

December 12, 2023.



Earnings Note

Event

Lafarge Africa Plc ('the Group') financial performance in Q3 2023 was characterised by the challenging FX environment. It is noteworthy to state that in the preceding quarters of 2023, the Group had not reported FX losses, owing to its practice of valuing FX liabilities at a blended exchange rate of N751.00 before the Naira devaluation as disclosed by the management. However, a shift occurred in Q3 2023, as Naira worsened above the Group's benchmark. Consequently, the depreciation exerted negative influence on the Group's profitability.

Revenue grew by 10% to N91.40 billion in Q3 2023 from N83.27 billion in Q3 2022, attributable to higher pricing. The growth effectively offset the modest 5% increase in cost of goods, culminating in a 15% surge in gross profit to N44.67 billion in Q3 2023 from N38.70 billion in Q3 2022. Accordingly, the gross margin expanded by 300 basis points to 49% in Q3 2023, from 46% in Q3 2022.

We posit that the Group experienced a decline in volume sales during the period. This is discernable in the Group's reduced selling and marketing expenses, which contracted by 18% to N20.56 billion in Q3 2023 from N25.00 billion in Q3 2022. As a result, the Group's operating expense declined by 10% to N27.72 billion in Q3 2023 from N30.78 billion in Q3 2022. Consequently, the operating margin improved by 900 basis points to 19% in Q3 2023, from 10% in Q3 2022.

The Group's net finance cost escalated to N11.22 billion in Q3 2023 from N938.00 million in Q3 2022. This astronomical growth primarily emanated from the Group's FX loss which surged to N9.42 billion in Q3 2023 from N182 million in Q3 2022, as Naira averaged N764.70 to a dollar in the official market, and N895.03 to a dollar in the more accessible market (parallel market) in Q3 2023.

The FX loss resulted in a 17% contraction in the Group's profit before tax, reducing it to N5.84 billion in Q3 2023, from N7.07 billion in Q3 2022. This contraction was further intensified by a high tax rate, attributable to the expiration of the pioneer tax relief. In conclusion, the Group's profit after tax declined by 49% to N3.83 billion in Q3 2023, from N7.49 billion in Q3 2022.

HOLD

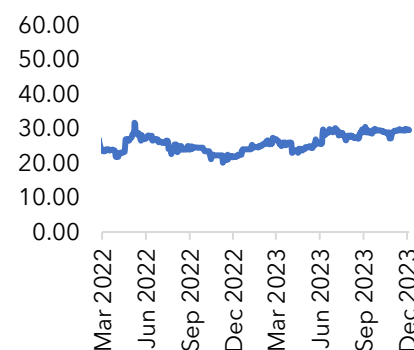
Fair Value Estimate:
N27.71

Total Return: +1%

Stock Data

Current price (N)	29.60
Shares Outstanding (mn)	16,108
Market Cap (N'mn)	476,791
52-week high (N)	31.50
52-week low (N)	21.95
Trailing EPS (N)	3.33
Forward EPS (N)	3.62
Forward PE (X)	8.17
Justified PE Multiple (X)	7.65

Price Movement



Stock Data

	FY 2021	FY 2022	FY 2023F
P/E	7.07x	7.36x	8.17x
P/BV	0.95x	0.95x	1.08x
PBT Margin	21%	19%	23%
PAT Margin	17%	14%	15%
RoE	14%	14%	13%
Dividend Yield	7%	7%	7%

Analysts

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Q3 2023 Financial Performance

Income Statement (N'mn)	Q3 2023	Q3 2022	Change (%)
Revenue	91,400	83,266	10%
Cost of sales	(46,733)	(44,563)	5%
Gross profit	44,668	38,703	15%
Other income	116	82	42%
Operating income	44,783	38,785	15%
Selling expense	(20,559)	(25,001)	-18%
Admin expense	(7,161)	(5,777)	24%
Operating expense	(27,720)	(30,778)	-10%
Operating profit	17,063	8,007	113%
Non-operating profit/(loss)	(11,222)	(938)	1097%
Finance income	(1,063)	242	-539%
Finance expense	(736)	(1,000)	-26%
FX cost	(9,424)	(182)	5075%
Impairment reversal/(charge) on receivables	0	2	-76%
Profit before tax	5,841	7,069	-17%
Tax	(2,015)	420	580%
Profit after tax	3,826	7,489	-49%

Source: Group Accounts, WSTC Research

Outlook

Lafarge Africa's recent introduction of electric powered trucks reflects a strategic pivot towards sustainable operations. This move is anticipated to yield a reduction in distribution cost and maintenance costs, showcasing the management's commitment to cost efficiency.

Furthermore, with its sustained strong liquidity position, the Group remains positioned to pursue growth opportunities. We retain our **HOLD** recommendation for the stock, adjusting the fair value to N27.71 (previous: N26.78). With the current price at N29.60, the stock offers a total return of 1%.

9M 2023 Financial Performance

Income Statement (N'mn)	9M 2023	9M 2022	Change (%)
Revenue	289,081	269,852	7%
Cost of sales	(141,019)	(135,079)	4%
Gross profit	148,063	134,774	10%
Other income	541	281	92%
Operating income	148,603	135,055	10%
Selling expense	(60,835)	(62,654)	-3%
Admin expense	(18,410)	(15,890)	16%
Operating expense	(79,245)	(78,544)	1%
Operating profit	69,358	56,512	23%
Non-operating profit/(loss)	(8,202)	(2,564)	220%
Finance income	3,374	434	677%
Finance expense	(2,143)	(2,074)	3%
FX cost	(9,424)	(967)	874%
Impairment reversal/(charge) on receivables	(9)	44	-120%
Profit before tax	61,156	53,948	13%
Tax	(21,852)	(9,048)	141%
Profit after tax	39,305	44,900	-12%
Balance Sheet (N'mn)	9M 2023	9M 2022	Change (%)
Assets			
PP & E	344,103	334,023	3%
Inventory	53,227	53,222	0%
Receivables	7,181	7,143	1%
Cash	157,145	82,128	91%
Others	81,942	89,121	-8%
Total Assets	643,598	565,637	14%
Liabilities			
Loans & Borrowings	39,371	32,511	21%
Payables	139,794	105,690	32%
Others	41,241	20,085	105%
Total Liabilities	220,407	158,285	39%
Net Assets	423,191	407,352	4%

Source: Group Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Revenue	293,086	373,245	398,677	454,492	504,486	554,935	604,879
EBITDA	96,539	108,978	126,463	134,556	171,167	172,105	195,769
EBIT	65,107	84,194	101,983	105,513	139,560	136,991	157,683
Profit before taxation (PBT)	62,254	69,745	90,546	98,208	134,642	131,950	153,414
Net profit (PAT)	51,004	53,647	58,354	69,417	92,476	87,988	99,233
EPS (₦)	3	3.33	3.62	4.31	5.74	5.46	6.16
DPS (₦)	2.00	2.00	2.20	2.80	3.73	3.55	4.00
Balance sheet (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Current assets	136,575	196,279	208,434	228,119	278,835	329,807	364,724
Non-current assets	390,263	404,433	409,003	412,397	416,422	421,164	432,104
Total assets	526,838	600,711	617,438	640,516	695,257	750,971	796,828
Current liabilities	131,053	168,383	159,544	148,282	155,386	183,216	186,785
Non-current liabilities	17,224	16,227	15,653	16,014	16,277	16,256	16,480
Shareholders' equity	378,561	416,102	442,240	476,220	523,594	551,498	593,563
Book value per share (₦)	23.50	25.83	27.46	29.56	32.51	34.24	36.85
Cash flow statement (NGN mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Cash from operating activities	72,617	100,715	78,058	97,389	124,413	136,054	132,054
Cash from investing activities	-17,891	-21,698	-22,352	-29,680	-33,645	-35,935	-47,125
Cash from financing activities	-61,222	-11,551	-48,325	-53,964	-48,623	-63,422	-59,877
Net increase/ (decrease) in cash	-6,495	67,466	7,380	13,746	42,145	36,697	25,052
Free cash flow to equity	16,145	80,514	32,287	47,830	85,802	95,165	80,349
Ratio analysis	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
EBITDA margin	33%	29%	32%	30%	34%	31%	32%
Operating margin	22%	23%	26%	23%	28%	25%	26%
ROE	14%	14%	14%	15%	18%	16%	17%
ROA	10%	10%	10%	11%	14%	12%	13%
Dividend payout ratio (%)	63%	60%	61%	65%	65%	65%	65%

Source: Group Accounts, WSTC Research

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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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