

## Indicators Point to Better Days

### Price Revision Supports Topline Performance.

Lafarge Africa Plc (WAPCO) delivered an impressive performance in 2021FY raking in a total revenue of NGN293.08bn (vs NGN230.57bn in 2020). This represents a growth of 27.11% YoY and beats our expectation by 16.46%. This performance also reflected growth across all business segments; cement (+26.06%), aggregates and concretes (+77.66%), and sale of mortar (+231.06%). A combination of volume growth and price increment were the tailwinds to revenue growth. While local cement demand continues to support volume growth, the inflationary environment necessitated an upward price revision by 19.20% in a bid to preserve margins. **For 2022FY, we maintain a positive outlook on the company's financial performance. We expect strong cement demand to persist hinged on expansion in economic activities and the higher CAPEX by the government. We also do not rule out a further increment in cement prices given the unrelenting rate of inflation. Thus in 2022, we project a revenue of NGN316.71bn which implies an 8.06% YoY growth.**

### Cost Saving Initiatives Powers Margins

Despite the general inflationary environment which led to increases in the cost of fuel, power, and raw materials, profitability margins were largely unyielding. The company's cost saving initiatives (Health, Cost, and Cash initiative) such as the use of alternative fuel mix were sufficient to protect margins. Thus, cost to sales ratio for the period declined slightly to 51.35% (vs. 52.79% in 2020FY). This falls short to its peer; **DANGCEM** – 39.82% but compares favorably to **BUACEMENT**– 53.33%. Also, OPEX-to-sales was marginally lower at 26.66% (vs 27.82% in 2020FY) mainly due to the introduction of 52 Liquefied Natural Gas (LNG) powered trucks which aided a reduction in freight costs. Consequently, EBITDA was up by 30.41% YoY, implying an EBITDA margin of 32.51% vs 31.68% in 2020FY. Again, net finance cost declined significantly (-58.57% YoY) owing to the pay down on the firm's debt. Thus, profit before tax advanced by 65.69% YoY to NGN51.00bn, while profit for the year surged to NGN51.00bn (vs NGN30.84bn in 2020FY), resulting in a strong net margin of 17.40% (vs 13.38% in 2020FY). **For 2022, we expect a growth of 7.68% YoY for profit after tax given the company's sustained debottlenecking activities and target of 30% substitution of alternative fuel which should enhance operational capability. However, we note the continuous rise in effective tax rate as a downside to the firm's profitability.**

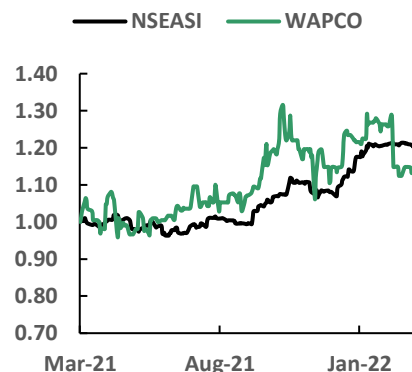
### WAPCO Repays Major Debts.

In line with the company's deleveraging efforts, the company redeemed its matured NGN33.60bn bond in June and paid down its CBN/BOI power and aviation loan. This lowered the company's total debt to NGN23.29bn (vs. NGN49.73bn in 2020FY), however, net debt to EBITDA ratio increased to 0.41x (vs 0.08x in 2020FY) mainly due to the reduction in company's cash position in 2021FY. Nevertheless, **WAPCO's** net debt to EBITDA compares favourably to its peers; **DANGCEM** – 0.73x, **BUACEMENT** – 1.41x. We infer that the company may not be nursing an expansion over the short to medium term. In our opinion, this should see to higher cash pay-outs in dividends and a possible share buyback in the future. In the meantime, we expect the company to focus on maintaining a healthy capital structure and to seek cheap debt for working capital needs. Consequently, liquidity ratios enhanced-current and quick ratio of 1.04x and 0.70x, respectively (vs 0.81x and 0.56x, respectively in 2020FY and peers: **DANGCEM**-0.62x and 0.50x, **BUACEMENT** - 1.14x and 1.01x).

### Recommendation

For 2022FY, we project an EBITDA of NGN90.41bn and an EV/EBITDA of 6.46x. Having adjusted for an expected negative net debt of -NGN38.94bn, we arrived at our target price of NGN38.65, which implies an upside potential of +62% from the closing price on 25<sup>th</sup> of March 2021. Thus, we maintain our **BUY** rating on the counter.

Company	WAPCO
<b>Valuation</b>	
EPS	NGN3.17
BVPS	NGN23.50
P/E	7.52x
P/BV	1.01x
Target EV/EBITDA	6.46x
Dec-2022 Exp. EBITDA	NGN90.41Bn
Dec 2022 Target price	<b>38.65</b>
Current Price	23.85
Up/Downside Potential	+62%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	13.47%
ROA	9.68%
Net margin	17.40%
Asset Turnover	0.84x
Leverage	0.33x
Yr Hi	27.00
Yr Lo	23.50
YTD return	+0.21%
Beta	1.07
Adjusted Beta	1.29
Shares outstanding	16.11bn
Market cap [NGN]	386.37bn
Financial year end	December
Most Recent Period (MRP)	2021FY



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2022 Target Price to key model inputs							Min	37.86
							Max	45.16
Target EV/EBITDA		5.50	5.56	5.61	6.12	6.63		
	6.59	38.57	38.97	39.38	42.23	45.07		
	6.52	38.21	38.61	39.02	41.83	44.65		
	6.46	37.86	38.25	38.65	41.44	44.22		
	6.53	38.25	38.65	39.05	41.87	44.69		
	6.60	38.64	39.04	39.45	42.31	45.16		

**Financial Highlights and Forecasts (NGN billion)**

<b>Profit &amp; Loss Account</b>	2020A	2021	2022F	2023F	2024F	2025F	2026F
Revenue	230.57	293.09	316.71	338.83	344.01	354.93	354.93
Cost of sales	121.72	150.51	134.06	144.95	149.01	153.67	153.79
<b>Gross Profit</b>	<b>108.86</b>	<b>142.58</b>	<b>182.65</b>	<b>193.88</b>	<b>195.01</b>	<b>201.26</b>	<b>201.14</b>
OPEX	64.14	78.13	79.74	83.88	85.64	88.30	88.36
Other Income	0.98	0.69	1.20	1.29	1.31	1.35	1.35
<b>EBITDA</b>	<b>45.67</b>	<b>65.11</b>	<b>104.08</b>	<b>111.26</b>	<b>110.64</b>	<b>114.27</b>	<b>114.09</b>
Net Finance Cost	8.53	3.54	(1.87)	(1.43)	(1.24)	(0.91)	(0.71)
<b>PBT</b>	<b>37.57</b>	<b>62.25</b>	<b>67.14</b>	<b>75.35</b>	<b>72.42</b>	<b>74.72</b>	<b>72.36</b>
<b>PAT</b>	<b>30.84</b>	<b>51.00</b>	<b>54.92</b>	<b>60.28</b>	<b>57.93</b>	<b>59.78</b>	<b>57.88</b>

<b>Balance Sheet</b>	2020A	2021	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	348.33	338.72	338.50	341.87	343.98	345.37	344.90
Total Debt	49.73	23.29	23.66	25.64	27.06	28.57	29.98
<b>Total Assets</b>	<b>507.21</b>	<b>526.84</b>	<b>564.85</b>	<b>601.19</b>	<b>636.13</b>	<b>665.77</b>	<b>694.17</b>
<b>Total Equity</b>	<b>359.64</b>	<b>378.56</b>	<b>430.11</b>	<b>466.22</b>	<b>491.94</b>	<b>519.51</b>	<b>545.17</b>
<b>Total Current Liabilities</b>	<b>127.56</b>	<b>131.05</b>	<b>111.89</b>	<b>110.46</b>	<b>119.37</b>	<b>120.64</b>	<b>123.22</b>
<b>Non-Current Liabilities</b>	<b>20.02</b>	<b>17.22</b>	<b>22.85</b>	<b>24.50</b>	<b>24.81</b>	<b>25.63</b>	<b>25.78</b>
<b>Total Liabilities</b>	<b>147.58</b>	<b>148.28</b>	<b>134.74</b>	<b>134.96</b>	<b>144.18</b>	<b>146.27</b>	<b>148.99</b>

<b>Financial Ratios</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	47.21%	48.65%	57.67%	57.22%	56.69%	56.70%	56.67%
EBITDA Margin	19.81%	22.22%	32.86%	32.84%	32.16%	32.19%	32.14%
Net Margin	13.38%	17.40%	17.34%	17.79%	16.84%	16.84%	16.31%
Return on Asset	6.08%	9.68%	9.72%	10.03%	9.11%	8.98%	8.34%
Return on Equity	8.58%	13.47%	12.77%	12.93%	11.78%	11.51%	10.62%
Return on Invested Capital	9.98%	13.37%	13.56%	13.45%	12.13%	13.90%	0.00%
Earnings Per Share	1.91	3.17	3.41	3.74	3.60	3.71	3.59
Asset Turnover	0.45x	0.56x	0.56x	0.56x	0.54x	0.53x	0.51x
Financial Leverage	1.41x	1.39x	1.31x	1.29x	1.29x	1.28x	1.27x
Debt to Asset Ratio	0.10x	0.04x	0.04x	0.04x	0.04x	0.04x	0.04x
Debt to EBITDA Ratio	1.09x	0.36x	0.23x	0.23x	0.24x	0.25x	0.26x
Current Ratio	0.81	1.20	1.39	1.70	1.82	2.01	2.20
Quick Ratio	0.56	0.86	1.10	1.36	1.49	1.68	1.88

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**Investment Ratings**


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- 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.

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**Movements in Price Target**


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**Company Name: Lafarge Africa Plc.**

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-Mar-2022	24.00	29.30	38.65	BUY	BUY

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Company	Disclosure
Lafarge Africa Plc.	

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