Nigeria | Equities | BUACEMENT | 2020FY

April 14, 2021

Better Export Volumes to Sustain Revenue Growth

Increased Sales Volume Fuels Topline Growth

In a year that was particularly challenging for businesses, BUA Cement Plc (BUACEMENT) recorded significant improvement (growth of 13.31%) in sales volume from 4,501 Kilotons in 2019FY to 5,100 Kilotons in 2020FY. This was due to a resilient Q2:2020 (the lockdown period) performance, the relatively short rainy season, improved economic conditions in the second half of the year and an unrelenting drive to penetrate new markets. These tailwinds culminated into a topline growth of 19.33% from NGN175.52bn in 2019FY to NGN209.44bn in 2020FY. In assessing the performance, we cannot deny the impact of the export approval enjoyed by the company during the year. We also recognize the company's commitment to expanding its Nigerian footprint through its capacity expansion initiatives cutting across geopolitical zones. While additional capacity is expected to suffer some under-utilization in the near term, prospects of the Nigerian cement market as seen in the adoption of cement for road construction, and development of other critical infrastructure gives reason for optimism. ***For 2021FY, we expect revenue to grow by 17.63% from NGN209.47bn in 2020FY to NGN246.41bn. We anchor our expectations on improvements in macroeconomic conditions and higher export volumes (due to reopened borders and the AfCFTA).***

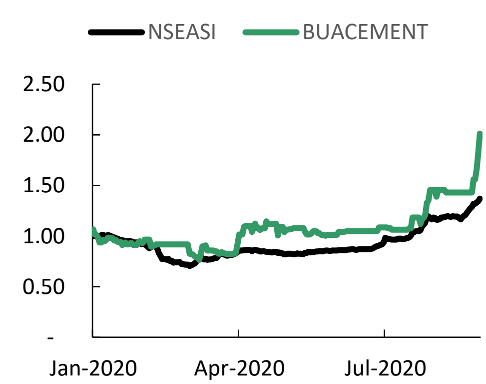
Margins Take Slight Hit

Profitability metrics were only slightly affected by cost pressures arising from a combination of elevated energy costs (+18.63%) and raw material costs (+81.24%). Gross margin for the year stood at 45.59% (vs 46.97% in 2019FY) and operating margin at 39.16% (vs 40.70% in 2019FY). However, to combat the perennial problem of high energy cost, we note the company's efforts towards fuel mix optimization (reconfiguration of Kalambaina plant to run on gas and coal as opposed to Low Pour Fuel Oil previously used), and we expect this to yield some gains subsequently. Nonetheless, exchange rate stability remains a key factor if costs would be kept in check. Regardless, the company reported a 19.36% increase in Profit after tax to NGN72.34bn (vs NGN60.61bn in 2019FY), supported by lower finance cost (-28.27% YoY) and tax benefits enjoyed under the pioneer status incentive (effective tax rate of 8.48% vs 8.49% in 2019FY). **While we expect an uptick in finance costs for 2021FY due to new debt issuance during the year, tax shields granted on Obu line 1 and Kalambaina line 2 should preserve margins.**

BUACEMENT Completes NGN100bn Bond Issuance

Like we expected in our 9M:2020 report, the company's consistent cashflow generation and decent leverage position (Interest coverage ratio of 20.02x and debt to equity of 0.08x in 9M:2020) earned it a fair credit rating (A by Agusto, AA- by DataPro). Thus, the company's successful 7-year fixed-rate senior unsecured NGN100bn bond issuance was oversubscribed by 1.38x to the tune of NGN137.82bn. This brings total debt to NGN269.33bn (vs NGN21.47bn in 2019FY) representing a net debt to EBITDA of 1.50x (DANGCEM – 0.77x and WAPCO – -0.05x). The proceed from the bond is intended to support working capital requirements and fund expansion initiatives. While the issuance raised the company's debt-to-equity ratio from 0.08x to 0.47x (DANGCEM – 0.54x and WAPCO – 0.15x), the company's liquidity position also improved (current ratio – 1.15x vs 0.64x in 2019FY) and (working capital – NGN30.53bn vs deficit of NGN34.30bn in 2019FY). Moreover, the company's ability to meet its debt obligation is not in question with an interest coverage ratio of 21.38x.

Company	BUACEMENT
Valuation	
EPS	2.14
BVPS	11.10
P/E	34.03x
P/BV	6.55x
Target EV/EBITDA	20.71x
Dec-2021 Exp. EBITDA	125.88bn
Dec 2021 Target price	**71.57**
Current Price	72.70
Up/Downside Potential	-1.55%
Ratings	**HOLD**
Key metrics	
ROE	19.24%
ROA	9.44%
Net margin	34.54%
Asset Turnover	0.34x
Leverage	1.67x
Share/Share Price Statistics	
Yr Hi	NGN85.00
Yr Lo	NGN69.95
YTD return	-6.01%
Beta	0.82
Adjusted Beta	0.88
52-wk average volume	1,018,503
Shares outstanding	33.86bn
Market cap [NGN]	**2.46trn**
Financial year end	December
Most Recent Period (MRP)	2020FY



Recommendation

In arriving at our 2021FY target price, we project an EBITDA of NGN125.88bn and applied a forward EV/EBITDA of 20.71x (African peer average of 23.73x). Having adjusted for a net debt of NGN183.35bn, we arrived at a target price of **NGN71.57**, a downside potential of -1.55% when compared to its opening price of NGN72.70 on April 14, 2021. Hence, we rate the counter as a **HOLD**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs							Min	65.75
		EBITDA per share					Max	77.63
		3.57	**3.64**	**3.72**	**3.79**	**3.87**		
Target EV/EBITDA	**19.88x**	65.75	67.12	68.49	69.86	71.23		
	20.30x	67.23	68.63	70.03	71.43	72.83		
	20.71x	68.70	70.14	**71.57**	73.00	74.43		
	21.12x	70.18	71.64	73.11	74.57	76.03		
	21.54x	71.66	73.15	74.65	76.14	77.63		

Financial Highlights (NGN million) BUA CEMENT PLC 2020FY

Profit & Loss Account	**2020FY**	**2019FY**	**y/y Growth**
Revenue	209,443	175,518	19.33%
Cost of Sales	113,965	93,075	22.44%
Gross Profit	95,479	82,443	15.81%
Investment Income	860	157	447.52%
Other Income	376	50	647.33%
Operating Expense	15,188	14,823	2.46%
Finance cost	3,837	5,349	-28.27%
PBT	79,045	66,236	19.34%
PAT	72,344	60,610	19.36%
Balance Sheet	**2020FY**	**2019FY**	
Inventories	31,505	27,202	15.82%
Trade and Other Receivables	83,308	2,619	3080.99%
Cash and bank	123,821	15,587	694.40%
Property, Plant and Equipment	523,313	393,406	33.02%
Other Assets	4,355	31,753	-86.28%
Total Assets	**766,303**	**470,567**	62.85%
Shareholders' fund	375,955	363,697	3.37%
Trade and Other Payables	23,869	36,342	-34.32%
Tax Liabilities	922.428	813.724	13.36%
Total Liabilities	390,348	106,869	265.26%

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We estimate a stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

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BUY: Target Price of the stock is above the current market price by at least 1**0 percent**

HOLD: Target Price of the stock ranges between **-10 percent and 10 percent** from 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
14-Apr-2021	72.70	49.01	71.57	SELL	HOLD
01-Jan-2021	79.00	42.03	49.01	HOLD	SELL
11-Nov-2020	45.40	42.03	42.03	HOLD	HOLD

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BUA Cement Plc	

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