

## Fuel Mix Optimization to Improve Margins

### Tighter Discount Policy Fuels Topline

BUA Cement Plc (**BUACEMENT**) started the year on strong footing as it recorded a growth of 13.38% in revenue to NGN61.19bn in Q1:2021 (vs NGN53.97bn in Q1:2020), 136bps shy of our forecast of **NGN62.02bn**. We acknowledge the company's tighter discount policy as a key contributor to the topline growth. Also, our assessment is that the performance was aided by the improved macroeconomic environment, which supported construction activities. This is seen in strong cement demand that has been witnessed since the eased lockdown in Q3:2020. In Q1:2021, the company sold 1,374 Kilotons of cement - up by 3.46% from 1,328 Kilotons in Q1:2020. **For the rest of the year, our outlook on the macroeconomic environment remains positive and as such we expect local cement demand to remain supportive of performance. Another tailwind we see on the horizon is the potential revenue to be realized from export sales (unlike in Q1:2021 where export activities were largely muted). Thus, we maintain our revenue forecast of NGN246.41bn for 2021FY.**

### Profitability Unimpeded by Cost Pressures

The company continued to grapple with the effects of last year's Naira devaluations on its imported fuel options (LPFO and coal) and higher gas prices. Energy costs (*which accounted for 37.13% of production costs during the period*) rose sharply by 11.92%YoY and led the 6.89% expansion in direct costs to NGN32.06bn (vs NGN29.99bn in Q1:2020). However, the growth in direct costs was outpaced by that of revenue, resulting in a lower cost to sales of 52.39% (vs 55.57% in Q1:2020). Consequently, gross profit improved to NGN29.13bn (vs NGN23.98bn in Q1:2020). **The long-awaited Kalambaina plant reconfiguration project is scheduled to come onstream in Q2:2021, according to management. Our prognosis is that this will aid the company in optimizing its fuel mix and should subsequently improve margins.**

As the company continued its drive to penetrate new markets, OPEX increased by 15.78% in the period on account of higher distribution expenses (+37.02%) and salaries (+45.79%). Nonetheless, Operating Profit (NGN25.65bn) bettered Q1:2020 record of NGN20.98bn by 22.23%. Although taxation for the period was higher (effective tax rate of 9.71% vs 1.69% in Q1:2020), due to a deferred tax charge of NGN2.11bn, profit before tax advanced by 13.02% to NGN22.37bn.

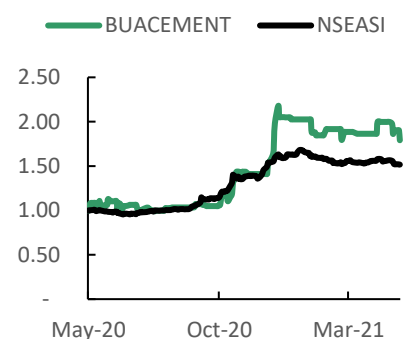
### Shareholder Return Remains Attractive

While Net margin was largely unchanged (36.55% vs 36.67% in Q1:2020), the company's annualized ROE improved by 89bps to 20.46%. This can be attributed to a better financial leverage of 1.91x (vs 1.67x in 2020FY) despite Asset turnover dropping to 0.29x (vs 0.34x in 2020FY). In a similar vein, annualized ROA improved by 105bps to 10.49%

### Recommendation

We retain our EBITDA projection of NGN125.88bn and an EV/EBITDA of 20.71x. Thus, we maintain our 2020FY target price of **NGN71.57**. This presents a downside potential of 3.74% when compared to its closing price of NGN74.25 on May 26, 2021. Hence, we maintain our **HOLD** rating on the counter.

Company	BUACEMENT
<b>Valuation</b>	
Trailing EPS	2.21
BVPS	11.76
Trailing P/E	33.56x
P/BV	6.31x
Target EV/EBITDA	20.71x
Dec-2021 Exp. EBITDA	125.88bn
Dec 2021 Target price	<b>71.57</b>
Current Price	74.25
Up/Downside Potential	-3.74%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	20.46%
ROA	10.49%
Net margin	36.55%
Asset Turnover	0.29x
Leverage	1.91x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN85.00
Yr Lo	NGN69.95
YTD return	-4.01%
Beta	0.51
Adjusted Beta	0.67
52-wk average volume	1,130,606
Shares outstanding	33.86bn
Market cap [NGN]	<b>2.37trn</b>
Financial year end	December
Most Recent Period (MRP)	Q1:2021



**Chart 1: Sensitivity Analysis**

		Sensitivity Analysis of Dec-2021 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	<b>71.57</b>	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) – Q1:2021**

<b>Profit &amp; Loss Account</b>	<b>Q1:2021</b>	<b>Q1:2020</b>	<b>y/y Growth</b>
Revenue	61,192	53,969	13.38%
Cost of Sales	32,058	29,992	6.89%
Gross Profit	29,134	23,977	21.51%
Net Finance cost	878,734	854,822	2.80%
Other Income	22,810	37,247	-38.76%
Operating Expense	3,507	3,029	15.78%
PBT	24,770	20,129	23.06%
PAT	22,366	19,790	13.02%
<b>Balance Sheet</b>	<b>Q1:2021</b>	<b>2020FY</b>	
Inventories	129,046	108,270	19.19%
Trade and Other Receivables	33,601	35,194	-4.53%
Cash and bank	147,871	145,835	1.40%
Property, Plant and Equipment	1,377,311	1,390,687	-0.96%
Other Assets	433,411	342,465	26.56%
<b>Total Assets</b>	<b>2,121,240</b>	<b>2,022,451</b>	<b>4.88%</b>
Shareholders' fund	971,160	890,970	9.00%
Trade and Other Payables	398,415	349,388	14.03%
Tax Liabilities	98,004	59,781	63.94%
Total Liabilities	1,150,080	1,131,481	1.64%

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**Company Name:** BUA Cement Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
26-May-2021	74.25	71.57	71.57	HOLD	HOLD
14-Apr-2021	72.70	49.01	71.57	SELL	HOLD
01-Jan-2021	79.00	42.03	49.01	HOLD	SELL

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BUA Cement Plc	

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