

Stronger outing expected despite concerns

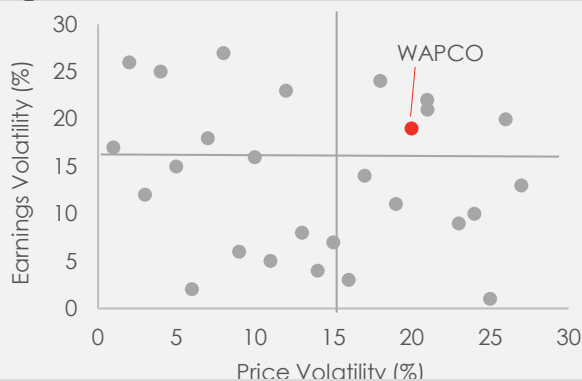
30th March, 2021

Research Analyst:

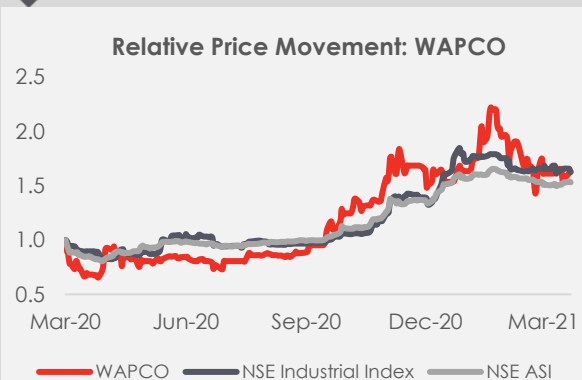
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Risk Rating: High**Key Data**

Last Price (₦)	22.25
Last Price (\$)	0.05
52 week High/Low (₦)	30.3/ 8.95
1M Price Change (%)	6.0
3M Price Change (%)	5.7
6M Price Change (%)	48.3
YTD Change (%)	5.7
Beta	1.02
Market Capitalization (₦'bn)	358.4
Market Capitalization (\$'mn)	879.0
Shares Outstanding. (Units'bn)	16.1
Float (%)	99.9
Dividend Yield (%)	4.5

Price Performance Chart

Sources: Bloomberg, United Capital Research

Stock Rating
BUY
Target Price
N27.7
Expected Return
24.3%

Lafarge Africa Plc (WAPCO) released its FY-2020 results last week, showing a 98.8% y/y rise in PAT to N30.8bn. Lafarge's revenue (up 8.3% y/y to N230.6bn) grew faster than its cost of sales (up 4.0% to N163.3bn) during the period. This, coupled with improved operating cost management (9.4% of revenue vs 9.9% in FY-2019) and a marked decline in finance costs (-51.9% y/y), resulted in a whopping 110.0% y/y increase in PBT to N34.3bn. Notably, the drop in finance costs, due to balance sheet restructuring, was again at the heart of the improvement in profitability. We review WAPCO's latest financials, and our valuation estimates below.

Topline performance bolstered by sector-wide demand recovery

Following a 5.1% y/y slump in revenue in Q2-2020, which threatened the sales outlook, the easing of lockdown measures, which largely took effect in Q3 2020, supported a turnaround in WAPCO's full-year revenue (up 8.3 % y/y to N230.6bn vs N239.8bn est.), as Cement sales (98.1% of total revenue) rose by 9.1% y/y while revenue from Aggregates and Concrete Products (1.2% of total revenue) declined by -25.5%.

WAPCO managed to keep its input costs in check, as Cost of Sales climbed moderately, in comparison to Revenue (Cost of Sales up 4.0% y/y to N163.3bn). As such Cost margin dropped 289bps y/y to 70.8% in FY-2020. Fuel and power costs (up 21.7% to N38.6bn) were mainly responsible for the increase in Cost of Sales, according to the cost breakdown. However, the cost of materials and consumables remained stable, and lower production (down 2.6% to N23.8bn) and fixed distribution costs (down 59.3% to N1.8bn) helped alleviate cost pressures, as shown by the increase in Gross Margin (29.2% in FY-2020 vs 26.3% in FY-2019).

EBITDA was up 16.0% on the back of turnaround initiatives vis-à-vis WAPCO's "Health, Cost and Cash" strategy to cut down on excessive operating expenses, which climbed by 2.5% y/y to N21.5bn. Specifically, the company curtailed Selling and Marketing expenses

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(down -17.2% to 4.2bn), as advertising, campaign and innovation expenses fell dramatically. This offset increases in Directors costs (up 391.4% to N174.3m) and staff-related expenses (up 15% to N6.2bn). This made for a decent operating performance as the company posted a 217bps increase in EBITDA margin to 32.7%.

Balance sheet improvements drive finance costs lower, prop up Net Income

WAPCO sustained its efforts in deleveraging its balance sheet as Total Debt declined by 22.5% y/y to N49.7bn. Notably, the company's Debt to Total Capital ratio improved to 0.41x (from 0.44x in FY-19 and a 1.76x 5-year average). Consequently, Net finance cost tumbled 49.9% y/y, driven by a 51.9% drop in interest expense to N9.7bn, further aided by the low-interest rate environment. As a result, Pre-tax profit surged 110.0% y/y to N37.6bn while Post-tax profit grew 98.8% y/y to N30.8bn.

Additionally, effective working capital management, particularly in terms of inventories (inventory turnover of 5.1x vs 4.0x in FY-2019) and trade receivables (receivables turnover of 7.3x vs 5.4x in FY-2019), aided cash generation (Cash and cash equivalents grew 96.7% to N53.3bn).

Outlook: Stronger outing expected despite concerns

Looking ahead, we are cautiously optimistic about WAPCO. Although we expect continued revenue growth driven by broader demand trends and economic momentum, which should drive higher volumes. The company's operational difficulties (particularly in its Ewekoro and Mfamosing plants), which were mostly illustrated in its Q4-2020 performance (revenue rose by just 1.5% y/y), weigh slightly on our outlook. Specifically, we have forecasted a 9.0% y/y growth in Revenue as we expect a stronger outing in FY-2021 hinged on management guidance on the resolution of the operating challenges experienced in Q4-2020 which capped revenue growth. On the cost level, we expect the company's cost optimization strategies to bear more fruit, and input costs to normalize later in the year, allowing for margin improvement. However, we express our concerns over the depressed marketing spend, considering competitors' marketing strategies and the intensifying competition for market share. In all, we estimate a 16.9%y/y improvement in EPS to N2.2/share.

Adjusting our model estimates for the new assumptions, higher risk-free rate and country risk premium, we review our year-end target price downward to N27.7/share, from N32.5/share. The stock's current market price of N22.25/share reflects a 24.3% discount to our year-end Target Price. Also, the counter currently trades at a P/E of 11.6x, compared with domestic peers, DANGCEM (13.9x) and BUACEMENT (35.3x). Thus, we maintain our BUY rating on the ticker.

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Financial Highlights (N'Mn)

Headlines	FY- 2020	FY- 2019	Change
Revenue	230,573	212,999	8.3%
Cost of sales	-163,333	-157,047	4.0%
Gross Income	67,240	55,952	20.2%
Net Finance (cost)/Income	-8,534	-17,018	-49.9%
Profit/Loss Before Tax	37,572	17,892	110.0%
Taxation	-6,730	-2,374	183%
Profit/Loss After Tax	30,842	15,518	98.8%
	FY- 2020	FY- 2019	
Cash and cash equivalents	53,323	27,104	96.7%
Trade & Other Receivables	5,029	8,193	-38.6%
Trade & Other Payables	76,858	69,718	10.2%
Net Assets	359,639	344,914	4.3%
Gross Margin	29.2%	26.3%	2.9%
Net Margin	13.4%	7.3%	6.1%
Cost to Sales	70.8%	73.7%	-2.9%
Leverage (Total Liabilities/ Total Assets)	29.1%	30.6%	-1.5%
Price(N)	22.3		
EPS(N)	1.9		
BVPS(N)	22.3		
P/E(X)	11.6		
P/BV	1.0		
ROAE	8.8%		
Proposed Dividend	1.00		
Dividend Yield	4.5%		
Qualification Date	30th-Apr-2021		
Closure Date	7th-May-2021		
Payment Date	25th-May-2021		

Sources: Company Financials, United Capital Research

Disclosure Appendix

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Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).

Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.

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Company	Disclosure
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Fidelity Bank Plc	h
Flour Mills of Nigeria Plc	h
Forte Oil Plc	g
International Breweries Plc	a,h
Nigerian Breweries Plc	h
PZ Nigeria Plc	h
Stanbic IBTC Plc	g
Total Nigeria Plc	h
UAC of Nigeria Plc	h
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