

LAFARGE AFRICA PLC



... Profitability Margins Deteriorate Amid High Energy Costs.

November 7, 2022.



Earnings Note

Lafarge's Q3 2022 numbers were below our expectations, but in comparison with its peers, the Group did better. Lafarge's revenue grew by 12% YoY to N83.27bn. We believe that higher pricing drove the topline growth. In comparison, Dangote Cement reported an 11% YoY growth while BUA Cement reported an 18% YoY revenue growth - however, BUA Cement added new production lines during the period.

Also, while other peers recorded a decline in gross margins, Lafarge's grew. Higher energy-related costs led to a gross margin decline for the Group's peers. For Lafarge, we attribute the increase in gross margins to effective inventory management in previous quarters. Therefore, gross profit grew by 30% YoY to N38.70bn in Q3 2022.

However, operating profit shrunk by 19% YoY to N8.01bn due to higher selling expenses, driven by higher diesel prices during the period under review. We note that the Group's peers also recorded the same trend. Dangote Cement's selling expenses rose by 54% YoY, while BUA Cement's selling expenses doubled.

Profit before tax declined moderately by 1% YoY to N7.07bn in Q3 2022, supported by lower finance costs. But due to lower tax credit in Q3 2022, net profit declined by 38% YoY to N7.49bn.

BUY

Fair Value Estimate:
N27.17

Total Return: **+32%**

Stock Data

Current price (N)	22.25
Shares Outstanding (mn)	16,108
Market Cap (N'mn)	358,398
52-week high (N)	33.70
52-week low (N)	21.00
Trailing EPS (N)	3.17
Forward EPS (N)	3.21
Forward PE (X)	6.94
Justified PE Multiple (X)	8.48



Lafarge (N'mn)	Q3 2022	Q3 2021	Q2 2022	Q2 2021	Q1 2022	Q1 2021
Revenue	83,266	74,182	95,981	73,546	90,606	71,470
Revenue growth	12%		31%		27%	
Gross profit	38,703	29,634	53,926	31,198	42,173	31,198
Gross margin	46%	40%	56%	56%	47%	44%
Operating profit	8,007	9,942	26,514	23,515	22,117	14,704
Operating margin	10%	13%	28%	32%	24%	21%
Net profit	7,489	12,072	19,852	19,186	17,558	9,136
Net margin	9%	16%	21%	26%	19%	13%
Earnings per share	N0.46	N0.74	N1.23	N1.19	N1.09	N0.57

Source: Company Account, WSTC Research

Stock Data	FY 2020	FY 2021	FY 2022F
P/E	11.62x	7.03x	6.94x
P/BV	1.00x	0.95x	0.90x
PBT Margin	16%	21%	17%
PAT Margin	13%	17%	14%
RoE	6%	6%	9%
Dividend Yield	4%	9%	10%

Analysts

Abdulrauf Bello

a.bello@wstc.com.ng

Isaac Osaro

i.osaro@wstc.com.ng

Oluwadamilola Pase

o.pase@wstc.com.ng

Outlook

We expect higher pricing to keep driving topline growth in Q4 2022, while improved volume sales will drive topline growth in the medium term.

On the other hand, cost pressures remain a downside risk. We do not see the pressure of high energy prices abating, nor inflationary pressures cooling off in the near term. As a result, we expect to see declining margins in the near term.

Generally, the broad fundamentals of the cement industry are still strong, in our view. Widening infrastructural deficit, favourable policies, and pricing power are some factors that enable players in the cement industry to deliver value. Specifically for Lafarge, a strong balance sheet, low debt levels and improving operational efficiency.

We maintain our BUY recommendation for Lafarge. However, our fair value is now lower (revised valuation: N27.17; previous valuation: N36.92). The valuation downgrade reflects our expectations of pressured margins and production disruption due to energy issues. We also lowered our FY 2022 dividend expectation to N2.20 per share (previous: N2.50; FY 2021: N2.00).

Based on the estimated N27.17 fair value, we project a 32% total return: consisting of a 22% price return and a 10% dividend yield.

9M 2022 Financial Performance

Income Statement (N'mn)	9M 2022	9M 2021	Change (%)
Revenue	269,852	219,198	23%
Cost of sales	(135,079)	(117,087)	15%
Gross profit	134,774	102,111	32%
Other income	281	496	-43%
Operating income	135,055	102,607	32%
Selling expense	(62,654)	(40,676)	54%
Admin expense	(15,890)	(14,278)	11%
Other expense	0	(14)	-100%
Operating expense	(78,544)	(54,968)	43%
Operating profit	56,512	47,639	19%
Non-operating profit/(loss)	(2,564)	(3,738)	-31%
Finance income	434	569	-24%
Impairment reversal	44	499	-91%
Gain on disposal of JV	0	827	-100%
Finance expense	(3,041)	(5,633)	-46%
Profit before tax	53,948	43,901	23%
Tax	(9,048)	(3,507)	158%
Profit after tax	44,900	40,395	11%
Balance Sheet (N'mn)	9M 2022	9M 2021	Growth (%)
Assets			
PP & E	334,023	342,743	-3%
Inventory	53,222	39,448	35%
Receivables	7,143	5,163	38%
Cash	82,128	54,505	51%
Others	89,121	70,510	26%
Total Assets	565,637	512,369	10%
Liabilities			
Loans & Borrowings	32,511	22,446	45%
Payables	105,690	85,614	23%
Others	20,085	20,382	-1%
Total Liabilities	158,285	128,443	23%
Net Assets	407,352	383,926	6%

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	360,735	396,809	440,458	491,111	540,958
EBITDA	96,539	99,184	100,013	127,124	146,838	153,865
EBIT	65,107	65,909	65,394	87,595	103,378	105,655
Profit before taxation (PBT)	62,254	62,976	63,971	86,788	102,853	105,139
Net profit (PAT)	51,004	51,644	52,435	71,154	82,268	81,995
EPS (₦)	3.17	3.21	3.26	4.42	5.11	5.09
DPS (₦)	2.00	2.20	2.20	2.99	3.45	3.44
Balance sheet (NGN mn)						
Current assets	136,575	157,530	181,915	173,340	206,711	244,187
Non-current assets	390,263	397,567	397,236	404,040	408,363	412,808
Total assets	526,838	555,098	579,151	577,379	615,074	656,995
Current liabilities	131,053	140,346	147,834	126,171	129,498	144,913
Non-current liabilities	17,224	16,763	16,330	16,945	17,132	17,243
Shareholders' equity	378,561	397,989	414,987	450,704	484,884	511,279
Book value per share (₦)	23.50	24.71	25.76	27.98	30.10	31.74
Cash flow statement (NGN mn)						
Cash from operating activities	73,768	83,936	75,421	72,006	122,714	136,657
Cash from investing activities	(17,891)	(28,382)	(33,391)	(44,919)	(46,567)	(52,371)
Cash from financing activities	(61,222)	(33,806)	(37,595)	(40,729)	(52,264)	(57,700)
Net increase/ (decrease) in cash	(5,344)	21,749	4,436	(13,641)	23,883	26,586
Free cash flow to equity	17,296	52,405	37,948	19,586	69,427	79,379
Ratio analysis						
EBITDA margin	33%	27%	25%	29%	30%	28%
Operating margin	22%	18%	16%	20%	21%	20%
ROE	14%	13%	13%	16%	18%	16%
ROA	10%	10%	9%	12%	14%	13%
Dividend payout ratio (%)	63%	69%	68%	68%	68%	68%

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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WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

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