

Lafarge Africa Plc.

Cut to Estimates After Loss in Q3-17

We revise forecasts for LAFARGE following 9M-2017 results, and adjust our TP for the stock for the Rights Issue (RI). We cut net profit forecasts by 85% for 2017F and by 3% average for 2018-2019F, increase shares outstanding (NOSH) by 57% to 8.6 billion, and roll-forward valuation to 2018F. The broad industry challenge aside, LAFARGE's sales volume, among our universe, lags expectation the most. Margin recovery outlook is relatively less assuring. And there is an underlying FX risk on the outstanding sizeable quasi-equity USD borrowings (USD286 million). On the positive, proceeds of the RI will partly address the Group's debt overhang condition and allow management focus on profitable operations. On net, we reduce TP for the stock by 55% to NGN38.98/share (NGN80.04/share on the old NOSH) and downgrade rating to SELL. LAFARGE's RI price of NGN42.5/share is trading close (9% premium) to our new TP.

Following Q3-17 result, we raise 2017F volume forecast slightly to 6.2Mts (previously 6.1Mts), representing 18.6% contraction (previously 19.3%), on better-than-expected Nigerian volume (precisely Mfamosing). For 2018 and 2019 however, we revise volume forecast lower to 6.7Mts (previously 7.2Mts) and 6.9Mts (previously 7.6Mts), after cutting expected utilization rates for the West (2,000bps) and North (500 bps) of Nigerian operations. Volume forecast for the South African operation, struggling with high competition and weak infrastructure spending, is unchanged. We retained estimated end-2017 selling price of NGN32,340/bag for the Group (Nigeria: NGN44,800/bag) for 2018F.

Noteworthy from the Q3-17 result was the crashing of gross margin to 19.6%, from 32% in Q2, and also below our conservative estimate of 24%. LAFARGE's unsteady gross margin between Q4-16 and 9M-17 (compared to DANGCEM's) does not make for strong reliance on management's claims of strong contribution from coal, pet-coke, and alternative fuels in cement production. Also, at +60% in 9M-17, OPEX is running at a record-fast rate. Overall, following what we view as an unimpressive run rate – notwithstanding management's view that some of the costs are one-offs – we cut 2017 EBITDA forecast by 25% and 2018-2019F by 7% on higher OPEX and lower gross margin than previous estimates. Our revised EBITDA forecasts imply EBITDA margin of 18% in 2017F (previously 26%) and 23% in 2018F and 2019F (previously 24%).

The slight cut to 2018-2019 net profit forecast, notwithstanding the above revisions, reflects the potential gain from the part refinancing of debts using RI proceeds. From 9M-17's NGN267.4 billion, we estimate gross debt will reduce to NGN135.7 billion in 2018F, and consequently reduce finance costs to NGN16.1 billion, from our previous estimate of NGN 23.1 billion, and NGN24.4 billion potentially in 2017F.

Income Statement (NGN'bn)	Q1-17a	Q2-17a	Q3-17a	Cordros Q4-17e	Q4-16a
Revenue	81.31	73.53	68.83	73.53	58.67
Cost of sales	-60.42	-49.97	-55.37	-50.00	-36.12
Gross profit	20.89	23.56	13.46	23.53	22.55
OPEX	-8.35	-10.22	-13.84	-15.44	-10.53
Other income	0.85	1.39	-9.33	1.00	9.97
EBIT	13.39	14.72	-9.72	9.09	21.99
Investment income	1.20	-0.60	-0.60	1.00	2.88
Finance cost	-5.15	-5.41	-6.75	-7.09	-7.31
Profit before tax	9.45	8.71	-17.07	3.00	17.55
Taxation	-4.28	5.86	-1.73	0.00	36.75
Profit after tax	5.16	14.57	-18.79	3.00	54.30

SELL

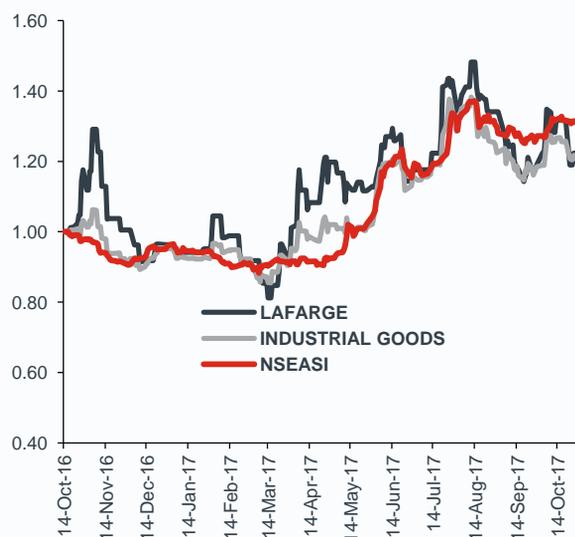
Target Price (NGN)	38.98
Current Price (NGN)	50.00
Implied Return (%)	-22.05

Company Data

NSE Code	WAPCO
Bloomberg Code	WAPCO:NL
Reuters Code	WAPCO.LG
Sector	INDUSTRIAL GOODS
Market Cap. (NGN'bn)	274.04
Free Float (%)	24.10

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 (NGN)	-3.44	-1.27	3.15

Price movement (LAFARGE vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (NGN'million).

Statement of Comprehensive Income (N'000)						Profitability Ratios					
	2015a	2016a	2017e	2018e	2019e	2015a	2016a	2017e	2018e	2019e	
Turnover	267,234	219,714	297,200	323,340	332,208	Gross profit margin	30.9%	18.5%	27.4%	30.0%	30.1%
Cost of sales	(184,589)	(179,052)	(215,759)	(226,338)	(232,213)	EBITDA margin	25.8%	13.5%	17.6%	22.6%	22.6%
Gross profit	82,645	40,662	81,442	97,002	99,994	Operating profit margin	19.8%	6.3%	9.2%	14.2%	14.1%
Gross opex	(31,509)	(30,735)	(47,862)	(52,395)	(54,164)	PBT margin	11.0%	-10.4%	1.4%	10.0%	10.1%
Other operating income/(expenses)	(13,096)	(20,905)	(6,089)	1,164	1,096	Net profit margin	10.2%	7.7%	1.3%	8.5%	8.6%
Operating profit	52,838	13,769	27,491	45,771	46,927	RoAE	15.4%	8.0%	1.8%	10.0%	7.9%
Interest income	1,953	3,676	1,000	2,816	2,909	RoAA	6.3%	3.5%	0.7%	4.0%	3.9%
Interest expenses	(10,702)	(15,504)	(24,397)	(16,230)	(16,230)	RoACE	8.7%	4.8%	0.9%	5.8%	5.8%
Share of net loss from associate	(5)	(13)	-	-	-						
Profit before tax	29,287	(22,819)	4,094	32,357	33,606	Liquidity Ratios					
Taxation	(2,124)	39,717	(156)	(4,854)	(5,041)	Working capital (NGN'm)	-20,478	-77,644	-106,095	-1,405	1,344
Profit for the year - continued	27,163	16,899	3,938	27,504	28,565	Current ratio	0.8x	0.6x	0.6x	1.0x	1.0x
						Quick ratio	0.4x	0.3x	0.3x	0.6x	0.6x
						Cash ratio	0.2x	0.1x	0.1x	0.2x	0.2x
Financial Position (N'000)						Efficiency Ratios					
	2015a	2016a	2017e	2018e	2019e	2015a	2016a	2017e	2018e	2019e	
Property, plant and equipment	364,397	390,489	431,567	471,733	486,954	Fixed assets turnover	0.7x	0.6x	0.7x	0.7x	0.7x
Intangible assets	1,549	1,563	2,004	2,198	2,269	Current assets turnover	3.6x	2.2x	2.0x	2.0x	1.9x
Investment in subsidiaries	-	-	-	-	-	Total assets turnover	0.6x	0.4x	0.5x	0.4x	0.4x
Investment in Associate	27	90	195	221	229	Inventory turnover	5.7x	4.6x	3.9x	3.2x	3.1x
Other long term investment	6	6	10	19	20	Receivables turnover	12.9x	9.3x	8.5x	6.9x	6.7x
Deferred tax asset	-	7,641	51,567	56,373	58,193	Payables turnover	2.6x	2.0x	2.0x	2.1x	2.4x
Long term receivables	9,975	-	-	-	-	Days inventory outstanding	64	79	95	114	117
Assets classified as held for sale	-	-	-	-	-	Days collection outstanding	28	39	43	53	54
Total non current assets	378,434	404,147	509,269	556,710	574,677	Days payable outstanding	148	205	200	152	151
Inventories	33,027	44,531	67,288	73,557	75,931	Cash conversion cycle	-56	-87	-62	15	21
Trade and other receivables	21,590	25,801	44,513	48,662	50,233	Solvency Ratios					
Current tax receivable	2,138	8,746	13,571	14,841	15,321	Debt-to-capital ratio	0.5x	0.3x	0.6x	0.3x	0.3x
Cash and cash equivalents	16,493	19,265	25,803	28,132	29,032	Net debt/EBITDA	1.9x	3.7x	4.6x	1.5x	1.4x
Current assets	73,249	98,344	151,176	165,193	170,517	Net debt-to-equity ratio	57.9x	39.5x	88.1x	25.1x	24.9x
TOTAL ASSETS	451,683	502,491	660,445	721,902	745,194	Interest coverage	4.9x	0.9x	1.1x	2.8x	2.9x
Trade and other payables	75,012	100,808	118,322	93,974	96,131	Investment Ratios					
Provisions	1,864	1,177	480	385	394	Earnings per share (N)	6.0	3.1	0.7	3.2	3.3
Financial liabilities	12,823	59,483	116,117	54,476	54,476	Dividend per share (N)	3.0	1.1	0.4	1.6	1.7
Deferred revenue	235	235	205	166	170	Dividend Payout	50%	34%	50%	50%	50%
Current tax payable	387	825	1,143	912	933	Dividend yield	3.1%	2.4%	0.7%	3.2%	3.3%
Total current liabilities	93,726	175,987	257,271	166,598	169,173						
Financial liabilities	135,465	68,047	151,246	81,188	81,188						
Retirement benefits obligation	7,542	3,780	5,538	4,402	4,504						
Deferred tax	32,937	-	40,750	32,367	33,114						
Provisions	2,577	2,448	3,492	2,777	2,841						
Deferred revenue	2,134	1,555	1,686	1,343	1,374						
Liabilities associated with assets held for sale	1,150	1,721	5,154	80,736	85,695						
Total non-current liabilities	181,805	77,551	207,867	202,813	208,716						
TOTAL LIABILITIES	275,531	253,538	465,139	369,411	377,889						
Share capital	2,277	2,740	2,740	4,289	4,289						
Share premium	186,420	217,528	217,609	347,710	347,710						
Retained earnings	100,993	102,843	90,185	115,719	130,533						
Foreign currency translation reserve	(10,157)	(8,660)	3,888	3,888	3,888						
Other reserves arising on business combination	(162,185)	(256,900)	(258,081)	(258,081)	(258,081)						
Non-controlling interest	58,803	191,401	138,966	138,966	138,966						
TOTAL EQUITY	176,152	248,953	195,307	352,492	367,305						

Source: Company Accounts, Cordros Research

Disclosures

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