

Focus on Nigerian Market Proves Profitable

Topline Lifted by Higher Ex-Factory Price and Volume Growth

In H1:2021, WAPCO recorded a total revenue of NGN145.96bn (vs NGN120.54bn in H1:2020), representing a growth of 20.30%YoY. This was driven by increases in both sales from cement (+19.26%YoY), and aggregates and concretes (+83.49%YoY). Although, the revenue decline in Q2:2020 may have played a part in magnifying the growth number this year, impressive volume growth over H1:2021 (10.00%YoY) amid higher ex-factory prices (+8.00%YoY) were the main drivers. For context, cement sales in Q2:2021 bettered Q2:2019 (pre-pandemic reference period) performance by 22.83%. **Barring any significant economic setback from the emergence of the delta strain of COVID-19, we maintain our positive outlook for the company's sales in 2021. We expect cement demand to remain strong in Nigeria given the scope for infrastructure investments that exists, and the opportunity presented by concrete-based roads. However, volumes this year could be limited by an already stretched operational capacity pending the completion of the Ashaka plant revamp. The Ashaka plant debottlenecking should unlock 2MTPA in capacity. We also expect higher ex-factory price (projection of NGN45,000 per tonne for 2020FY) to drive topline growth. Thus, we project a turnover of NGN259.88bn by 2021FY (previously NGN251.65bn).**

Lower Net Finance Cost Enhances Overall Profitability

The company's production cost increased by 23.02%YoY in H1:2021, outpacing the growth in revenue for the period. Thus, cost to sales increased slightly to 66.87% from 65.40% in H1:2020). The company continues to implement its health, cost, and cash initiative, with the latest move being the addition of 50 Liquefied Natural Gas (LNG) powered trucks to its fleet. **This development is projected to yield cost benefits and reduce the company's carbon footprint in the medium term.** Although, selling and distribution expenses declined by 6.20%YoY, Operating expenses for the period (NGN10.62bn) was higher by 13.27%YoY, on account of increased administrative expenses (+17.12%YoY). This puts the OPEX-to-sales ratio at 7.33% vs 7.78% in H1:2020. However, EBITDA was up by 12.96%YoY when we consider the NGN521.50 impairment write back (11.81%YoY ex. impairment writeback), implying an EBITDA margin of 36.52% vs 38.89% in H1:2020. The company also recorded significantly lower net finance cost (-43.30%YoY) and recognized a gain of NGN826.88bn from the disposal of its investment in Continental Blue Investment during the period. All of these culminated in a 27.79% improvement in Profit before tax to NGN36.75bn in H1:2021. Profit after tax also advanced by 21.40%YoY to NGN28.32 in H1:2021, resulting in a stable net margin of 19.53% (vs 19.35% in H1:2020). **For 2021FY, we expect profit after tax to settle at NGN41.98bn – an improvement of 36.19%YoY.**

WAPCO Redeems NGN33.60bn Bond

Management continued its drive to deleverage the company, with the redemption of its matured NGN33.60bn bond in June. This resulted in a financing cash outflow of NGN46.72bn in H1:2021 (vs 14.73bn in H1:2020). However, the company maintains a better cash position of NGN57.84bn (vs NGN53.32bn in 2020FY), due to an impressive cashflow generation (NGN54.82bn) in the period. Consequently, Liquidity ratios improved – current and quick ratio of 0.96x and 0.64x, respectively (vs 0.81x and 0.56x, respectively in 2020FY and industry average of 0.87x and 0.62x, respectively).

Recommendation

Our expectation of higher revenue per tonne prompts a revision in our EBITDA forecast for 2021FY to NGN83.44bn. We adopted an EV/EBITDA of 5.37x and adjusted for an expected net debt of -NGN24.20bn to arrive at our target price of NGN29.30. This presents an upside potential of 32.28% from its closing price on August 19th, 2021. Hence, we place a **“BUY”** rating on the ticker.

Company	WAPCO
Valuation	
Trailing EPS	2.22
BVPS	23.09
P/E	10.02x
P/BV	0.97x
Target EV/EBITDA	5.37x
Dec-2021 Exp. EBITDA	83.44bn
Dec 2021 Target price	29.30
Current Price	22.00
Up/Downside Potential	+32.28%
Ratings	BUY
Key metrics	
ROE	9.64%
ROA	7.00%
Net margin	19.53%
Asset Turnover	0.87x
Leverage	1.38x
Yr Hi	30.30
Yr Lo	18.00
YTD return	+5.23%
Beta	1.21
Adjusted Beta	1.14
Shares outstanding	16.11bn
Market cap [NGN]	354.37bn
Financial year end	December
Most Recent Period (MRP)	H1:2021

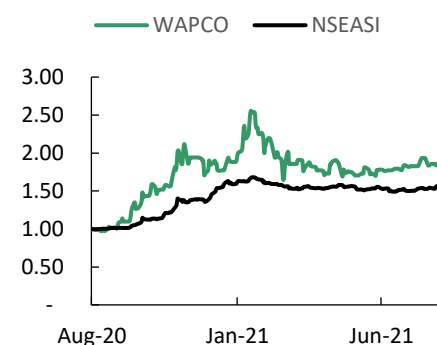


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	28.17
EBITDA per share							Max	30.50
		5.08	5.13	5.18	5.23	5.28		
Target EV/EBITDA	5.26x	28.17	28.44	28.70	28.96	29.23		
	5.31x	28.44	28.71	28.97	29.24	29.50		
	5.37x	28.76	29.03	29.30	29.57	29.84		
	5.43x	29.08	29.36	29.63	29.90	30.17		
	5.49x	29.41	29.68	29.95	30.23	30.50		

Financial Highlights and Forecasts (NGN billion)							
<i>Profit & Loss Account</i>	H1:2021	H1:2020	2021F	2022F	2023F	2024F	2025F
Revenue	145.02	120.54	259.88	277.10	299.70	307.60	317.36
Cost of sales	96.97	78.83	154.58	163.42	178.11	182.41	188.41
Gross Profit	48.04	41.71	105.30	113.67	121.59	125.18	128.96
OPEX	10.62	9.38	23.13	24.52	26.95	27.63	28.52
Other Income	0.29	0.55	1.30	1.28	1.44	1.45	1.51
EBITDA	52.96	46.34	83.44	90.41	96.05	98.98	101.91
Net Finance Cost	(2.30)	(4.05)	(0.88)	0.38	2.79	4.35	6.33
PBT	36.75	28.76	51.19	57.77	63.65	65.91	69.50
PAT	28.32	23.33	41.98	47.26	50.92	52.73	55.60

<i>Balance Sheet</i>	H1:2021	2020A	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	345.44	348.33	360.39	358.51	357.44	355.58	353.07
Total Debt	19.75	49.73	18.68	22.47	23.95	25.07	26.36
Total Assets	511.72	507.21	516.66	547.61	587.61	611.59	640.83
Total Equity	371.85	359.64	385.52	408.62	435.38	455.89	479.28
Total Current Liabilities	121.32	127.56	111.16	118.71	130.18	133.35	138.43
Non-Current Liabilities	18.54	20.02	19.98	20.29	22.05	22.35	23.12
Total Liabilities	139.86	147.58	131.14	138.99	152.23	155.70	161.55

<i>Financial Ratios</i>	H1:2021	2020A	2021F	2022F	2023F	2024F	2025F
Gross Margin	33.13%	41.56%	40.52%	41.02%	40.57%	40.70%	40.63%
EBITDA Margin	36.52%	33.24%	32.11%	32.63%	32.05%	32.18%	32.11%
Net Margin	19.53%	13.38%	16.15%	17.06%	16.99%	17.14%	17.52%
Return on Asset	7.00%	6.08%	8.12%	8.63%	8.67%	8.62%	8.68%
Return on Equity	9.64%	8.57%	10.89%	11.57%	11.70%	11.57%	11.60%
Return on Invested Capital	5.53%	10.37%	9.70%	11.74%	11.15%	11.66%	12.65%
Earnings Per Share	2.22	1.91	2.61	2.93	3.16	3.27	3.45
Asset Turnover	0.28x	0.45x	0.50x	0.51x	0.51x	0.50x	0.50x
Financial Leverage	1.38x	1.41x	1.34x	1.34x	1.35x	1.34x	1.34x
Debt to Asset Ratio	0.04x	0.10x	0.04x	0.04x	0.04x	0.04x	0.04x
Debt to EBITDA Ratio	0.37x	0.65x	0.22x	0.25x	0.25x	0.25x	0.26x
Current Ratio	0.96	0.81	0.94	1.06	1.28	1.42	1.58
Quick Ratio	0.64	0.56	0.60	0.72	0.92	1.06	1.23

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
olatunjifaniyi@meristemng.com (+234 803 446 3118)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
crmwealth@meristemng.com
Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
martinaosague@meristemregistrars.com (+234 802 303 1783)
www.meristemregistrars.com
Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
blessingogwuche@meristemng.com (+234 706 896 5173)
car@meristemng.com

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: research.meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate 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.

Ratings Specification

- 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.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

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: Lafarge Africa Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
18-Aug-2021	22.00	23.91	29.30	HOLD	BUY
6-Apr-2021	22.10	22.48	23.91	HOLD	HOLD
1-Jan-2021	21.05	19.88	22.48	HOLD	HOLD

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Lafarge Africa Plc.	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2021 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.