

Lafarge Africa Plc.

2017FY ends with a disappointing Q4, and broadly, H2 performance

Update: LAFARGE published disappointing Q4-17 and 2017FY results over the weekend. A loss after tax of NGN34.6 billion was reported for the full year, resulting from a disappointing H2 wherein losses of NGN35.5 billion and NGN18.8 billion were respectively recorded in Q4 and Q3. Actual EBIT (NGN7.9 billion) and PAT for the full year were significantly behind the NGN46.8 billion and NGN15.3 billion estimated by consensus. Still, the board proposed final dividend of NGN1.50/s, equating to 3.4% yield. Some 2016FY figures were restated (such as opex -12%, net other operating income loss -95%, finance charges +151%, and tax credit +0.7%), although impact on net profit was neutral.

In-line seasonally strong Q4 sales: Q4-17 revenue grew by 28.7% y/y and 9.7% q/q, and higher than our estimate by 3%. We estimate sales volume grew by 9-10% q/q, although still lower (by 19%) compared to Q4-16. We also estimate sales volume for the full year to have declined by about 18%, ahead of the 12-14% the management had said it expected for the industry.

Further margin shrinkage: CoGS in Q4-17 was higher than the reported revenue, thus resulting in negative gross profit and margin. Compared to Q4-16 and Q3-17, Q4-17 CoGS increased by 129% y/y and 49% q/q. Significant increases in energy (93% y/y and 32% q/q), distribution (258% y/y and 190% y/y), depreciation (69% y/y and 5% q/q), and general costs (958% y/y and 521% q/q) more than offset decline in raw material cost (41% y/y and 22% q/q). **The biggest drag on gross profit was a NGN19.2 impairment of PPE charge in Q4, which, parsing through the auditor's commentary, partly comprised (1) NGN12.4 billion cost of the evacuation road under construction at UNICEM and (2) NGN3.3 billion cost of ASHAKACEM kiln preheater project. Gross margin over 2017FY was c.17% vs. 18.5% in 2016FY.**

Negative EBIT margin of 13.9% was recorded in Q4-17, almost equal to the 14.1% in Q3-17. While opex declined only marginally and net other operating income came in at NGN9.5 billion, vs. loss of NGN9.3 billion in Q3-17, both came in respectively higher (86.7% y/y) and lower (68% y/y) vs. the restated Q4-16 figures. EBIT margin over 2017FY was 2.6% vs. 5.7% in 2016FY.

Finance charge pushed up: Finance charge of NGN25.91 billion was reported, although lower 16% y/y, but higher by 284% q/q. Finance charge for 2017FY was NGN43.2 billion, 11% higher. Additional NGN33 billion loan were repaid in Q4-17 while NGN67.4 billion was drawn. Net loan drawn in 2017FY was NGN56.1 billion. Balance of borrowings at the end of 2017 is NGN256.6 billion, vs. NGN151.8 billion at the beginning of the year, with the differential also comprising the related party loans reclassified into borrowings, from quasi-equity, during the course of the year.

Taxes: Minimum tax of NGN287.7 million and a tax charge of NGN125.8 million were respectively booked in Q4-17. Effective tax rate for 2017FY was 0.83%.

Comment: LAFARGE's Q4-17 earnings came way behind our conservative estimate of NGN3 billion. And given the even wider variance with consensus as stated earlier, we expect investors reaction to the delayed result will be negative in today's, and perhaps, this week's trading.

SELL

Target Price (NGN)*	38.98
Current Price (NGN)	44.20
Implied Return (%)	-11.82

Company Data

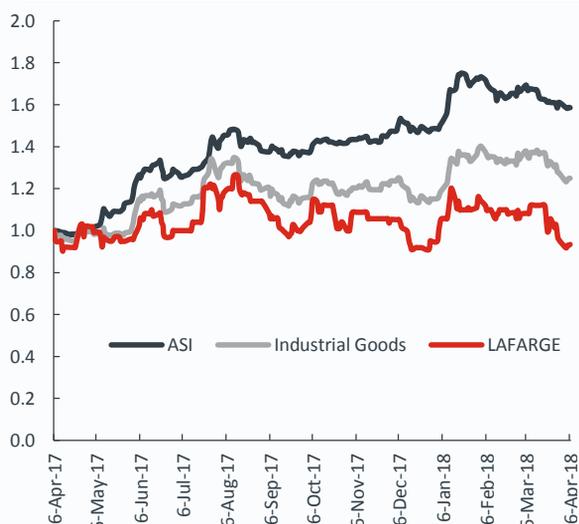
NSE Code	WAPCO
Bloomberg Code	WAPCO:NL
Reuters Code	WAPCO.LG
Sector	INDUSTRIAL GOODS
Market Cap. (NGN'bn)	383.37
Free Float (%)	34.97

Ratios	Q4-17	Q4-16	2017FY
Gross margin	-9.47%	38.44%	16.97%
Opex margin	-17.04%	17.94%	15.14%
EBIT margin	-13.93%	37.49%	2.64%
PBT margin	-46.53%	29.91%	-11.38%
**RoAE	-46.61%	34.04%	-22.30%
EPS (NGN)	-6.46	10.30	-6.37

*Latest

**Trailing 12m

Price movement (LAFARGE vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Income Statement (N'bn)	31-Dec-17	31-Dec-16	y/y	Q4-17	Q4-17 y/y	Q4-17 q/q	*Q4-16	Q4-16
Revenue	299.15	219.71	36.2%	75.48	28.7%	9.7%	58.67	58.67
Cost of sales	-248.39	-179.05	38.7%	-82.64	128.8%	49.3%	-36.12	-36.12
Gross profit	50.76	40.66	24.8%	-7.15	-131.7%	-153.1%	22.55	22.55
Opex	-45.28	-27.09	67.1%	-12.86	86.7%	-7.1%	-6.89	-10.53
Other operating (exp)/income	2.41	-1.13	-313.1%	9.49	-68.1%	-201.7%	29.75	9.97
EBIT	7.89	12.44	-36.6%	-10.52	-123.2%	8.2%	45.41	21.99
Finance/Investment income	1.44	3.68	-60.8%	1.44	-50.0%	-338.4%	2.88	2.88
Finance charges	-43.22	-38.92	11.0%	-25.91	-15.7%	284.0%	-30.73	-7.31
Share of net loss from associates	-0.14	-0.01	1019.8%	-0.14	1019.8%	#DIV/0!	-0.01	-0.01
Profit before minimum tax	-34.03	-22.82	49.1%	-35.13	-300.2%	105.8%	17.55	17.55
Minimum tax	-0.29	-0.27		-0.29	6.1%		-0.27	0.00
Profit after minimum tax	-34.32	-23.09		-35.41	-305.0%		17.28	17.55
Tax (expense)/credit	-0.28	39.99	-100.7%	-0.13	-100.3%	-92.7%	37.02	36.75
Profit after tax	-34.60	16.90	-304.8%	-35.54	-165.4%	89.1%	54.30	54.30
Profit / Loss from discontinuing ops.	0.00	0.00	#DIV/0!	0.00	#DIV/0!	#DIV/0!	0.00	0.00
Net Profit	-34.60	16.90	-304.8%	-35.54	-165.4%	89.1%	54.30	54.30

Ratios	31-Dec-17	31-Dec-16	Q4-17	Q3-17	Q2-17	*Q4-16	Q4-16
COS margin	83.03%	81.49%	109.47%	80.44%	67.96%	61.56%	61.56%
Gross margin	16.97%	18.51%	-9.47%	19.56%	32.04%	38.44%	38.44%
Opex margin	15.14%	12.33%	17.04%	20.11%	13.90%	11.74%	17.94%
EBIT margin	2.64%	5.66%	-13.93%	-14.12%	20.03%	77.40%	37.49%
Interest cover	5.48x	3.13x	-0.41x	-1.44x	2.72x	1.48x	3.01x
Tax rate	-0.83%	175.24%	-0.36%	10.12%	67.21%	210.97%	209.43%
PBT margin	-11.38%	-10.39%	-46.53%	-24.80%	11.85%	29.91%	29.91%
PAT margin	-11.57%	7.69%	-47.08%	-27.31%	19.82%	92.55%	92.55%
EPS (N)	-6.37	3.15	-6.46			10.30	10.61
Final dividend	1.50	3.00					
Dividend yield	3.39%	4.05%					

Source: Company Accounts, Cordros Research

*Restated

Disclosures.

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