

April 25, 2022.



Earnings Note

Rollercoaster Run Continues

Lafarge Africa Plc's ('the Company') recently released its Q1 2022 financial results, with a stellar performance recorded. Revenue grew by 27% YoY to N90.61bn. This makes it the fifth consecutive quarter of a double-digit revenue growth for the Company. The sustained revenue growth is attributed to the solid fundamentals of the cement industry, driven by both private and public sector demand. We believe that higher volumes contributed more to the revenue growth.

Quarterly Revenue Growth Trend

(N'mn)	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Revenue	90,606	73,889	74,182	73,546	71,470	50,695
Revenue growth (YoY)	+27%	+23%	+25%	+29%	+12%	+2%

Source: Company Accounts, WSTC Research

Margins Improve on the Back of Cost Optimisation

The Company's previous efforts in optimising costs through plant efficiency yielded positive results in Q1 2022. Cost margin declined by 300 basis points to 53%. We also believe that increasing economies of scale was another factor that was responsible for the lower cost margin, as higher volumes were sold during the quarter. On the back of the cost efficiency, gross profit grew by 35% YoY to N42.17bn.

Near-Zero Debt Levels Help Maximise Profitability

Operating expense grew by 22% YoY to N20.22bn in Q1 2022, accounted for by a 21% YoY administrative expense increase and 17% YoY increase in selling and distribution expense. We link these increases to higher scale of operations during the period, and the result was reflected in the topline growth. Meanwhile, despite the opex increase in absolute terms, operating expense margin declined by 100 basis points to 22% in Q1 2022. Therefore, operating profit spiked by 50% YoY to N22.12bn.

The strategic effort by the Company to deleverage its balance sheet to further strengthen, led to a 68% YoY decline in finance cost. Notably, a bond matured in Q4 2021 and that meant that interest payment on that bond was not incurred in Q1 2022 relative to Q1 2021. Profit before tax, therefore, grew by 68% YoY to N21.47bn while profit after tax grew by 92% YoY to N17.56bn, due to a lower effective tax rate in Q1 2022.

Outlook

We expect the growth momentum to persist into the subsequent quarters of 2022, driven by sustained product demand. We also expect sustained cost optimisation to drive bottomline growth. Based on the Company's current financial position, there is sufficient liquidity to carry on operations in the near to medium term. Hence, we do not expect to see a material rise in debt levels.

Having incorporated the higher-than-anticipated Q1 2022 performance and revising our growth expectations for the remaining quarters of the year, we now have a revised earnings per share (EPS) projection of N4.39 for FY 2022 from our [previous](#) estimate of N4.01. Also, we have a new dividend projection of N2.50 (previous: N2.20).

Accordingly, our fair value for the stock is now N37.80 (previous estimate: N31.02). Based on our fair value, the stock offers a 58% total return (inclusive of a 10% dividend yield). We maintain our BUY recommendation.

BUY

Fair Value Estimate:
N37.80

Stock Data

Current price (N)	25.55
Shares Outstanding (mn)	16,108
Market Cap (N'mn)	411,554
52-week high (N)	28.80
52-week low (N)	20.05
Trailing EPS (N)	1.91
Forward EPS (N)	4.39
Forward PE (X)	5.82
Justified PE Multiple (X)	8.62

Price Movement



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	13.34x	8.07x	5.82x
P/BV	1.14x	1.09x	0.99x
PBT Margin	16%	21%	25%
PAT Margin	13%	17%	20%
RoE	9%	14%	18%
Dividend Yield	4%	8%	10%

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Financial Performance

Income Statement (N'mn)	Q1 2022	Q1 2021	% Change
Revenue	90,606	71,470	27%
Cost of sales	(48,432)	(40,272)	20%
Gross profit	42,173	31,198	35%
Other income	166	148	12%
Operating income	42,339	31,346	35%
Admin expense	(5,233)	(4,315)	21%
Marketing expense	(15,022)	(12,855)	17%
Impairment	33	528	-94%
Operating expense	(20,222)	(16,642)	22%
Operating profit	22,117	14,704	50%
Finance income	26	172	-85%
Finance cost	(676)	(2,104)	-68%
Profit before tax	21,467	12,772	68%
Tax	(3,909)	(3,635)	8%
Profit after tax	17,558	9,136	92%
Balance Sheet Information (N'mn)	Q1 2022	FY 2021	% Change
Assets			
Non-current assets			
Property, plant and equipment	335,117	338,722	-1%
Intangible assets	406	714	-43%
Other assets	65,661	35,535	85%
Deferred tax assets	12,505	15,292	-18%
Total non-current assets	413,690	390,263	6%
Current assets			
Inventories	43,368	45,010	-4%
Trade and other receivables	8,857	7,197	23%
Other assets	10,649	15,275	-30%
Other financial assets	19,608	19,035	3%
Cash and cash equivalents	39,467	50,057	-21%
Total current assets	121,949	136,574	-11%
Total Assets	535,638	526,837	2%
Liabilities			
Non-current liabilities			
Loans and borrowings	2,292	2,482	-8%
Deferred tax liabilities	2,107	2,166	-3%
Provisions	1,285	1,357	-5%
Deferred income	1,938	2,104	-8%
Employee benefits obligations	8,888	9,117	-3%
Total non-current liabilities	16,510	17,224	-4%
Current liabilities			
Loans and borrowings	22,346	20,805	7%
Deferred income	311	326	-5%
Trade and other payables	93,960	103,177	-9%
Provisions	1,694	2,919	-42%
Current tax liabilities	4,698	3,825	23%
Total current liabilities	123,009	131,053	-6%
Total Liabilities	139,520	148,278	-6%
Equity			
Share capital	8,054	8,054	0%
Share premium	435,149	435,149	0%
Retained earnings	207,045	189,487	9%
Other reserves	(254,129)	(254,129)	0%
Net Assets	396,119	378,561	5%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	293,086	345,447	380,629	430,299	502,576	553,588
EBITDA	96,539	122,511	140,998	160,070	183,545	201,091
EBIT	65,107	86,845	100,939	115,214	130,903	143,244
Profit before taxation (PBT)	62,254	86,168	100,662	115,278	130,877	142,933
Net profit (PAT)	51,004	70,663	82,510	94,513	104,684	111,468
EPS (₦)	3.17	4.39	5.12	5.87	6.50	6.92
DPS (₦)	2.00	2.50	2.92	3.34	3.70	3.94
Balance sheet (NGN mn)						
Current assets	136,575	193,450	212,114	183,308	155,866	139,598
Non-current assets	390,263	387,676	374,176	460,935	562,194	643,298
Total assets	526,838	581,126	586,290	644,244	718,060	782,896
Current liabilities	131,053	147,130	109,939	120,179	142,622	155,378
Non-current liabilities	17,224	16,988	17,102	17,324	17,875	18,144
Shareholders' equity	378,561	417,008	459,248	506,741	557,564	609,375
Book value per share (₦)	23.50	25.89	28.51	31.46	34.61	37.83
Cash flow statement (NGN mn)						
Cash from operating activities	73,768	112,872	88,631	139,656	161,327	175,578
Cash from investing activities	(17,891)	(29,823)	(27,059)	(130,988)	(152,937)	(140,707)
Cash from financing activities	(61,222)	(34,574)	(47,513)	(47,990)	(52,754)	(61,133)
Net increase/ (decrease) in cash	(5,344)	48,475	14,059	(39,322)	(44,364)	(26,263)
Free cash flow to equity	17,296	78,980	52,257	5,294	6,636	30,169
Ratio analysis						
EBITDA margin	33%	35%	37%	37%	37%	36%
Operating margin	22%	25%	27%	27%	26%	26%
ROE	14%	18%	19%	20%	20%	19%
ROA	10%	13%	14%	15%	15%	15%
Dividend payout ratio (%)	63%	57%	57%	57%	57%	57%

Source: Company Accounts, WSTC Research

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 15\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 15% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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