

# LAFARGE AFRICA PLC

...High Growth Prospects Backed by a Strong Balance Sheet

March 15, 2023.



Earnings Note

In its FY 2022 financial result, Lafarge Africa Plc ('the Company') recorded a revenue of N373.25bn, translating to a 27% YoY growth from N293.09bn in FY 2021. Like its competitors, Lafarge implemented price increases during the reporting year to mitigate the impact of continuously increasing input costs.

Revenue from cement alone stood at N361.96bn, indicating a 27% increase from N285.12bn in 2021. Sales from aggregates and concrete also improved significantly by 43% to N10.94bn from N7.63bn in 2021, while other products improved by 2% to N344.35mn from N338.59mn.

On the back of global inflationary pressures experienced during the year, the Company incurred an 18% rise in its cost of goods, with raw materials & consumables, and energy prices being major drivers as they accounted for 63% of the costs. Gross margin, however, improved by 400bps to 53% from 49% in FY 2021, indicating an effective pricing implementation to offset input costs.

The Company's net profit was pressured by a significant rise in finance costs, which increased by 203% to N15.98bn from N5.23bn in 2021. The primary factor behind this spike was the FX loss incurred during the reporting year, which accounted for 82% of the total finance costs.

Profit after tax stood at N53.65bn up 5% from N51.00bn in 2021. The Company proposed a N2.00 final dividend for FY 2022 (FY 2021: N1.00). The dividend qualification date is April 10, 2023, while the payment date is April 28, 2023. The Company did not declare an interim dividend in FY 2022. Hence, the final dividend was the total for FY 2022 (FY 2021: N2.00).

## Lafarge's Balance Sheet is Relatively Strong

Total assets grew by 14% year-on-year to N600.71bn, largely driven by higher cash balances. This was due to Lafarge's strong cash generation – cash balance closed at N118.39bn in FY 2022 (FY 2021: N85.85bn). The drivers of the increased cash were improved earnings from operations, positive working capital, and higher net borrowings. However, the Company's debt-to-equity ratio remained low at 0.09x (industry average: 0.58x). Therefore, we posit that financial risk is low for the Company.

Unlike other industry peers, the Company seemed to adopt an operating efficiency model where it seeks to effectively utilise current manufacturing capacity instead of investing in new plants. In the past, the management expressed its strategy to sustain its exercise of debottlenecking.

# BUY

**Fair Value Estimate: N28.16**

Total Return: +20%

## Stock Data

Current price (N)	25.50
Shares Outstanding (mn)	16,108
Market Cap (N'mn)	410,749
52-week high (N)	33.70
52-week low (N)	20.10
Trailing EPS (N)	3.33
Forward EPS (N)	4.27
Forward PE (X)	5.98
Justified PE Multiple (X)	6.60

## Price Movement



Stock Data	FY 2021	FY 2022	FY 2023F
P/E	8.05x	7.66x	5.98x
P/BV	1.09x	0.99x	0.91x
PBT Margin	21%	19%	21%
PAT Margin	17%	14%	17%
RoE	14%	14%	16%
Dividend Yield	8%	8%	10%

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## FY 2022 Financial Performance

Income Statement (N'mn)	FY 2022	FY 2021	Growth (%)
<b>Revenue</b>	<b>373,245</b>	<b>293,086</b>	<b>27%</b>
Cost of sales	(177,023)	(150,506)	18%
<b>Gross profit</b>	<b>196,222</b>	<b>142,581</b>	<b>38%</b>
Other income	557	687	-19%
<b>Operating income</b>	<b>196,779</b>	<b>143,268</b>	<b>37%</b>
Selling expense	(89,576)	(56,976)	57%
Admin expense	(22,578)	(21,158)	7%
<b>Operating expense</b>	<b>(112,154)</b>	<b>(78,135)</b>	<b>44%</b>
<b>Operating profit</b>	<b>84,625</b>	<b>65,133</b>	<b>30%</b>
<b>Non-operating profit/(loss)</b>	<b>(14,880)</b>	<b>(2,878)</b>	<b>417%</b>
Finance income	1,534	1,740	-12%
Impairment reversal	(431)	(26)	1584%
Gain on disposal of JV	0	683	-100%
Finance expense	(15,983)	(5,276)	203%
<b>Profit before tax</b>	<b>69,745</b>	<b>62,254</b>	<b>12%</b>
Tax	(16,097)	(11,251)	43%
<b>Profit after tax</b>	<b>53,647</b>	<b>51,004</b>	<b>5%</b>
Balance Sheet (N'mn)	FY 2022	FY 2021	Growth (%)
<b>Assets</b>			
PP & E	341,459	338,722	1%
Inventory	53,043	45,010	18%
Receivables	6,354	7,197	-12%
Cash	118,398	50,057	137%
Others	81,458	85,851	-5%
<b>Total Assets</b>	<b>600,711</b>	<b>526,837</b>	<b>14%</b>
<b>Liabilities</b>			
Loans & Borrowings	36,593	23,287	57%
Payables	126,817	103,177	23%
Others	21,201	21,813	-3%
<b>Total Liabilities</b>	<b>184,611</b>	<b>148,278</b>	<b>25%</b>
<b>Net Assets</b>	<b>416,102</b>	<b>378,561</b>	<b>10%</b>

**Source:** Company Accounts, WSTC Research



## Outlook

We expect a moderated growth in volume during the first two quarters of 2023 due to electoral activities and government transition in the country. Nonetheless, we foresee a resurgence in volume in Q3 and Q4. We maintain our positive view on the cement industry's solid fundamentals, and we expect sustained operational efficiency to deliver a strong financial performance in the medium term.

Cost pressures are likely to persist in FY 2023, but we posit that the degree will be lesser than what was experienced in the previous year. The cost components that we expect to be under pressure are energy costs, raw material costs, and distribution costs. We also expect another year of FX losses. However, we see the possibilities of another effective pricing to totally or partly mitigate these cost pressures.

Overall, we project a 12% revenue growth to N416.63bn in FY 2023, with a 16% net margin – 200 basis points higher than FY 2022. Owing to increased profits expected in FY 2023, we estimate a 25% increase in dividend to N2.50. Our fair value for the stock is N28.16 which implies a justified Price-to-earnings (P/E) multiple of 6.60x – we note that this is below the stock's three-year historical P/E average of 7.07x. At the current price of N25.50, the stock offers a 20% total return. Hence, we recommend a BUY.

## Financial Projections

Income statement (NGN mn)	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Revenue	373,245	416,634	474,963	527,209	585,202	643,722
EBITDA	108,978	116,413	140,454	167,652	169,459	194,743
EBIT	84,194	90,831	110,103	134,621	132,429	154,212
Profit before taxation (PBT)	69,745	86,538	109,428	133,912	131,482	153,268
Net profit (PAT)	53,647	68,731	85,542	102,003	97,523	110,616
EPS (₦)	3.33	4.27	5.31	6.33	6.05	6.87
DPS (₦)	2.00	2.50	2.80	3.34	3.19	3.62
Balance sheet (NGN mn)	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Current assets	196,279	193,213	220,749	264,072	331,983	393,960
Non-current assets	404,433	418,324	433,728	453,378	460,426	466,347
Total assets	600,711	611,537	654,477	717,450	792,409	860,307
Current liabilities	168,383	142,640	140,086	145,907	176,937	185,407
Non-current liabilities	16,227	16,279	16,501	16,752	16,940	17,171
Shareholders' equity	416,102	452,618	497,890	554,791	598,532	657,729
Book value per share (₦)	25.83	28.10	30.91	34.44	37.16	40.83
Cash flow statement (NGN mn)	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Cash from operating activities	100,715	77,280	93,994	114,720	136,017	148,672
Cash from investing activities	(21,698)	(29,561)	(30,638)	(34,932)	(38,098)	(42,660)
Cash from financing activities	(11,551)	(58,483)	(41,995)	(45,978)	(52,158)	(53,090)
Net increase/ (decrease) in cash	67,466	(10,764)	21,361	33,810	45,761	52,923
Free cash flow to equity	80,514	19,905	60,217	77,402	97,844	102,359
Ratio analysis	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
EBITDA margin	29%	28%	30%	32%	29%	30%
Operating margin	23%	22%	23%	26%	23%	24%
ROE	14%	16%	18%	19%	17%	18%
ROA	10%	11%	14%	15%	13%	13%
Dividend payout ratio (%)	60%	59%	53%	53%	53%	53%

**Source:** Company Accounts, WSTC Research



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- Buy Rating: estimated fair value is  $\geq 20\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $25\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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