

Fortunes Turn as Restructuring Yield Fruits

Earnings Dip Across All Business Segments

In 2019FY, Lafarge Africa Plc reported a revenue decline of 2.21%, from NGN217.81bn in 2018FY to NGN213.00bn. This directly resulted from the dip in earnings across its business segments; revenue from the Cement segment, along with the Aggregate and concrete segment, slipped by 1.55% and 21.17% respectively. Topline performance for the year was impeded by the slowdown in economic activity caused by the presidential election delays and the late budget passage, along with other macroeconomic headwinds such as rising inflation and a downbeat real estate sector. **We expect revenue growth to remain subdued in 2020 as the Corona Virus outbreak and the resulting lockdown across the country, dampens economic outlook. Thus, we expect revenue in 2020FY to settle at NGN190.70bn (decline of -10.47% YoY).**

Lower Interest Burden Buys Bottom-line

While the decline in revenue and higher direct costs (+4.21% YoY) resulted in a slimmer gross margin of 26.27% (vs.30.81% in 2018FY), the decision to streamline its operations through the sale of the South African subsidiary has brought improved operational efficiency benefits for the enterprise. This is reflected in the wider EBITDA margin (30.55%) reported in 2019, compared to the restated margin of 26.25% posted in 2018FY. Also, finance costs dropped sharply by 51.46%; a direct benefit of reduced debt obligations following the settlement of related party loans. Thus, the company was able to record a profit for the first time in three years: Pre-tax profit at NGN17.89bn (vs.-NGN1.50bn in 2018FY) and profit for the year (supported by a NGN99.59bn profit from discontinued operations) at NGN115.10bn (vs. -NGN8.80bn in 2018FY). **The outlook for the company's performance is dampened by the outbreak of the Corona Virus and the potential impact of further Naira devaluation on business costs. Nonetheless, we expect bottom-line in 2020 to remain afloat, premised on its reduced interest burden, an existing pioneer status on the Mfamosing line II and its substantial holdings of unutilized tax loss provisions (NGN23.58bn).**

Balance Sheet Health Improves Following Restructuring

We are encouraged by the company's improved balance sheet position post-divestment of the South African subsidiary. Prior to the restructuring, the company was heavily geared, at 2.24x (vs. peers, 0.35x), with short term debt accounting for 42.87% of total debt stock. However, after the divestment and the successful balance sheet restructuring via a series of rights issue in 2018, the company's total debt stock dropped significantly to 78.72% to NGN64.21bn (vs NGN301.73bn in 2018FY), while short term debt now accounts for 17.98% of total debt. Net debt to EBITDA ratio also improved to 0.57x (vs 5.06x in 2018FY). We recognize that the company has shown improvements in its cash generation ability observed in its shorter cash conversion cycle (c.89 days compared to c.149days in 2018). We also see that much of the company's drive for value creation is now derived from an improved net margin of 54.04% (vs.-4.04% in 2018) and a slightly higher asset turnover of 0.43x (vs. 0.40x in 2018), while its reduced leverage profile has significantly lowered its risks .

Recommendation

Although early indicators are positive, the company still has some way to go towards delivering value to shareholders, as the company's ROE (ex-discontinued operations) of 4.50% still lags its Cost of Equity (estimated at 11.37%). Also, its cause is not helped by the expected impact of COVID-19 on the business environment in the near term. Thus, in deriving our value estimates for 2020, we projected an EBITDA of NGN61.33bn and applied a target EV/EBITDA multiple of 4.51x. After adjusting for its net debt of 37.08bn, we arrived at a 2020 target price of NGN14.87, which represents an upside potential of 35.18%. Therefore, we rate the counter a **BUY**.

Company	WAPCO
Valuation	
EPS	7.15
BVPS	21.41x
P/E	1.54x
P/BV	0.51x
Target EV/EBITDA	4.51x
Dec-2020 Exp. EBITDA	61.33bn
Dec 2020 Target price	14.87
Current Price	11.00
Up/Downside Potential	+35.18%
Ratings	BUY
Key metrics	
ROE	33.37%
ROA	23.15%
Net margin	54.04%
Asset Turnover	0.43x
Leverage	0.19x
Yr Hi	17.6
Yr Lo	8.95
YTD return	-28.10%
Beta	1.04
Adjusted Beta	1.03
52-Week average volume	5.19mn
Shares outstanding	16.11bn
Market cap [NGN]	177.21bn
Financial year end	Dec
Most Recent Period (MRP)	2019FY

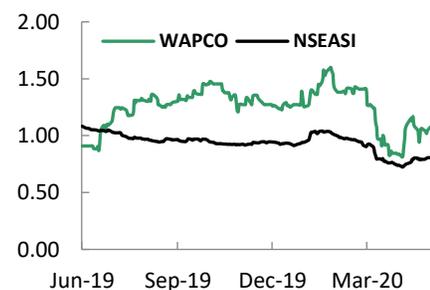


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	12.40
EBITDA per share						Max	17.54
		3.62	3.71	3.81	3.90	4.00	
Target EV/EBITDA	4.06x	12.40	12.76	13.16	13.53	13.94	
	4.28x	13.19	13.58	13.99	14.39	14.82	
	4.51x	14.02	14.43	14.87	15.29	15.74	
	4.74x	14.86	15.28	15.74	16.18	16.66	
	4.96x	15.65	16.10	16.58	17.04	17.54	

Financial Highlights (NGN million) 2019FY Financial result

Profit & Loss Account	2019FY	2018FY	y/y Growth
Revenue	212,999	217,813	-2.21%
Cost of Sales	157,047	150,701	4.21%
Gross Profit	55,952	67,112	-16.63%
Investment Income	3,159	1,525	107.15%
Other Income	2,352	1,382	70.17%
Operating Expense	22,655	28,776	-21.27%
Finance Cost	20,177	41,563	-51.46%
PBT	17,892	-1,510	1,285.10%
PAT	115,104	-8,802	1,407.75%
Balance Sheet	2019FY	2018FY	
Inventories	32,441	47,157	-31.21%
Trade and other Receivables	8,193	21,164	-61.29%
Cash and bank	27,104	12,551	115.96%
Property, Plant and Equipment	369,797	394,489	-6.26%
Other Assets	59,617	65,377	-8.81%
Total Assets	497,152	540,737	-8.06%
Shareholders' fund	344,914	134,541	156.36%
Trade and Other Payables	69,718	80,538	-13.43%
Tax Liabilities	1,929	1,156	66.87%
Total Liabilities	152,238	406,196	-62.52%

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Movements in Price Target

Company Name: Lafarge Africa Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
14-May-2020	11.00	18.28	14.87	BUY	BUY

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Company	Disclosure
Lafarge Africa Plc	

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