

Lafarge Africa Plc.

Reduced losses; but performance still worrying

Update: Earlier today, LAFARGE published Q1-18 result, showing 0.8% y/y decline in revenue and loss after tax of NGN2 billion. The published revenue and net loss were improvements over Q4-17 (+6.8% q/q and -94% q/q).

Volume lower y/y; but higher on q/q basis: It is our view that the slight decline in revenue y/y was due to lower sales volume, given that average cement prices are currently higher by about 9% compared to Q1-17, on our estimate. We estimate about 7-8% growth in volume vs. Q4-17, consistent with the guidance provided by most producers during the 2017FY call. Revenue break-down shows “cement” and “other” revenues declined by 2% y/y and 26% y/y respectively while “aggregate and concrete” revenue grew by 8% y/y.

Margins turn positive, but lower on y/y basis: From a negative in Q4-17, gross and EBIT margins of 22.3% and 7.8% were reported in Q1-18. The margins are lower than the 25.7% and 16.5% respectively reported in Q1-17. Compared to Q4-17, CoGS was lower by 24%, owing to the non-occurrence of the significant one-off charges that were recognized in the final quarter of 2017 and impacted adversely on earnings. Gross profit was lower y/y (14%), reflecting both lower margin and volume.

EBIT and the margin were lower by 53% y/y and 872 bps y/y respectively, owing to (1) lower volume and gross margin and (2) higher opex and the margin (41% y/y and 432 bps y/y). On opex, administrative spend increased by 36% y/y while campaign and innovation spend was more than 6x higher compared to Q1-17.

Net finance charge still a worry: Though the net finance charge of NGN9.2 billion reported was much lower than the NGN24.5 billion reported in Q4-17, the amount is higher by 133% vs. Q1-17. Besides from the bump in Q4-17, the reported net finance charge is also high, in historical context. Interest on borrowings alone (NGN7.6 billion) was higher by 78%, reflecting the relatively higher borrowings of NGN269 billion (vs. NGN142 billion in Q1-17) in the balance sheet following the reclassification of related party loans from quasi-equity, in H2-17. Net FX loss of NGN640 million was also reported during the quarter (Nil in Q1-17).

Tax credit: Loss before and after tax of NGN2.95 billion and NGN2 billion were reported respectively. A deferred tax credit of NGN1.86 billion was recognized, resulting on net, to a tax credit of NGN944 million during the quarter.

Comment: We expect reaction to the result would be negative, given the lingering loss after tax (consistent in the last three quarters). That said, we view the growth in volume over Q4-17 as positive. We reiterate SELL. Estimate under review.

SELL

Target Price (NGN)*	38.98
Current Price (NGN)	45.95
Implied Return (%)	-15.17

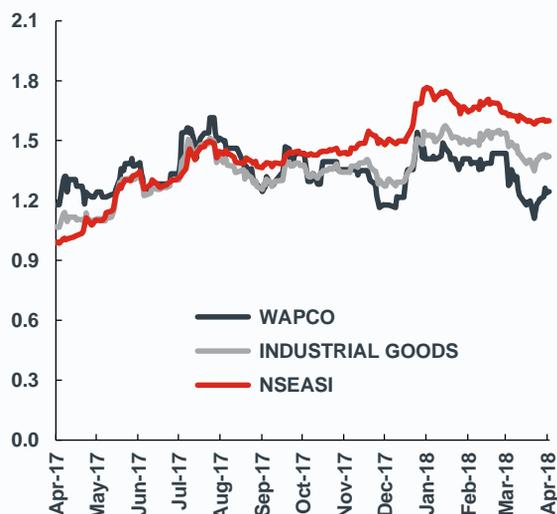
Company Data

NSE Code	WAPCO
Bloomberg Code	WAPCO:NL
Reuters Code	WAPCO.LG
Sector	INDUSTRIAL GOODS
Market Cap. (NGN'bn)	398.54
Free Float (%)	34.97

Ratios	Q1-18	Q4-16	2017FY
Gross margin	22.32%	38.44%	16.97%
Opex margin	-14.59%	17.94%	15.14%
EBIT margin	7.76%	37.49%	2.64%
PBT margin	-3.65%	29.91%	-11.38%
EPS (NGN)	-0.23	0.92	-6.37

*Latest
**Trailing 12m

Price movement (LAFARGE vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Summary of Quarterly Results.

Income Statement (NGN'bn)	31-Mar-18	31-Mar-17	y/y	q/q	Q4-17	Q3-17	Q2-17	Q1-17
Revenue	80.64	81.31	-0.8%	6.8%	75.48	68.83	73.53	81.31
Cost of sales	-62.64	-60.42	3.7%	-24.2%	-82.64	-55.37	-49.97	-60.42
Gross profit	18.00	20.89	-13.8%	-351.7%	-7.15	13.46	23.56	20.89
Opex	-11.77	-8.35	40.8%	-8.5%	-12.86	-13.84	-10.22	-8.35
Other operating (exp)/income	0.02	0.85	-97.6%	-99.8%	9.49	-9.33	1.39	0.85
EBIT	6.25	13.39	-53.3%	-159.5%	-10.52	-9.72	14.72	13.39
Finance/Investment income	0.00	0.00	#DIV/0!	-100.0%	1.44	-0.60	-0.60	1.20
Finance charges	-9.20	-3.95	133.1%	-64.5%	-25.91	-6.75	-5.41	-5.15
Share of net loss from associates	0.00	0.00	#DIV/0!	-100.0%	-0.14	0.00	0.00	0.00
Profit before minimum tax	-2.95	9.45	-131.2%	-91.6%	-35.13	-17.07	8.71	9.45
Minimum tax	0.00	0.00		-100.0%	-0.29	0.00	0.00	0.00
Profit after minimum tax	-2.95	9.45		-91.7%	-35.41	-17.07	8.71	9.45
Tax (expense)/credit	0.94	-4.28	-122.0%	-850.4%	-0.13	-1.73	5.86	-4.28
Profit after tax	-2.00	5.16	-138.8%	-94.4%	-35.54	-18.79	14.57	5.16
Profit / Loss from discontinuing ops.	0.00	0.00	#DIV/0!	#DIV/0!	0.00	0.00	0.00	0.00
Net Profit	-2.00	5.16	-138.8%	-94.4%	-35.54	-18.79	14.57	5.16

Ratios	31-Mar-18	31-Mar-17	Q4-17	Q3-17	Q2-17	Q1-17
COS margin	-77.68%	-74.30%	-109.47%	-80.44%	-67.96%	-74.30%
Gross margin	22.32%	25.70%	-9.47%	19.56%	32.04%	25.70%
Opex margin	-14.59%	-10.27%	-17.04%	-20.11%	-13.90%	-10.27%
EBIT margin	7.76%	16.47%	-13.93%	-14.12%	20.03%	16.47%
Interest cover	-1.47x	-0.29x	0.41x	1.44x	-2.72x	-2.60x
Tax rate	-32.03%	-45.36%	0.36%	10.12%	67.21%	-45.36%
PBT margin	-3.65%	11.62%	-46.53%	-24.80%	11.85%	11.62%
PAT margin	-2.48%	6.35%	-47.08%	-27.31%	19.82%	6.35%
EBITDA margin	0.51%	10.09%	-6.51%	-3.72%	27.21%	21.78%
EPS (N)	-0.23	0.92				

Source: Company Accounts, Cordros Research

Disclosures.

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