9M 23: Bua Cement

Nigeria | Cement | Bua Cement

10 November 2023

Equities

Price and Volume growth drive topline.

BUA Cement's +27.92% y/y Revenue growth in 9M 2023 was primarily driven by an increase in price and sales volumes. BUA Cement reported increases in prices in 9M 2023 with average cement price rising by 21.4% to N68,540/ton from N56,468/ton in 9M 2022 while sales volumes closed 9M 2023 at 4.90 million MT from 4.65 MT in 9M 2022, indicating a 6.52% increase. Net Income increased by 2.8% y/y to N76.07bn in 9M 2023 from N74.02bn in 9M 2022.

The constrained purchasing power of private players and low CAPEX expenditure by the government amidst the challenging macroeconomic environment has continued to affect volume growth in the industry. To aid volume growth, BUA Cement reduced ex-factory price in Q3. We estimate a 20% y/y (19% ytd) growth in price per tonne for the year while projecting a 10% y/y volume growth. Overall, we expect Revenue from the Nigerian operations to increase by 25% y/y to N451.89bn in FY 2023 from the N360.99bn recorded in FY 2022.

We believe costs associated with its production capacity expansion drive will impact profitability negatively in the short to medium term. We also believe the market has priced in the expected growth from the capacity expansion drive. We maintain our Sell recommendation on the stock and our price target of N80.50/s which implies a 24.77% downside potential from the last closing price of N107/s. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50.

BUA Cement (N'm)	9M 2023	9M 2022	y/y	Q3 2023	Q2'2023	q/q
Revenue	**335,863**	**262,598**	**27.9%**	**114,796**	**114,714**	**0.1%**
Cost of sales (ex dep)	(172,048)	(130,533)	31.8%	(66,688)	(49,359)	**35.1%**
Gross profit	**163,816**	**132,065**	**24.0%**	**48,108**	**48,108**	**0.0%**
Selling and marketing expenses	(16,968)	(9,882)	71.7%	(5,695)	(7,760)	**-26.6%**
Administrative expenses (ex dep)	(9,107)	(7,500)	21.4%	(3,518)	(817)	**330.6%**
Other income	1,117	271	312.1%	133	937	**-85.8%**
EBITDA	**138,857**	**114,953**	**20.8%**	**39,028**	**40,468**	**-3.6%**
Depreciation and Amortization	(19,174)	(15,708)	22.1%	(6,286)	(6,300)	**-0.2%**
EBIT	**119,683**	**99,245**	**20.6%**	**32,742**	**32,742**	**0.0%**
Net finance income/(expense)	(33,935)	(9,724)	249.0%	(23,419)	(7,867)	**197.7%**
Profit/ (loss) before tax	**85,749**	**88,812**	-3.4%	**9,323**	**25,153**	**-62.9%**
Tax credit/(expense)	(9,683)	(14,797)	-34.6%	(3,125)	(4,148)	**-24.7%**
Profit/ (loss) after tax for the period	**76,065**	**74,015**	2.8%	**12,449**	**36,815**	**-66.2%**
Net income attributable to equity holders	**76,065**	**74,015**	2.8%	**12,449**	**36,815**	**-66.2%**
Basic EPS (N)	2.25	2.19	2.6%	0.39	1.09	-64.1%

Margins:	9M 2023	9M 2022	y/y bps	Q3 2023	Q2'2023	q/q bps
Gross margin	48.8%	50.3%	-152	41.9%	41.9%	-3
EBITDA	41.3%	43.8%	-243	34.0%	35.3%	-128
PBT	25.5%	33.8%	-829	-33.5%	-33.5%	0
Net margin	22.6%	28.2%	-554	10.8%	32.1%	-2,125

Source: Company, CSL Research.

Recommendation	Sell
Target Price	N80.50
Closing Price	N107

*Price as of 09 November

Key data

Year to December, Nbn

	2021	2022	2023e	2024e
Sales	257.3	360.9	451.89	507.4
EBITDA	119.7	152.2	189.5	207.3
EBIT	104.2	129.7	166.6	182.1
PBT	102.9	120.2	143.1	156.7
Net Profits	90.1	101.0	128.7	141.1
EV/EBITDA	19.4	21.2	17.2	15.6
PE	25.6	22.8	17.9	16.3
Dividend Yield	9%	8.9%	7.2%	6.4%

Market cap.	N3.26tn (US$4.19bn)
Free float	99.9%
Bloomberg	BUACEMEN:NL
Reuters	BUACEMENT.LG

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Volume and price increases drive revenue growth.

In its recently released 9M 2023 results, BUA Cement reported a 27.9% y/y Revenue growth to N335.86bn in 9M 2023 from N262.60bn in the prior period (9M 2022). Similarly, on a q/q basis, Revenue was up by 0.1% to N114.8bn in Q3 2023 from N114.71bn in Q2 2023. According to management, the (+27.9% y/y) increase in Revenue was primarily driven by an upward adjustment in price and growth in sales volumes. In terms of pricing, BUA Cement reported increases in prices in 9M 2023 with the average cement price rising by 21.4% to N68,540/ton from N56,468/ton, in 9M 2022, We believe that this was important to safeguard profit margins for the company in a challenging business environment.

We note that in Q3 the company reported a reduction in its ex-factory prices to N3,500/ per bag from roughly N4,200 sold previously. The Management noted that the decline in prices was necessary to spur development in Nigeria's building materials and infrastructure sectors. They also noted that Nigerians can start benefitting from the price fall before its plants are completed. The company is embarking on an expansion drive with the construction of lines 3 and 5 at the Obu and Sokoto plants in a bid to increase volume capacity to 17 million metric tonnes from the existing 11 million metric tonnes. We believe that the reduction in ex-factory price was done in a bid to boost the company's demand and improve its market share.

Sales volumes closed 9M 2023 at 4.90 million MT from 4.65 MT in 9M 2022, indicating a 6.52% increase. We note that sales volumes have been low across the industry in 9M 2023, mainly due to the impact of the 2023 general elections and the Naira cash crunch in Q1 2023. Also, the constrained purchasing power of private players and low CAPEX expenditure by the government amidst the challenging macroeconomic environment has continued to affect volume growth in the industry. We believe that the decline in ex-factory price in Q3 contributed to an increase in demand of the company's product, which led to the marginal growth we saw in sales volumes. We believe volume growth from the commencement of the company's new plants in Q1 2024 might offset any potential loss that may have been associated with the Q3 reduction in price. We estimate a 20% y/y (19% ytd) growth in price per tonne for the year while projecting a 10% y/y volume growth. Overall, we expect Revenue from the Nigerian operations to increase by 25% y/y to N451.89bn in FY 2023 from N360.99bn recorded in FY 2022.

Cost pressures continue to mount.

Cost of Sales (adjusted for depreciation) was up 31.8% y/y to N172.05bn in 9M 2023 from N130.5bn in H1 2023. We observed that most of the cost increases came from materials (47.35% y/y) and energy cost (+26.67% y/y). We believe that inflationary pressures continue to pressure cost amidst increasing production volumes. Given the increase in Revenue growth, Gross profit grew 24% y/y to N163.82bn in 9M 2023 while Gross margin contracted by 152bps y/y to 48.8% in 9M 2023, impacted by elevated costs.

Operating Expenses (adjusted for depreciation) increased by 50% y/y to N26.08bn in 9M 2023 from N17.38bn in 9M 2022. The increase was driven by both Administrative Expenses adjusted for depreciation (up 21.4% y/y to N9.11bn) and Selling & Distribution Expenses (up 71.7% y/y to N16.97bn). The management attributed the increase in distribution costs to higher fueling costs, increased fleet size (trucks), repair and maintenance costs, depreciation charges, staff costs and advertisement & promotion expenses. Other Income which comprises of insurance claims, government grants, and sundry income was also grew significantly, up 312.1%y/y to N1.1bn. Despite the cost pressures, EBITDA increased by 20.8% to N138.86bn in 9M 2023. Consequently, EBITDA margin decreased by 243bps to 41.3% in 9M 2023 from 43.8% in 9M 2022. Depreciation and Amortisation was up to N19.17bn, while Operating Profit grew by 20.6% y/y to N119.68bn from N99.25bn in 9M 2022.

The management noted that the company's profit was negatively impacted by inflationary pressures, FX unification, and increases in raw material costs, energy costs, and distribution costs. The company's energy cost per ton increased by 20.2% to N16,803/ton from N13,978/ton in 9M 2022. In a bid to curb the company's rising energy cost, the management noted that its transition from Heavy Fuel Oil (HFO) to Liquefied Natural Gas (LNG) in Sokoto was already in place. The management also noted that work has commenced on the 70MW gas power plant at both the Obu and Sokoto plants. Overall, we estimate EBITDA of N190bn in 2023, which translates to an EBITDA Margin of 42% in 2023.

BUA Cement recorded a 249% increase in Net Finance Costs to N33.94bn in 9M 2023 from N9.72bn in the prior period (9M 2022). The significant increase reflects a 56.9% y/y rise in Interest Expense to N6.99bn in 9M 2023 and a 411.77% rise in Net Exchange Loss to N26.93bn from N5.26bn due to the impact of the naira devaluation. The rise in Net Finance Cost dragged pre-tax profit down by 3.4% y/y to N85.75bn in 9M 2023. Tax expense declined by 34.6% in 9M 2023 to 9.68bn from 14.8bn in 9M 2022. Consequently, Net Income increased by 2.8% y/y to N76.07bn in 9M 2023 from N74.02bn in 9M 2022. Earnings per share was up by 2.6% y/y to N2.25/s for 9M 2023 from N2.19/s in 9M 2022.

Valuation

We maintain our **sell** recommendation on the stock and our price target of N80.50/s. Our price target implies a 24.77% downside potential from the last closing price of N107/s. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50.

Dec year-end; N million (except where stated)

Income statement	2018	2019	2020	2021	2022	2023E	2024E	2025E
Turnover	119,013	175,518	209,443	257,327	360,989	451,890	507,487	561,295
Gross profit (ex depreciation)	**65,788**	**94,090**	**108,364**	**133,650**	**180,579**	**225,945**	**248,668**	**275,035**
Total opex	(24,439)	(34,008)	(28,073)	(32,058)	(53,645)	(63,605)	(70,908)	(78,293)
Other income	1,492	11,346	1,731	2,633	2,786	4,274	4,328	5,005
EBIT	**42,842**	**71,428**	**82,022**	**104,224**	**129,720**	**166,613**	**182,089**	**201,746**
EBITDA	49,452	85,556	97,457	119,692	152,245	189,549	207,323	229,523
Net interest	(3,675)	(5,192)	(2,977)	(1,085)	(8,612)	(23,559)	(25,348)	(27,040)
PBT	**39,167**	**66,236**	**79,045**	**103,139**	**121,108**	**143,054**	**156,741**	**174,706**
Taxation	24,905	(5,626)	(6,700)	(12,794)	(19,143)	(14,305)	(15,674)	(17,471)
Profit after tax	**64,072**	**60,610**	**72,344**	**90,345**	**101,965**	**128,748**	**141,067**	**157,235**

Balance sheet	2018	2019	2020	2021	2022	2023E	2024E	2025E
Tangible assets	387,435	393,406	523,313	578,888	669,013	714,510	766,291	823,870
Other non-current asests	11,996	14,999	4,355	5,420	7,228	14,372	19,590	25,181
Total non-current assets	**399,431**	**408,406**	**527,668**	**584,308**	**676,241**	**728,882**	**785,881**	**849,050**
Stocks	20,933	27,202	31,505	39,068	52,468	55,713	60,273	62,742
Due from related companies	62,361	16,754	-	4,776	16,548	6,000	5,000	7,000
Trade receivables	84	253	462	119	18	1,857	2,781	3,844
Other recievables and prepayments	2,350	2,366	82,846	37,898	80,690	74,283	83,422	92,268
Cash	2,815	15,587	123,821	62,338	48,047	163,422	204,347	240,665
Current assets	**88,543**	**62,161**	**238,634**	**144,199**	**197,770**	**301,275**	**355,823**	**406,519**
Total assets	**487,974**	**470,567**	**766,303**	**728,507**	**874,012**	**1,030,157**	**1,141,703**	**1,255,569**
Lease liabilities	-	7	37	37	37	37	37	37
Long-term borrowings	118	-	50,449	110,609	154,528	178,381	204,641	217,965
Debt security Issued	-	-	113,195	103,195	88,195	71,195	53,195	33,195
Employee benefits obligations	2,202	2,909	3,646	3,496	3,346	3,196	3,047	2,898
Deferred tax liabilities	1,288	7,492	1,120	1,220	1,320	1,420	1,520	1,620
Government grant	-	-	4,632	4,752	4,902	5,102	5,303	5,508
Provision for decommissioning liabilities	-	-	9,168	8,168	7,168	6,168	5,168	4,168
Deferred income	6	-	-	-	-	-	-	-
Non-current liabilities	**3,614**	**10,407**	**182,248**	**231,477**	**259,496**	**265,499**	**272,912**	**265,392**
Bank overdraft	102	562	-	-	-	-	-	-
Trade payables	20,855	18,860	3,852	22,278	78,112	27,856	46,091	54,899
Other payables and accruals	13,432	17,482	20,016	-	-	27,856	31,909	35,292
Contract liabilities	7,937	32,869	42,138	78,586	92,167	45,138	46,138	47,138
Due to related companies	124,075	919	34,498	1,478	-	-	-	-
Current income tax liabilities	2,258	814	922	1,697	3,124	(2,738)	(4,306)	(6,053)
Short-term borrowings	3,717	20,861	105,649	39,810	80,695	95,742	88,413	95,488
Lease liabilities	-	42	-	-	56	30	40	50
Deferred income	26	6	901	-	-	61	81	101
Provision for decomissioning liabilities	3,346	4,048	124	594	2,496	524	299	549
Current Liabilities	**175,748**	**96,462**	**208,100**	**144,444**	**256,650**	**194,469**	**208,665**	**227,465**
Share Capital	16,932	16,932	16,932	16,932	16,932	16,932	16,932	16,932
Retained earnings	91,481	146,834	159,916	181,921	194,884	239,875	275,142	314,451
Reorganisation reserve	200,004	200,004	200,004	200,004	200,004	200,004	200,004	200,004
Reserve on actuarial valuation of defined benefit plan	195	(73)	(897)	(740)	(708)	(897)	(897)	(897)
Total shareholders' funds	**308,612**	**363,697**	**375,955**	**398,117**	**411,113**	**455,914**	**491,181**	**530,490**
Total liab. & shaholders fund	**487,974**	**470,567**	**766,303**	**774,038**	**927,259**	**915,882**	**972,757**	**1,023,346**

VALUATION	2018	2019	2020	2021	2022	2023E	2024E	2025E
Price to earnings	35.8x	38.2x	32.2x	25.6x	22.8x	17.9x	16.3x	14.6x
Dividend yield	0.1%	0.2%	2.6%	2.9%	3.3%	4.2%	4.6%	5.1%
EV / Sales	19.4x	13.2x	11.7x	9.0x	8.9x	7.2x	6.4x	5.7x
EV / EBITDA	46.6x	27.0x	25.1x	19.4x	21.2x	17.2x	15.6x	14.1x
EV / EBIT	53.8x	32.3x	29.8x	22.3x	24.9x	19.6x	17.8x	16.0x
Price to book value	7.5x	6.3x	6.1x	5.8x	5.6x	5.1x	4.7x	4.3x

Profitability ratios	2018	2019	2020	2021	2022	2023E	2024E	2025E
Gross margin	55.3%	53.6%	51.7%	51.9%	50.0%	50.0%	49.0%	49.0%
EBIT margin	36.0%	40.7%	39.2%	40.5%	35.9%	36.9%	35.9%	35.9%
EBITDA margin	41.6%	48.7%	46.5%	46.5%	42.2%	41.9%	40.9%	40.9%
PBT margin	32.9%	37.7%	37.7%	40.1%	33.5%	31.7%	30.9%	31.1%
Net profit margin	53.8%	34.5%	34.5%	35.1%	28.2%	28.5%	27.8%	28.0%
ROA av.	13.1%	12.6%	11.7%	12.1%	12.7%	13.5%	13.0%	13.1%
ROCE av.	20.5%	15.7%	15.0%	20.6%	20.7%	23.3%	24.3%	25.1%
ROE av.	20.8%	18.0%	19.6%	23.3%	25.2%	29.7%	29.8%	30.8%
Dividend yield	0.1%	0.2%	2.6%	2.9%	3.3%	4.2%	4.6%	5.1%

Source: Company, CSL estimates

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