5% y/y (from 89% y/y in Q2), were the main drivers. Included in opex, according to management, was the sum of N2.3 billion attributed to the cost of Ashaka delisting, Rights Issue, restructuring and ERP implementation, and South Africa System stabilization project & inventory write-off.

Further impacting earnings was other operating loss of N9.3 billion, attributed to the net forex loss of N9.9 billion reported during the period. In addition, finance charge increased 85.7% y/y and 24.7% q/q, driven by interest on borrowings which increased by 27% q/q and 185% y/y. Compared to Q2 closing balance, borrowings increased by 12.5%.

LAFARGE's Q3 result was disappointing, especially in the context of its strong negative implication for 2017F expected earnings. We expect strong negative reaction to the result on likely huge downward revision to consensus prior net profit forecast of N36.5 billion for the year. Our estimates are under review.

Management will hold conference call for investors and analysts today. Details are as shown below:

Time: 2.00 pm (Nigeria)

Numbers: (France: 0 800 902 688), (Johannesburg Neotel: 011 535 3500), (Johannesburg Telkom: 010 201 6700), (Kenya: 0207 602 021), (Nigeria: 01903 0040), (Other Countries: +27-10-201-6700, +27-11-535-3500), (UK: 0 333 300 1417, 0 808 162 4060), (USA and Canada: 1 800 921 0864, 1 855 242 3083)

BUY

Target Price (N)*	87.44
Current Price (N)	56.00
Implied Return (%)	56.14

Company Data

NSE Code	WAPCO
Bloomberg Code	WAPCO:NL
Reuters Code	WAPCO.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	308.24
Free Float (%)	34.97

Ratios	Q3-17	Q3-16	2016FY
Gross margin	19.56%	13.44%	18.51%
Opex margin	20.11%	10.50%	13.99%
EBIT margin	-14.12%	-47.26%	-5.00%
PBT margin	-24.80%	-1.44%	-10.39%
RoAE**	3.32%	9.18%	7.95%
EPS (N)	-3.44	-1.27	3.15

* Under Review

**Trailing 12m

Price movement (LAFARGE vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Income Statement (N'bn)	30-Sep-17	30-Sep-16	y/y	Q3-17	Q3 y/y	Q3 q/q	Q2-17	Q1-17
Revenue	223.67	161.04	38.9%	68.83	28.2%	-6.4%	73.53	81.31
Cost of sales	-165.76	-142.93	16.0%	-55.37	9.2%	10.8%	-49.97	-60.42
Gross profit	57.91	18.11	219.8%	13.46	353.2%	-42.8%	23.56	20.89
Opex	-32.42	-20.21	60.4%	-13.84	73.3%	35.4%	-10.22	-8.35
Other operating (exp)/income	-7.09	-30.88	-77.0%	-9.33	300.8%	-770.9%	1.39	0.85
EBIT	18.40	-32.97	-155.8%	-9.72	32.2%	-166.0%	14.72	13.39
Finance/Investment income	0.00	0.00		-0.60	-175.7%	0.9%	-0.60	1.20
Finance charges	-17.31	-7.40	134.1%	-6.75	85.7%	24.7%	-5.41	-5.15
Share of net loss from associates	0.00	0.00	-100.0%	0.00			0.00	0.00
Profit before tax	1.09	-40.37	-102.7%	-17.07	67.6%	-295.8%	8.71	9.45
Taxation	-0.16	2.97	-105.2%	-1.73	-157.1%	-129.5%	5.86	-4.28
Profit after tax	0.94	-37.41	-102.5%	-18.79	162.6%	-229.0%	14.57	5.16

Ratios	30-Sep-17	30-Sep-16	Q3-17
Gross margin	25.89%	11.25%	19.56%
Opex margin	14.49%	12.55%	20.11%
EBIT margin	8.23%	-20.47%	-14.12%
Interest cover	-0.94x	0.22x	0.69x
Tax rate	14.23%	7.35%	-10.12%
PBT margin	0.49%	-25.07%	-24.80%
PAT margin	0.42%	-23.23%	-27.31%
RoAE	29.7%	14.3%	3.3%

Source: Company Accounts, Cordros Research

Disclosures

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