

Price drives growth in Revenue.

Lafarge Africa reported a 7.1% y/y growth in Revenue to N289.08bn in 9M 2023 from N269.85bn in the prior period (9M 2022). However, on a q/q basis, Revenue was down 13.7% to N91.40bn in Q3 2023 from N105.86 in Q2 2023. The broad-based y/y growth in cement sales (up 7% to N279.77bn), aggregate and concrete sales (up 10.9% to N8.87bn), and other products (up 14% to N437m) contributed to the marginal increase in topline growth in 9M 2023.

In 9M 2023, the average price of cement from Lafarge Africa rose by 23% y/y to N76,251, while production volumes dropped by 8.9% y/y to 3.71 million MT. We maintain our view that prices will continue to increase to reflect macroeconomic conditions. Thus, we project a 20% y/y (15% YTD) increase in price. We also forecast sales volume of 5.00 million MT in 2023 compared with 3.71 million MT for 9M 2023 and 5.5 million MT for FY 2022. Consequently, we project FY Revenue of N397.43bn in 2023e, a 6% y/y increase compared with the previous year (2022; N373.24bn).

Despite having low leverage with significantly lower FX-denominated liabilities compared to its competitors, we note that the devaluation in the Naira between Q2 and Q3 impacted the company's bottom line performance significantly. Looking ahead, we believe the company's Net Finance Cost will remain under control as we do not forecast as steep a devaluation of the currency as seen this year. The company has also been managing its costs effectively despite the impact of the FX devaluation on cost of imported raw materials, persistent inflationary pressures, and rising energy costs.

We have a price target of N45.96/s, with a BUY recommendation. Our price target implies a 55.80% upside potential from the last closing price of N29.50/s. We still believe the market is yet to fully price in the firm's improved operating performance. We arrived at our target price using a 50:50 blend of DCF and Relative valuation.

| Nm, except mentioned otherwise | 9M'23 | 9M'22 | y/y | Q3'23 | Q2'23 | q/q |
|--|----------------|----------------|---------------|---------------|---------------|---------------|
| Sales | 289,081 | 269,852 | 7.1% | 91,400 | 105,860 | -13.7% |
| Cost of Sales (Ex-Dep) | (121,130) | (117,549) | 3.0% | (40,106) | (48,943) | -18.1% |
| Gross Profit | 167,952 | 152,303 | 10.3% | 51,295 | 56,917 | -9.9% |
| Other Income | 541 | 281 | 92.1% | 116 | 252 | -54.0% |
| Selling and Distribution Expenses (ex-dep) | (60,835) | (62,654) | -2.9% | (20,559) | (21,609) | -4.9% |
| Administrative Expenses (ex-dep) | (13,558) | (11,854) | 14.4% | (6,969) | (5,256) | 32.6% |
| EBITDA | 94,090 | 78,121 | 20.4% | 23,883 | 36,633 | -34.8% |
| Depreciation and Amortization | 24,741 | 21,565 | 14.7% | 6,819 | 6,586 | 3.5% |
| EBIT | 69,349 | 56,555 | 22.6% | 17,064 | 30,047 | -43.2% |
| Net Finance Income/ (Cost) | (8,193) | (2,607) | 214.2% | (11,223) | 2,740 | -509.6% |
| Profit before tax | 61,156 | 53,948 | 13.4% | 5,841 | 32,787 | -82.2% |
| Tax expense | (21,851) | (9,048) | 141.5% | (2,015) | (12,290) | -83.6% |
| Net Profit | 39,305 | 44,900 | -12.5% | 3,826 | 20,497 | -81.3% |
| Net income attributable to equity holders | 39,305 | 44,900 | -12.5% | 3,826 | 20,497 | -81.3% |
| Diluted EPS | 2.44 | 2.79 | -12.5% | 0.24 | 1.27 | -81.3% |

| Margins: | H1'2023 | H1'2022 | y/y | Q2'2023 | Q1'2023 | q/q |
|---------------|---------|---------|-----------|---------|---------|------------|
| Gross margin | 58.10% | 56.44% | 1.7pppts | 56.1% | 53.8% | 2.4pppts |
| EBITDA Margin | 32.55% | 28.95% | 3.6pppts | 26.1% | 34.6% | -8.5pppts |
| PBT Margin | 21.16% | 19.99% | 1.2pppts | 6.4% | 31.0% | -24.6pppts |
| Net margin | 13.60% | 16.64% | -3.0pppts | 4.2% | 19.4% | -15.2pppts |

Source: Company, CSL Research.

Recommendation

Buy

Target Price

N45.96

Closing Price

N29.50

*Price as of 17 November

Key data

Year to December, Nbn

| | 2021 | 2022 | 2023e | 2024e |
|----------------|-------|-------|-------|-------|
| Sales | 293.1 | 373.2 | 397.4 | 441.3 |
| EBITDA | 95.3 | 110.2 | 131.8 | 146.3 |
| EBIT | 62.6 | 84.2 | 101.3 | 114.5 |
| PBT | 59.8 | 69.7 | 99.3 | 111.8 |
| Net Profits | 48.5 | 55.1 | 79.5 | 89.4 |
| EV/EBITDA | 3.5 | 3.3 | 3.1 | 2.9 |
| PE | 7.6 | 7.7 | 5.5 | 4.9 |
| Dividend Yield | 7.5% | 8.1% | 11.5% | 12.9% |

Market cap. N435.7bn (US\$1,045.3mn)

Free float 99.9%

Bloomberg WAPCO NL

Reuters WAPCO.LG

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Revenue growth solely driven by Increases in Price

In its recently released 9M 2023 results, Lafarge Africa reported a 7.1% y/y growth in Revenue to N289.08bn in 9M 2023 from N269.85bn in the prior period (9M 2022). On a q/q basis, Revenue was down 13.7% to N91.40bn in Q3 2023 from N105.86 in Q2 2023. The broad-based growth in cement sales (up 7% to N279.77bn), aggregate and concrete sales (up 10.9% to N8.87bn), and other products (up 14% to N437m) contributed to the marginal increase in topline growth in 9M 2023.

According to management, the marginal Revenue growth (+7.1% y/y) was primarily driven by increased prices, amidst declining sales volumes. Lafarge implemented a further price adjustment in Q3 2023 following earlier price changes. The average price of cement from Lafarge Africa rose by 23% y/y to N76,251 in 9M 2023.

In 9M 2023, production volumes dropped by 8.9% y/y to 3.71 million MT. Many factors impacted sales volumes negatively. One is the impact of the 2023 general elections and the Naira cash shortage in Q1 2023. The management also mentioned that in Q3, its Mfamosing Cross River plant which caters for about 50% of the company's total production volumes underwent a planned stoppage for maintenance in preparation for the industry peak period, which is usually Q4 and Q1. This affected the company's quarterly volumes. Furthermore, the reduced purchasing power of private players and the government's low CAPEX spending in the face of a difficult macroeconomic climate also contributed to the drop in sales volumes.

We maintain our view that prices will continue to increase to reflect macro-economic conditions. Thus, we project a 20% y/y (15% YTD) increase in price, and sales volume of 5.00 million MT in 2023. Consequently, we project FY Revenue of N397.43bn in 2023e, a 6% y/y increase compared with the previous year (2021; N373.24bn).

Reduced cost pressures lift EBITDA margin.

Despite a y/y increase in production fixed costs (up 21.3% y/y to N19.71bn) and maintenance fixed costs, the muted growth in the company's variable cost, caused Cost of Sales (adjusted for depreciation) to increase only marginally, up 3.0% y/y (vs. Revenue growth of 7.1%) to N121.13bn in 9M 2023 from N117.55bn in 9M 2022. The company continues to manage its costs effectively despite the impact of the FX devaluation on imported raw materials, persistent inflationary pressures, and rising energy costs. Consequently, Gross profit grew 10.3% y/y to N167.95bn in 9M 2023 while Gross margin rose by 1.7ppts to 58.10% in 9M 2023 from 56.44% in 9M 2022.

Operating Expenses (adjusted for depreciation) decreased by 0.15% y/y to N74.39bn in 9M 2023 from N74.51bn in 9M 2022. While Administrative Expenses adjusted for depreciation grew 14.4% y/y to N13.56bn, Selling & Distribution Expenses, which contributed much higher to opex, declined 2.3% y/y to N60.84bn. Other Income which comprises gains on disposal of property, plant and equipment, government grants and sale of scraps, and other miscellaneous income also grew significantly, up 92.1% y/y to N541m from N281m in 9M 2022.

EBITDA increased by 20.4% to Ng4.09bn in 9M 2023. Consequently, EBITDA margin increased by 3.6ppts to 32.55% in 9M 2023 from 28.95% in 9M 2022. Depreciation and Amortisation was up to N24.74bn while Operating Profit grew by 22.6% y/y to N69.35bn from N59.56bn in 9M 2022. We remain happy with the company's efforts at stemming cost pressures despite the impact of the FX crisis and the high inflationary environment. We believe we will see a reduction in the company's energy cost when the Ashaka Power Plant is completed in 2024 as scheduled. We also

believe that the company's introduction of green logistics, which has led to the use of CNG trucks, and railways has contributed significantly to reducing the company's selling and distribution costs. We maintain our estimated EBITDA of N131.8bn in 2023e, which translates to an EBITDA margin of 33.2% in 2023e from 29.5% in 2022.

Increased Net Finance Cost drags PBT

Lafarge recorded a 214.2% increase in Net Finance Income to N8.19bn in 9M 2023. The significant increase reflects a 280.32% y/y increase in Finance Cost amidst a significant growth of 403.85% in Finance Income. We note that the growth in Finance Income was driven by a significant increase in Interest income from short-term fixed deposits and current accounts. The growth in Finance Cost was due to a rise in Interest on borrowings and a significant increase in Net FX losses. The company reported FX loss of N9.4bn in 9M indicating a significant rise from the 967m reported in 9M 2022. We should highlight that, due to the firm's low FX-denominated obligations, this is the first time the company has reported a Net FX loss position since the naira devaluation in June 2023.

Despite having low leverage with significantly lower FX-denominated liabilities compared to its competitors, as the company has prioritized locally made materials, the devaluation in naira between Q2 and Q3, impacted the company's bottom line performance significantly. Looking ahead, we believe that with some stability in the country's exchange rate, the company's Net Finance Cost will remain at low levels for the rest of the year.

Pre-tax profit was up 13.4% y/y to N61.16bn in 9M 2023 from N53.95bn in 9M 2022. Due to the expiration of its Pioneer Status Incentive in 2022, Tax Expenses increased to N21.85bn in 9M 2023 from N9.056bn in 9M 2022. Consequently, Net Income declined by 12.5% y/y to N39.31bn in 9M 2023 from N44.90bn in 9M 2022. Earnings per share also declined by 12.5% y/y to N2.44/s for 9M 2023 from N2.79/s in 9M 2022.

Valuation

We have a price target of N45.96/s, with a BUY recommendation, our price target implies a 55.80% upside potential from the last closing price of N29.50/s. We believe the market is yet to fully price in the firm's improved operating performance. We arrived at our target price using a blend of DCF and Relative valuation in the ratio of 50:50.

| Income statement | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Turnover | 267,234 | 219,714 | 299,153 | 217,813 | 212,999 | 230,573 | 293,086 | 373,245 | 397,436 | 441,367 | 485,742 | 523,586 |
| Gross profit (ex depreciation) | 98,225 | 56,198 | 70,814 | 85,663 | 83,918 | 136,240 | 172,744 | 219,816 | 214,616 | 238,338 | 257,443 | 276,970 |
| Total opex | (47,089) | (42,630) | (64,959) | (47,326) | (50,621) | (91,522) | (110,792) | (135,747) | (113,880) | (124,499) | (135,350) | (144,734) |
| Other income | (13,096) | (1,129) | 2,030 | 192 | 1,613 | 956 | 661 | 126 | 597 | 638 | 683 | 731 |
| EBIT | 38,041 | 12,440 | 7,886 | 38,528 | 34,910 | 45,673 | 62,613 | 84,195 | 101,332 | 114,478 | 122,777 | 132,967 |
| EBITDA | 68,877 | 30,482 | 31,260 | 58,284 | 65,844 | 75,503 | 95,296 | 110,210 | 131,750 | 146,289 | 156,120 | 167,958 |
| 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) | (3,526) | (14,449) | (2,292) | (2,977) | (3,957) | (3,410) |
| PBT | 29,287 | (22,819) | (34,032) | (1,510) | 17,892 | 37,572 | 59,760 | 69,746 | 99,324 | 111,801 | 120,038 | 129,894 |
| Taxation | (2,124) | 39,717 | (569) | 9,607 | (2,374) | (6,730) | (11,251) | (14,664) | (19,865) | (22,360) | (24,008) | (25,979) |
| Profit after tax | 27,163 | 16,899 | (34,601) | 8,097 | 15,518 | 30,842 | 48,509 | 55,082 | 79,459 | 89,441 | 96,030 | 103,915 |
| Balance sheet | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
| Tangible assets | 365,946 | 391,804 | 396,286 | 400,683 | 372,999 | 350,267 | 339,435 | 341,549 | 338,403 | 336,889 | 336,897 | 337,791 |
| Other non-current assets | 12,488 | 17,945 | 39,900 | 46,693 | 49,107 | 53,875 | 50,828 | 52,828 | 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 | 394,377 | 393,231 | 393,716 | 395,724 | 398,619 |
| Stocks | 33,027 | 44,981 | 58,266 | 47,157 | 32,441 | 31,053 | 45,010 | 46,239 | 52,592 | 55,624 | 62,548 | 67,292 |
| Trade debtors | 7,383 | 7,577 | 19,984 | 13,557 | 2,219 | 2,095 | 2,533 | 5,113 | 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 | 8,181 | 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 | 59,415 | 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 | 13,027 | 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 | 21,269 | 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 | 27,743 | 35,061 | 41,718 | 50,038 | 53,833 |
| Other creditors | 18,661 | 53,911 | 44,869 | 37,688 | 45,085 | 54,247 | 85,360 | 92,478 | 110,193 | 122,374 | 137,605 | 148,042 |
| Dues to related companies | - | - | - | - | - | - | - | - | - | - | - | - |
| Short term debts | 9,488 | 36,488 | 187,832 | 99,834 | 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 | 5,917 | 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 | 3,545 | 3,648 | 3,753 |
| Current Liabilities | 93,727 | 176,664 | 349,654 | 212,650 | 84,412 | 127,556 | 131,053 | 153,831 | 180,594 | 208,239 | 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 | 217,259 | 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 | 599,847 | 659,513 | 728,584 | 798,355 | 868,915 |
| VALUATION | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
| Price to earnings | 2.1x | 3.6x | -1.8x | -11.4x | 1.6x | 11.3x | 7.6x | 7.7x | 5.5x | 4.9x | 4.5x | 4.2x |
| Dividend yield | 23.6% | 24.6% | 25.6% | 11.8% | 2.3% | 2.2% | 7.5% | 8.1% | 11.5% | 12.9% | 13.9% | 15.0% |
| EV / Sales | 0.7x | 0.8x | 1.0x | 1.8x | 1.0x | 1.5x | 1.1x | 1.2x | 1.0x | 1.0x | 0.9x | 0.8x |
| EV / EBITDA | 2.7x | 5.4x | 9.5x | 6.6x | 3.4x | 4.4x | 3.5x | 3.3x | 3.1x | 2.9x | 2.7x | 2.5x |
| EV / EBIT | 4.9x | 13.3x | 37.7x | 10.0x | 6.4x | 7.3x | 5.3x | 4.3x | 4.1x | 3.7x | 3.4x | 3.1x |
| Price to book value | 0.3x | 0.2x | 0.4x | 0.7x | 0.3x | 1.0x | 1.0x | 1.0x | 0.9x | 0.9x | 0.8x | 0.7x |
| Profitability ratios | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
| Gross margin | 36.8% | 25.6% | 23.7% | 39.3% | 39.4% | 59.1% | 58.9% | 58.9% | 54.0% | 54.0% | 53.0% | 53.0% |
| EBIT margin | 14.2% | 5.7% | 2.6% | 17.7% | 16.4% | 19.8% | 21.4% | 22.6% | 25.5% | 25.9% | 25.3% | 25.4% |
| EBITDA margin | 25.8% | 13.9% | 10.4% | 26.8% | 30.9% | 32.7% | 32.5% | 29.5% | 33.2% | 33.1% | 32.1% | 32.1% |
| PBT margin | 11.0% | -10.4% | -11.4% | -0.7% | 8.4% | 16.3% | 20.4% | 18.7% | 25.0% | 25.3% | 24.7% | 24.9% |
| Net profit margin | 10.2% | 7.7% | -11.6% | 3.7% | 7.3% | 13.4% | 16.6% | 14.8% | 20.0% | 20.3% | 19.8% | 19.9% |
| ROA av. | 6.3% | 3.5% | -6.4% | 1.4% | 3.0% | 6.1% | 9.4% | 14.7% | 15.4% | 17.1% | 18.0% | 18.8% |
| ROCE av. | 8.4% | 4.5% | -7.8% | 1.9% | 3.8% | 7.5% | 12.1% | 16.8% | 16.3% | 16.8% | 16.7% | 16.6% |
| ROE av. | 15.4% | 8.0% | -17.0% | 5.6% | 6.5% | 8.8% | 13.1% | 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% | 8.1% | 11.5% | 12.9% | 13.9% | 15.0% |

Source: Company, CSL estimates

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