

August 31, 2023



Earnings Note

Event

Following the easing of the domestic headwinds (cash scarcity and electioneering activities) that had dominated the first quarter, revenue for Q2 2023 came in higher by 38% year-on-year to N544.11 billion from N394.86 billion in Q2 2022. The management attributed the growth to improved volume sales (Q2 2023: 7.15mn tonnes vs Q2 2022: 6.96 tonnes) despite decline in capacity utilisation (Q2 2023: 23% vs Q2 2022: 26%).

Revenue

In its Nigerian market, revenue grew by 12% year-on-year to N338.23 billion from N301.06 billion in Q2 2022. The management attributed the rise to volume growth and general industry price hike to mitigate rising cost. This time around, the Nigerian market contributed 62% to total revenue from 76% in Q2 2022, representing an 18% decline.

In the Pan-African market, revenue rose markedly by 124% year-on-year to N209.98 billion in Q2 2023 from N93.79 billion in Q2 2021. Volume sales grew by 14% year-on-year to 2.80Mta. Notably, the group commenced clinker exportation from Congo to Cameroon and the 0.4Mta grinding plant in Ghana became operational, consequently, the firm's product distribution and retail sales improved overall performance. The improved performance in the Pan-African market was evident in its contribution to total revenue (Q2 2023: 39% vs Q2 2022: 24%)

Profitability

The Group's operating profit grew by 65% year-on-year to N222.96 billion in Q2 2023, resulting in a 700 basis points expansion in operating margin to 41% from 34%. The improvement was due to increased efficiency, improved energy supply as regards alternative energy sources, and cost optimisation efforts during the quarter. Noteworthy was the group's initiatives to improving its alternative energy. A total of six (6) alternative fuel projects and a higher co-processed biomass were completed.

The devaluation of the Nigerian currency led to a 363% jump in FX loss to NGN103.84 billion. The Group's FX loss, coupled with a 67% rise in finance costs negatively impacted the Group's profitability. Thus, profit before tax declined by 14% year-on-year to N93.04 billion from N108.49 billion. However, changes in deferred tax assets led to lower recognized tax which resulted in a 4% growth in the profit after tax to N69.10 billion.

HOLD

Fair Value Estimate:
N328.45

Total Return: **-3%**

Stock Data

| | |
|---------------------------|-----------|
| Current price (N) | 360.00 |
| Shares Outstanding (mn) | 17,000 |
| Market Cap (N'mn) | 6,120,000 |
| 52-week high (N) | 360.70 |
| 52-week low (N) | 220.00 |
| Trailing EPS (N) | 22.49 |
| Forward EPS (N) | 23.59 |
| Forward PE (X) | 15.26 |
| Justified PE Multiple (X) | 13.92 |

Price Movement



| Stock Data | FY 2021 | FY 2022 | FY 2023F |
|----------------|---------|---------|----------|
| P/E | 16.79x | 16.01x | 15.26x |
| P/BV | 6.22x | 5.67x | 5.29x |
| PBT Margin | 39% | 32% | 29% |
| PAT Margin | 26% | 24% | 21% |
| RoE | 39% | 37% | 37% |
| Dividend Yield | 6% | 6% | 6% |

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Q2 2023 Financial Performance

| Income Statement (N'mn) | Q2 2023 | Q2 2022 | Growth (%) |
|------------------------------------|------------------|-----------------|-------------------|
| Revenue | 544,110 | 394,856 | 38% |
| Cost of sales | (219,417) | (168,353) | 30% |
| Gross profit | 324,693 | 226,503 | 43% |
| Other income | 9,580 | 584 | 1540% |
| Operating income | 334,273 | 227,087 | 47% |
| General and administrative expense | (26,807) | (17,200) | 56% |
| Selling and distribution expense | (84,508) | (74,586) | 13% |
| Operating expense | (111,315) | (91,786) | 21% |
| Operating profit | 222,958 | 135,301 | 65% |
| Non-operating profit | (129,919) | (26,809) | 385% |
| Finance income | 5,741 | 11,645 | -51% |
| Finance cost | (26,701) | (16,034) | 67% |
| FX loss | (103,837) | (22,437) | 363% |
| Other income/ (expenses) | (5,333) | 0 | 100% |
| Impairment of financial assets | 211 | 17 | 1141% |
| Profit before tax | 93,039 | 108,492 | -14% |
| Taxation | (23,937) | (42,239) | -43% |
| Profit for the year | 69,102 | 66,253 | 4% |

Source: Company Accounts, WSTC Research

Outlook

Following improved performance in Q2 2023, we revised our revenue projection to N1.90 trillion (previously N1.73 trillion). Our optimistic is premised on rising infrastructural activities and developmental projects in Pan-African region, which are expected to bolster cement demand for the rest of the year. We also anticipate higher volume sales for the rest of the year.

Furthermore, the Group's progressive shift from AGO to liquified natural gas (LNG) for its trucks signifies a strategic move that could lower operational expenses and its environmental footprint in the medium to long term, offering a cleaner fuel alternative with potential cost efficiencies and emissions cut.

Overall, our fair value estimate of the stock is N328.45. At the current market price, the stock trades at 15.26x to our estimated EPS - versus a 13.92x justified P/E. By implication, we see a -9% price return. In addition to an estimated 6% dividend yield, the stock's total return stands at -3%. We retain our **HOLD** recommendation.

H1 2023 Financial Performance

| Income Statement (N'mn) | H1 2023 | H1 2022 | Growth (%) |
|------------------------------------|------------------|------------------|-------------|
| Revenue | 950,832 | 808,037 | 18% |
| Cost of sales | (383,088) | (322,461) | 19% |
| Gross profit | 567,744 | 485,576 | 17% |
| Other income | 11,057 | 1,601 | 591% |
| Operating income | 578,801 | 487,177 | 19% |
| General and administrative expense | (45,482) | (34,134) | 33% |
| Selling and distribution expense | (153,225) | (135,272) | 13% |
| Operating expense | (198,707) | (169,406) | 17% |
| Operating profit | 380,094 | 317,771 | 20% |
| Non-operating profit | (140,231) | (52,881) | 165% |
| Finance income | 16,207 | 22,001 | -26% |
| FX gain | 0 | 0 | n/a |
| Finance cost | (49,424) | (34,575) | 43% |
| FX loss | (113,626) | (40,657) | 179% |
| Other gains/(losses) | 6,670 | 0 | 100% |
| Impairment of financial assets | (58) | 350 | -117% |
| Profit before tax | 239,863 | 264,890 | -9% |
| Taxation | (61,260) | (92,786) | -34% |
| Profit for the year | 178,603 | 172,104 | 4% |
| Balance Sheet (N'mn) | H1 2023 | H1 2022 | Growth (%) |
| Assets | | | |
| PP & E | 2,016,424 | 1,398,504 | 44% |
| Inventory | 352,557 | 206,636 | 71% |
| Receivables | 74,086 | 41,390 | 79% |
| Prepayments | 16,341 | 334,502 | -95% |
| Cash | 320,761 | 194,466 | 65% |
| Others | 407,905 | 61,841 | 560% |
| Total Assets | 3,188,074 | 2,237,339 | 42% |
| Liabilities | | | |
| Loans & Borrowings | 854,381 | 643,478 | 33% |
| Payables | 492,924 | 369,511 | 33% |
| Others | 528,392 | 448,470 | 18% |
| Total Liabilities | 1,875,697 | 1,461,459 | 28% |
| Net Assets | 1,312,377 | 775,880 | 69% |

Source: Company Accounts, WSTC Research

Financial Projections

| Income statement (NGN mn) | FY 2021 | FY 2022 | FY 2023F | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 1,383,637 | 1,618,323 | 1,901,913 | 2,253,002 | 2,727,205 | 2,916,243 | 3,165,080 | 3,403,515 |
| EBITDA | 683,598 | 706,043 | 871,753 | 1,010,025 | 1,237,709 | 1,333,913 | 1,452,066 | 1,556,577 |
| EBIT | 582,832 | 585,653 | 738,619 | 838,911 | 1,030,581 | 1,118,626 | 1,217,778 | 1,304,891 |
| Profit before taxation (PBT) | 538,366 | 524,002 | 556,962 | 787,333 | 999,148 | 1,094,114 | 1,200,062 | 1,286,988 |
| Net profit (PAT) | 364,439 | 382,311 | 401,013 | 566,880 | 729,378 | 798,703 | 876,045 | 939,501 |
| EPS (₦) | 21.44 | 22.49 | 23.59 | 33.35 | 42.90 | 46.98 | 51.53 | 55.26 |
| DPS (₦) | 20.00 | 20.00 | 22.00 | 25.00 | 25.00 | 25.00 | 35.00 | 35.00 |
| Balance sheet (NGN mn) | FY 2021 | FY 2022 | FY 2023F | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
| Other current assets | 533,199 | 739,618 | 689,155 | 773,480 | 946,325 | 937,058 | 1,004,553 | 1,049,988 |
| Non-current assets | 1,518,977 | 1,592,194 | 1,934,538 | 1,994,358 | 2,213,219 | 2,143,744 | 2,067,710 | 1,986,200 |
| Total assets | 2,392,019 | 2,615,655 | 2,817,818 | 2,904,413 | 3,255,018 | 3,727,498 | 4,278,185 | 4,669,479 |
| Current liabilities | 1,076,483 | 1,021,685 | 1,153,988 | 1,094,454 | 1,204,463 | 1,316,334 | 1,422,633 | 1,477,276 |
| Non-current liabilities | 331,867 | 515,023 | 523,869 | 477,119 | 413,337 | 400,243 | 393,585 | 385,736 |
| Total liabilities | 1,408,350 | 1,536,708 | 1,677,858 | 1,571,573 | 1,617,801 | 1,716,577 | 1,816,218 | 1,863,012 |
| Shareholders' equity | 983,669 | 1,078,947 | 1,139,960 | 1,332,840 | 1,637,217 | 2,010,921 | 2,461,966 | 2,806,467 |
| Cash flow statement (NGN mn) | FY 2021 | FY 2022 | FY 2023F | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
| Cash from operating activities | 596,709 | 387,835 | 722,276 | 688,351 | 982,371 | 1,212,777 | 1,225,844 | 1,270,130 |
| Cash from investing activities | (126,869) | (126,822) | (440,435) | (182,492) | (374,725) | (88,420) | (92,110) | (99,578) |
| Cash from financing activities | (332,222) | (373,779) | (371,560) | (563,408) | (648,746) | (573,136) | (574,508) | (743,183) |
| Net increase/ (decrease) in cash | 137,618 | (112,766) | (89,719) | (57,549) | (41,100) | 551,222 | 559,225 | 427,370 |
| Free cash flow | 410,895 | 321,890 | 246,797 | 457,418 | 556,382 | 1,066,965 | 1,067,590 | 1,099,955 |
| Ratio analysis | FY 2021 | FY 2022 | FY 2023F | FY 2024F | FY 2025F | FY 2026F | FY 2027F | FY 2028F |
| EBITDA margin | 49% | 44% | 46% | 45% | 45% | 46% | 46% | 46% |
| Operating margin | 42% | 36% | 39% | 37% | 38% | 38% | 38% | 38% |
| RoE | 39% | 37% | 36% | 46% | 49% | 44% | 39% | 36% |
| RoA | 17% | 15% | 15% | 20% | 24% | 23% | 22% | 21% |
| Dividend payout ratio | 93% | 89% | 93% | 75% | 58% | 53% | 68% | 63% |

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 $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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