

Sufficient room for growth

A 30.2% y/y increase in cement prices was the main driver of Lafarge Africa's topline growth (26.8% y/y) in Q1 2022 as volume declined by 3.1% y/y, taking a hit from gas scarcity in its Ewekoro plant, which affected production in the review period. Specifically, Revenue growth of 26.8% y/y to N90.6bn was driven by Cement Sales (up 26.0% y/y to N87.99bn), Aggregates & Concrete (up 62.3% y/y to N2.52bn) and sale of Mortar (up 60.4% y/y to N98.94m). The company's sustained efforts at deleveraging, evidenced in a steep decline in Net Finance Cost (down 66.4% y/y) and tax relief from the pioneer status on one of the production lines in its Mfamosing plant, led to a 92.2% y/y growth in Net Income. Thus, EPS rose to N1.09/s in Q1 2022 from N0.57/s in Q1 2021.

Lafarge began the year strong. Growth opportunities exist for the firm if it can be aggressive in unlocking additional capacity from its ongoing debottlenecking exercise. From our engagement with the management, it intends to unlock an additional 500,000 tonnes in the year, resulting in an installed capacity of 11m MT by year-end. Apart from that, given the impact of currency volatility on energy costs, we believe the firm may need to further raise prices to neutralize cost pressures and consequently support top line performance.

We have updated our model, and the overall impact is an upward adjustment of our price target to N43.88/s from N31.86/s previously. Our price target implies a 61.3% upside potential from the last closing price of N27.20/s. We still believe the market is yet to fully price in the firm's improved operating performance, and we maintain our Buy recommendation. Lafarge is currently trading at a FY 2022E EV/EBITDA of 7.1x, a discount to its EM peer average of 10.2x. We arrived at our target price using a blend of DCF valuation and Relative valuation in the ratio of 50:50.

Lafarge Africa (N'm)	Q1 2022	Q1 2021	y/y
Revenue	90,606	71,470	26.8%
Cost of sales (ex dep)	(42,096)	(33,513)	25.6%
Gross profit	48,510	37,957	27.8%
Selling and marketing expenses	(15,022)	(12,855)	16.9%
Administrative expenses (ex dep)	(4,621)	(3,676)	25.7%
Other income	198	676	-70.6%
EBITDA	29,065	22,102	31.5%
Depreciation and Amortization	(6,948)	(7,398)	-6.1%
EBIT	22,117	14,704	50.4%
Net finance income/(expense)	(650)	(1,932)	-66.4%
Profit/ (loss) before tax	21,467	12,772	68.1%
Tax credit/(expense)	(3,909)	(3,635)	7.5%
Profit/ (loss) after tax for the period	17,558	9,136	92.2%
Net income attributable to equity holders	17,558	9,136	92.2%
Basic EPS (N)	1.09	0.57	92.2%

Margins:	Q1 2022	Q1 2021	y/y bps
Gross margin	53.5%	53.1%	43
EBITDA	32.1%	30.9%	115
PBT	23.7%	17.9%	582
Net margin	19.4%	12.8%	660

Source: Company, CSL Research.

Recommendation

Buy

Target Price

N43.88

Closing Price

N27.20

*Price as of 06 June

Key data

Year to December, Nbn

	2020	2021	2022e	2023e
Sales	230.6	293.1	354.1	397.4
EBITDA	75.5	97.8	124.7	131.9
EBIT	45.7	65.1	95.6	101.6
PBT	37.6	62.3	92.7	98.0
Net Profits	30.8	51.0	76.0	78.4
EPS, N	1.91	3.17	4.72	4.86
EV/EBITDA	4.4	4.34	3.3	3.1
PE	11.3	7.2	5.7	5.5
Dividend Yield	2.2%	7.5%	11.0%	11.5%
Market cap.	N435.7bn (US\$1,045.3mn)			
Free float	99.9%			

Bloomberg WAPCO.NL

Reuters WAPCO.LG

Three-year graph



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Price-led growth supports robust Revenue growth

According to the management, upward price adjustment drove Revenue growth (+26.8% y/y to N90.6bn), while volume reduced by 3.1% to 1.40m Mt in Q1 2022 due to gas constraints in its Ewekoro plant, which impacted production. Notably, the gas supply challenge was occasioned by pipeline network issues, which the management indicated had been resolved. On pricing, Lafarge made the price adjustment in Q4 2021, which took effect in Q1 2022 due to the impact of the volume backlog that was being cleared over Q1 2022. Specifically, Revenue growth of 26.8% y/y to N90.6bn was driven by Cement Sales (up 26.0% y/y to N87.99bn), Aggregates & Concrete (up 62.3% y/y to N2.52bn) and sale of Mortar (up 60.4% y/y to N98.94m). Looking ahead, we see headroom for volume growth as the management plans to expand its existing capacity by an additional 500,000 tonnes in 2022 to reach 11.0m Mt by year end coupled with the fact that the pipeline issue which affected production in Q1 has been resolved. On the other hand, price will continue to reflect macro-economic happenings which point to higher prices, especially since it is in a seller's market and margin protection is a key concern. Looking ahead, we project price growth of 15.0% y/y and sales volume of 5.82 million MT in 2022, implying a 5.4% y/y volume growth. Consequently, we project FY Revenue of N354.1bn in 2022e, a 20.8% y/y increase compared with the previous year (2021; N293.1bn).

Robust Revenue growth lifts EBITDA margin

Lafarge Africa was also not left behind as it battled with elevated cost pressures with Cost of Sales (adjusted for depreciation) tracking that of Revenue growth (despite decline in volume), up 25.6% y/y (vs. Revenue growth of 26.8% to N42.1bn in Q1 2022 from N33.5bn). We believe inflationary pressure on key materials and FX devaluation impact on USD priced inputs, spiked costs. Operating Expenses (adjusted for depreciation) also increased by 18.8% y/y to N19.6bn on the back of Administrative Expenses adjusted for depreciation (up 25.7% y/y to N4.6bn) and Selling & Distribution Expenses (up 16.9% y/y to N15.0bn). Despite these cost pressures, EBITDA increased by 31.5% y/y to N29.1bn in Q1 2022 from N22.1bn in Q1 2021 while EBITDA margin increased by 115bps to 32.1% in Q1 2022 from 30.9% in Q1 2021. We believe cost pressure will remain, however, we expect the management's plan to pursue alternative energy source such as gradually replacing gas fuel with biomass to ameliorate cost pressure. Also, plans to complete its Captive Coal Power Plant at its Ashaka plant in Q4 2022, should offer some respite. All in, we estimate an EBITDA of N124.7bn in 2022e, which translates to an EBITDA margin of 35.2% in 2022 from 33.4% in 2021.

Deleveraging efforts cascades into reduced Net Finance Costs

Net Finance Costs steeply declined, down 66.4% y/y to N650m in Q1 2022. The impact of a 67.9% y/y decrease in Finance Cost despite an 84.7% fall in Finance Income drove the steep decline in Net Finance Cost. As a result, Pre-Tax profit grew significantly, up 68.1% y/y to N21.5bn in Q1 2022. Looking ahead, we expect the company to maintain a low leverage position as the company has not signaled an intention to raise new significant debt finance. Overall, we estimate Finance Cost of N3.9bn in 2022e from N5.3bn in 2021. On the other hand, we forecast Finance Income of N1.2bn in 2022 from N1.7bn in 2021, following the Q1 2022 run rate. Despite the 29.7% cut in Finance Income in 2022 when compared to 2021, our expectation of a steeper decline in Finance Cost translates to a reduced Net Finance Cost of N2.7bn in 2022 from N3.5bn in 2021.



Valuation

We have updated our model and the overall impact is an upward adjustment of our price target to N43.88/s from N31.86/s previously. Our price target implies a 61.3% upside potential from the last closing price of N27.20/s. We still believe the market is yet to fully price in the firm's improved operating performance, and we maintain our Buy recommendation, Lafarge is currently trading at a FY 2022E EV/EBITDA of 7.1x, a discount to its EM peer average of 10.2x. We arrived at our target price using a blend of DCF valuation and Relative valuation in the ratio of 50:50.

Lafarge Africa forecasts, Nm

Income statement	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Turnover	267,234	219,714	299,153	217,813	212,999	230,573	293,086	354,080	397,436	441,367	485,742	522,586
Gross profit (ex depreciation)	98,225	56,198	70,814	85,663	83,918	136,240	172,744	198,285	214,616	238,338	257,443	276,970
Total opex	(47,089)	(42,630)	(64,959)	(47,326)	(50,621)	(91,522)	(108,298)	(103,431)	(113,786)	(124,401)	(135,249)	(144,630)
Other income	(13,096)	(1,129)	2,030	192	1,613	956	661	735	787	842	901	964
EBIT	38,041	12,440	7,886	38,528	34,910	45,673	65,107	95,589	101,616	114,779	123,095	133,304
EBITDA	68,877	30,482	31,260	58,284	65,844	75,503	97,790	124,663	131,941	146,493	156,338	168,191
Share or loss from joint venture & exceptional	(5)	(13)	(140)	-	-	433	683	-	-	-	-	-
Net interest	(8,749)	(35,246)	(41,778)	(40,038)	(17,018)	(8,534)	(3,536)	(2,691)	(2,292)	(2,977)	(3,057)	(3,410)
PBT	29,287	(22,819)	(34,032)	(1,510)	17,892	37,572	62,254	92,898	99,324	111,801	120,038	129,894
Taxation	(2,124)	39,717	(569)	9,607	(2,374)	(6,730)	(11,251)	(16,722)	(19,865)	(22,360)	(24,008)	(25,979)
Profit after tax	27,163	16,899	(34,601)	8,097	15,518	30,842	51,004	76,176	79,459	89,441	96,030	103,915
Balance sheet	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Tangible assets	365,946	391,804	396,286	400,683	372,999	350,267	339,435	334,649	331,598	330,182	330,291	331,291
Other non-current assets	12,488	17,945	39,900	46,693	49,107	53,875	50,828	54,828	54,828	56,828	58,828	60,828
Total non-current assets	378,434	409,749	436,186	447,376	422,106	404,143	390,263	387,477	386,426	387,010	389,119	392,119
Stocks	33,027	44,981	58,266	47,157	32,441	31,053	45,010	46,952	52,592	55,624	62,548	67,292
Trade debtors	7,383	7,577	19,984	13,557	2,219	2,095	2,513	4,850	6,533	8,465	9,316	11,454
Other debtors & prepayment	14,208	2,189	5,126	7,607	5,974	2,934	4,684	7,761	8,711	9,674	10,646	11,454
Due from related companies	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	2,138	17,437	17,313	12,489	7,308	13,648	34,311	15,775	16,275	16,775	17,275	17,775
Cash	16,493	19,441	50,415	12,551	27,104	53,323	50,057	48,433	48,062	48,890	52,913	63,975
Current assets	73,249	91,624	151,104	93,360	75,046	103,071	136,575	123,771	132,173	139,428	152,698	171,950
Total assets	451,683	501,374	587,290	540,737	497,152	507,214	526,838	511,248	518,599	526,438	541,817	564,069
Deferred taxation	32,937	-	11,026	10,200	9,967	9,402	9,117	9,117	9,117	9,117	9,117	9,117
Long term loans	135,465	68,222	68,715	172,373	52,665	5,140	2,482	3,847	5,231	7,325	8,661	11,628
Other	13,402	7,535	9,908	10,973	5,195	5,478	5,626	5,626	5,676	5,728	5,784	5,840
Non-current liabilities	181,805	75,757	89,649	193,546	67,826	20,019	17,224	18,589	20,024	22,169	23,562	26,584
Bank overdrafts	3,334	22,995	31,082	35,281	28	-	-	-	-	-	-	-
Trade creditors	56,350	60,546	68,132	42,850	24,633	22,610	17,818	28,171	35,061	41,718	50,038	53,833
Other creditors	18,661	53,911	44,869	37,688	45,085	54,247	85,360	93,904	110,193	122,374	137,605	148,042
Dues to related companies	-	-	-	-	-	-	-	-	-	-	-	-
Short term debts	9,488	36,488	187,832	93,834	11,520	44,593	20,805	21,799	22,302	27,555	28,996	34,883
Taxation	387	1,312	3,252	1,156	1,929	3,078	3,825	6,612	9,592	12,946	16,547	20,444
Other current liabilities	5,505	1,412	5,489	1,841	1,217	3,027	3,245	3,345	3,445	3,546	3,648	3,753
Current Liabilities	93,726	176,664	340,654	212,650	84,412	127,556	134,053	153,831	180,594	208,139	236,834	260,955
Share capital	2,277	2,740	2,788	4,337	8,054	8,054	8,054	8,054	8,054	8,054	8,054	8,054
Share premium	186,420	217,528	222,272	350,946	435,149	435,149	435,149	435,149	435,149	435,149	435,149	435,149
Other reserve	(162,185)	(256,900)	(368,683)	(368,683)	(254,129)	(254,129)	(254,129)	(254,129)	(254,129)	(254,129)	(254,129)	(254,129)
Revenue reserve	100,993	102,843	160,258	138,272	155,801	170,580	189,487	238,353	269,822	309,203	348,886	392,302
Non controlling interest	58,803	191,401	-	305	-	-	-	-	-	-	-	-
Total shareholders' funds	176,152	248,953	156,987	134,541	344,914	359,639	378,561	427,427	458,895	498,277	537,959	581,376
Total liab. & shareholders fund	451,683	501,374	587,290	540,737	497,152	507,214	526,838	511,248	518,599	526,438	541,817	564,069
VALUATION	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Price to earnings	2.1x	3.6x	-1.8x	-11.4x	1.6x	11.3x	7.2x	5.8x	5.5x	4.9x	4.6x	4.2x
Dividend yield	23.6%	24.6%	25.6%	11.8%	2.3%	2.2%	7.5%	11.0%	11.4%	12.9%	13.8%	14.9%
EV / Sales	0.7x	0.8x	1.0x	1.8x	1.0x	1.5x	1.1x	1.2x	1.1x	1.0x	0.9x	0.8x
EV / EBITDA	2.7x	5.4x	9.5x	6.6x	3.4x	4.4x	3.4x	3.3x	3.2x	2.9x	2.7x	2.5x
EV / EBIT	4.9x	13.3x	37.7x	10.0x	6.4x	7.3x	5.1x	4.3x	4.1x	3.7x	3.4x	3.2x
Price to book value	0.3x	0.2x	0.4x	0.7x	0.3x	1.0x	1.0x	1.0x	1.0x	0.9x	0.8x	0.8x
Profitability ratios	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Gross margin	36.8%	25.6%	23.7%	39.3%	39.4%	59.1%	58.9%	56.0%	54.0%	54.0%	53.0%	53.0%
EBIT margin	14.2%	5.7%	2.6%	17.7%	16.4%	19.8%	22.2%	27.0%	25.6%	26.0%	25.3%	25.5%
EBITDA margin	25.8%	13.9%	10.4%	26.8%	30.9%	32.7%	33.4%	35.2%	33.2%	33.2%	32.2%	32.2%
PBT margin	11.0%	-10.4%	-11.4%	-0.7%	8.4%	16.3%	21.2%	26.2%	25.0%	25.3%	24.7%	24.9%
Net profit margin	10.2%	7.7%	-11.6%	3.7%	7.3%	13.4%	17.4%	21.5%	20.0%	20.3%	19.8%	19.9%
ROA av.	6.3%	3.5%	-6.4%	1.4%	3.0%	6.1%	9.9%	14.7%	15.4%	17.1%	18.0%	18.8%
ROCE av.	8.4%	4.5%	-7.8%	1.9%	3.8%	7.5%	12.7%	16.8%	16.3%	16.8%	16.7%	16.6%
ROE av.	15.4%	8.0%	-17.0%	5.6%	6.5%	8.8%	13.8%	18.9%	17.9%	18.7%	18.5%	18.6%
Dividend yield	26.0%	9.1%	13.0%	13.0%	8.7%	4.6%	8.8%	11.0%	11.4%	12.9%	13.8%	14.9%

Source: Company, CSL estimates

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% distribution	0%	50%	50%	0%	

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