

Waxing Stronger Against All Odds

Further Revenue Growth in Q3 Boosts Overall 9M Topline Performance

In Q3:2020, BUA Cement Plc. (BUACEMENT) improved on the revenue gains made in H1:2020 to deliver another impressive topline performance in 9M:2020. The company grew sales volumes by 15.95%, from 3,291 kilotons in Q3:2019 to 3,816 kilotons in Q3:2020. This puts standalone revenue for the quarter at NGN55.29bn – a 39.72% improvement compared to NGN39.57bn in Q3:2019. Since the merger, the company has focused on leveraging on its wider geographical footprint to access new markets and claim a stronger market share. While its efforts have resulted in enhanced brand awareness and a wider distribution chain, performance in Q3:2020 was largely supported by the pick-up in economic activities following the easing of lockdowns in Q2:2020 and the relatively short rainy season which aided cement distribution. Overall, the 9M:2020 financial scorecard showed a revenue growth of 20.95%. **For 2020FY, we maintain our expectation of a total turnover of NGN211.65bn by 2020FY- a growth rate of 20.59% when compared to NGN175.52bn in 2019FY.**

Lower Net Finance Costs Delivers Stronger Bottomline

In spite of the improvement in topline, energy costs remain a persisting problem pressuring margins. In our last update, we highlighted how the Naira devaluation triggered higher energy costs for the company and this narrative remains unchanged in the period under review. A devaluation induced spike in energy costs (+23.07%) in 9M:2020 pushed the cost to sales ratio to 54.18% (vs 51.23% in 9M:2019). In subsequent periods, while fuel mix optimization efforts are expected to yield some gains, a lot still depends on exchange rate stability. Similarly, higher operating expenses (+15.72%) due to higher marketing and distribution costs further pressured the company's operating margin. Hence, EBIT margin declined from 41.65% in 9M:2019 to 39.83% in 9M:2020. However, sizable amounts in interest income (NGN233.80mn vs NGN96.63mn in 9M:2019) and a lower interest expense (-19.77% YoY) lifted bottom-line. Hence, Profit after tax for the period (NGN53.57bn) was higher by 23.85% when compared to NGN43.25bn in 9M:2019.

Planned Debt Issuance to Support Working Capital Requirement

In line with our expectation, the company has expressed its intentions to access the bond market. This is given the need to shore up working capital and fund its expansion activities. The company also looks to take advantage of the low interest environment and as well refinance its related party source of funds (which resulted in a spike in related party liabilities by +1,974.05% in H1:2020) with cheaper debt. We note that the company maintains a decent leverage position with a negative net debt of -NGN42.97bn and an interest coverage ratio of 20.02x. Hence, given its consistent cashflow generation and decent leverage, we expect a fair credit rating of the company and consequently, a modest cost of debt. Currently, the debt to equity ratio stands at 0.08x and thus we anticipate the company to aim for a more balanced capital structure going forward.

Recommendation

We maintain our EBITDA projection of NGN81.85bn and an EV/EBITDA of 17.23x for 2020FY. Hence, we retain our 2020FY target price of NGN42.03 which represents a downside of -7.63% (compared to its current price of NGN45.50). We thereby rate the counter as **HOLD**.

Company	BUACEMENT
Valuation	
Trailing EPS	2.09
BVPS	12.32
P/E	21.68x
P/BV	3.68x
Target EV/EBITDA	17.23x
Dec-2020 Exp. EBITDA	81.85bn
Dec 2020 Target price	42.03
Current Price	45.40
Up/Downside Potential	-7.42%
Ratings	HOLD
Key metrics	
ROE	17.00%
ROA	11.41%
Net margin	35.00%
Asset Turnover	0.33x
Leverage	0.08x
Yr Hi	45.50
Yr Lo	29.40
YTD return	29.71%
Beta	0.51
Adjusted Beta	0.67
52-Week average volume	1.04mn
Shares outstanding	33.86bn
Market cap [NGN]	1.53trn
Financial year end	Dec
Most Recent Period (MRP)	9M:2020

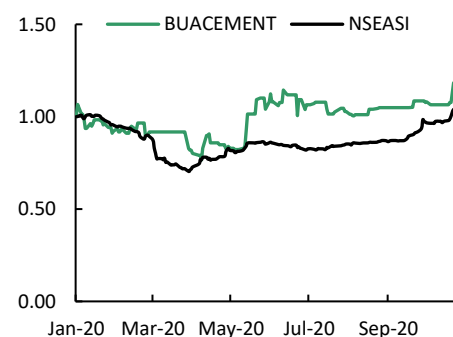


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	38.75
EBITDA per share						Max	45.43
Target EV/EBITDA		2.34	2.38	2.42	2.45	2.49	
	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) 9M:2020 Financial result			
Profit & Loss Account	9M:2020	9M:2019	y/y Growth
Revenue	156,550	129,429	20.95%
Cost of Sales	84,820	66,306	27.92%
Gross Profit	71,730	63,123	13.64%
Investment Income	234	97	141.96%
Other Income	6,142	5,225	17.55%
Operating Expense	16,714	14,443	15.72%
Finance Cost	3,114	3,881	-19.77%
PBT	59,484	50,186	18.53%
PAT	53,567	43,253	23.85%
Balance Sheet	9M:2020	2019FY	
Inventories	27,148	27,202	-0.20%
Trade and other Receivables	4,844	2,619	84.95%
Cash and bank	76,589	15,587	391.37%
Property, Plant and Equipment	508,709	393,406	29.31%
Other Assets	4,105	31,753	-87.07%
Total Assets	621,394	470,567	32.05%
Shareholders' fund	417,264	363,697	14.73%
Trade and Other Payables	54,556	36,342	50.12%
Tax Liabilities	664	814	-18.43%
Total Liabilities	204,129	106,828	91.08%

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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
11-November-2020	45.40	42.03	42.03	HOLD	HOLD

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BUA Cement Plc	

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