

Gunning for Value Creation

Topline Soars Higher in H1:2020

BUA Cement Plc. (BUACEMENT) performed impressively in H1:2020, delivering a topline growth of 12.69%, from NGN89.86bn in H1:2019 to NGN101.26bn. During the period, the company made significant strides in its market deepening efforts as it grew sales volumes by 7.93% to 2,463 Kilotons (vs. 2,282 Kilotons in H1:2019) despite an economy set on edge by the COVID-19 pandemic. Unlike its peers (who recorded revenue declines in Q2:2020), the cement maker recorded a 1.21% turnover growth in Q2:2020 as the company's major market (Northern Nigeria) was largely free of the lockdown measures which hindered construction activities elsewhere. In our last update on the company, we had expected largely weak construction activities, prolonged period of lockdown in the commercial hubs and a generally weak economic environment to have a deep impact on turnover. *However, given the benign effect of the pandemic on performance, we have reassessed the impact of COVID-19 risks to topline growth. Also, we see the further approval of exports quotas (the company received approval for limited exports via land borders in H1:2020) and an unrelenting drive into new markets as key tailwinds. Thus, we project a revenue growth of 20.59% (an implied capacity utilization of c.64%) to NGN211.65bn (prev. estimate of NGN148.57bn), from NGN175.52bn in 2019FY.*

Energy Costs Rises on Account of FX Devaluation

During the period, higher costs were triggered by the Naira devaluation. Notably, energy costs rose sharply by 17.97% as gas prices and costs of imported fuel options (LPFO and coal) increased in response to the devaluation. This impacted the company's cost to sales ratio, which rose to 53.84% in H1:2020 (vs 50.71% in H1:2019) with total direct costs growing by 19.64%. However, the company is making efforts at costs optimization, one of which is the reconfiguration of the Sokoto plant to run on gas (previously Low Pour Fuel Oil (LPFO). To further pressure margins, the expansion into new markets drove OPEX higher (+15.02%), bringing operating margin lower to 40.30% (vs. 42.44% in H1:2019). Nonetheless, Profit after tax climbed higher by 13.74% to NGN34.82bn in H1:2020 (vs. NGN30.61bn in H1:2019) on the back of lower finance expenses (-30.40%). *Going forward, we maintain our expectation of an FX induced cost build-up, but a lower effective tax rate (a benefit of the pioneer status on its plants) should ease the impact on bottom-line.*

Related Party Liability: Shareholders' Loan Triggers a Spike

As the company strives to deliver additional capacity by Q1:2021, it has relied mainly on funding from bank and shareholders' loans. Thus, related party liabilities surged by +1,974.05% to NGN19.06bn, from NGN918.74mn in 2019FY. While the company has secured an extended tenor on its borrowings, it still maintains low gearing with a debt to equity ratio of 0.07x. Despite a largely equity based capital structure, an annualized ROE of 16.26% was recorded in H1:2020. We however express concerns on cash earnings and liquidity going forward as trade receivables is seen to have risen sharply by 93.87% from NGN2.62bn in 2019FY to NGN5.08bn in H1:2020

Recommendation

We revise our expectations for the company's topline performance given our reassessment of the operating environment. Given strong showings in Q2:2020, recovery in economic activities and further penetration into new markets, we expect an impressive full year revenue growth. Thus, we upgrade our projected EBITDA by 34.09% to NGN81.85bn (prev. NGN61.04bn) and an EV/EBITDA of 17.23x for 2020FY. Having adjusted for a negative net debt of NGN12.99bn, we arrived at a revised 2020FY target price of NGN42.03 which represents an upside potential of +8.05% (compared to its current price of NGN38.90). We thereby rate the counter as **HOLD**.

| Company | BUACEMENT |
|--------------------------|---------------|
| Valuation | |
| Trailing EPS | 1.91 |
| BVPS | 11.77 |
| P/E | 20.32x |
| P/BV | 3.31x |
| Target EV/EBITDA | 17.23x |
| Dec-2020 Exp. EBITDA | 81.85bn |
| Dec 2020 Target price | 42.03 |
| Current Price | 38.90 |
| Up/Downside Potential | +8.05% |
| Ratings | HOLD |
| Key metrics | |
| ROE | 16.26% |
| ROA | 12.48% |
| Net margin | 34.68% |
| Asset Turnover | 0.36x |
| Leverage | 0.07x |
| Yr Hi | 44.00 |
| Yr Lo | 29.40 |
| YTD return | 10.57% |
| Beta | 0.29 |
| Adjusted Beta | 0.52 |
| 52-Week average volume | 1.03mn |
| Shares outstanding | 33.86bn |
| Market cap [NGN] | 1.32tn |
| Financial year end | Dec |
| Most Recent Period (MRP) | H1:2020 |

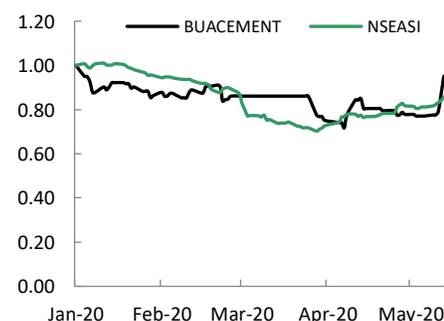


Chart 1: Sensitivity Analysis

| Sensitivity Analysis of Dec-2020 Target Price to key model inputs | | | | | | Min | 38.75 |
|---|--------|-------|-------|--------------|-------|-------|-------|
| EBITDA per share | | | | | | Max | 45.43 |
| | | 2.34 | 2.38 | 2.42 | 2.45 | 2.49 | |
| Target EV/EBITDA | 16.37x | 38.75 | 39.35 | 39.95 | 40.55 | 41.15 | |
| | 16.80x | 39.76 | 40.37 | 40.99 | 41.60 | 42.22 | |
| | 17.23x | 40.77 | 41.40 | 42.03 | 42.66 | 43.29 | |
| | 17.66x | 41.78 | 42.42 | 43.07 | 43.72 | 44.36 | |
| | 18.09x | 42.79 | 43.45 | 44.11 | 44.77 | 45.43 | |

Financial Highlights (NGN million) H1:2020 Financial result

| Profit & Loss Account | H1:2020 | H1:2019 | y/y Growth |
|----------------------------------|----------------|----------------|-------------------|
| Revenue | 101,261 | 89,859 | 12.69% |
| Cost of Sales | 54,518 | 45,569 | 19.64% |
| Gross Profit | 46,743 | 44,290 | 5.54% |
| Investment Income | 107.87 | 43.28 | 149.21% |
| Other Income | 4,014 | 3,533 | 13.61% |
| Operating Expense | 11,147 | 9,691 | 15.02% |
| Finance Cost | 1,752 | 2,517 | -30.40% |
| PBT | 39,165 | 35,658 | 9.83% |
| PAT | 34,819 | 30,614 | 13.74% |
| Balance Sheet | H1:2020 | 2019FY | |
| Inventories | 30,756 | 27,202 | 13.07% |
| Trade and other Receivables | 5,077 | 2,619 | 93.87% |
| Cash and bank | 39,060 | 15,587 | 150.60% |
| Property, Plant and Equipment | 429,167 | 393,406 | 9.09% |
| Other Assets | 15,228 | 31,753 | -52.04% |
| Total Assets | 519,288 | 470,567 | 10.35% |
| Shareholders' fund | 398,517 | 363,697 | 9.57% |
| Trade and Other Payables | 55,785 | 69,211 | -19.40% |
| Tax Liabilities | 900 | 814 | 10.59% |
| Total Liabilities | 120,772 | 106,869 | 13.01% |

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Target Price Estimate

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- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: BUA Cement Plc.

| Date | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|----------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 24-June-2020 | 43.00 | 30.88 | 30.88 | SELL | SELL |
| 18-August-2020 | 38.90 | 30.88 | 42.03 | SELL | HOLD |

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| Company | Disclosure |
|----------------|------------|
| BUA Cement Plc | |
| | |

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