

BUACEMENT Attains New Height

Increase Sales Volume Propels Topline

BUACEMENT wrapped up 2021FY with a total revenue of NGN257.33bn (up 22.86% from 2020FY). The performance was driven by an upward review of cement prices in Q2:2021 to preserve margins which were threatened by the double whammy of inflationary pressures and FX devaluation during the year. This performance was further solidified in Q1:2022, where the cement maker bested its existing revenue highpoint, reporting a 58.50% growth in revenue to NGN96.99bn (vs NGN61.19bn in Q1:2021). The strong top-line performance was supported by an unceasing market demand, especially from the private sector which represents about 25.00%-80.00% of the firm's total demand, and contribution from the newly launched 3mmt line-4 plant in Kalambaina, Sokoto earlier in the year. All these culminated into a significant increase in sales volume by 26.20% YoY to 1,723 kilotons (from 1,374 kilotons in Q1:2021), making it the only cement manufacturer with increased sales volume in Q1:2022. Consequently, **BUACEMENT** outperformed its peers **DANGCEM** – 4,834 kilotons and **WAPCO** – c.1,400 respectively and overtook **WAPCO** to become the second largest cement producer by volume and installed capacity. **For the rest of the year, we remain optimistic about the firm's growth prospect, anchored on a sustained increase in sales volume, largely supported by contributions from the new plant. Also, we do not rule out the possibility of a further increase in price given the persistent inflationary pressures. Thus, we project a 17.89% growth in revenue to NGN303.37bn.**

Margins Undeterred by Cost Pressures.

Cost of sales surged by 19.69% YoY to NGN136.40bn in 2021FY, on the back of increased raw materials and energy costs. However, cost to sales ratio improved marginally to 53.01% (vs 54.41% in 2020FY), as the impact of higher cost was moderated by a sharper growth in topline. Similarly, in Q1:2022, cost to sales ratio bettered previous period at 50.31% (from 52.39% in Q1:2021), as revenue growth outperformed the rise in cost of sales (+52.20% YoY). Operating expenses on the other hand spiked by a staggering 71.08%YoY to NGN6.00bn from NGN3.51bn in Q1:2021 anchored on the rise in distribution costs, commissioning of Sokoto plant line-4 expenses, truck repair and maintenance expenses. Nevertheless, EBITDA margin improved to 58.71% during the period from 57.73% in Q1:2021. The cement maker reported a significant decline in finance costs by 60.72% to NGN345.95mn (vs NGN880.76mn in Q1:2021), despite the increase in the firm's debt to NGN204.05bn from NGN197.09bn in Q1:2021. This was as a result of the capitalization of interest on bank loans which will be expensed from the second quarter of the year. Thus, the firm's interest coverage improved to 122.51x from 29.12x in Q1:2021. Ultimately, after-tax-profit settled higher by 48.18% to NGN33.14bn in Q1:2022 on the back of the remarkable topline recorded. **Based on our expectation of a significant improvement in topline and the company's sustained cost saving initiatives, we expect an earnings growth of 19.98% YoY in 2022FY.**

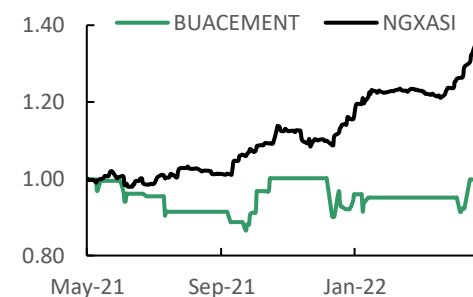
Working Capital Management Improves Liquidity Position

The firm's working capital improved to NGN35.05bn in Q1:2022 from a negative position of **NGN1.16bn** at the end of 2021 as a result of a drop in trade payables (-8.93%) and short-term borrowings (-10.16%). Consequently, current ratio and quick ratio improved to 1.24x and 0.92x (vs 0.99x and 0.72x in 2021FY) respectively signifying the firm's ability to meet its short-term obligations. However, the firm's leverage position worsened as debt-to-equity and debt-to-assets declined to 0.47x and 0.26x (from 0.50x and 0.27x at 2021FY) respectively given the increase in long term borrowing.

Outlook and Recommendation

Premised on our 2022FY target EV/EBITDA of 18.34x and an expected EBITDA of NGN147.18bn, we arrived at a Target Price of NGN76.13. This represents a 2.54% upside when compared to the ticker's closing price as on 20th May 2022. Hence, we place a **HOLD** recommendation on the ticker.

Company	BUACEMENT
Valuation	
Trailing EPS	NGN2.98
BVPS	NGN12.73
P/E	24.92x
P/BV	5.83x
Target EV/EBITDA	18.34x
Dec-2022 Exp. EBITDA	147.18bn
Dec 2022 Target price	76.13
Current Price	74.25
Up/Downside Potential	+2.54%
Ratings	HOLD
Key metrics	
ROE	7.68%
ROA	4.23%
Net margin	34.17%
Asset Turnover	0.12x
Leverage	1.82x
Share/Share Price Statistics	
Yr Hi	NGN74.25
Yr Lo	NGN68.00
YTD return	+10.74%
Beta	1.07
Adjusted Beta	1.05
52-wk average volume	401,005
Shares outstanding	33.86bn
Market cap [NGN]	2.51trn
Financial year end	December
Most Recent Period (MRP)	Q1:2022



Analyst

Samuel Banneke
samuelbanneke@meristemng.com

+234 (818) 5182859

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	74.65
						Max	95.98
Target EV/EBITDA		4.26	4.30	4.35	4.86	5.37	
	18.70	76.21	76.97	77.73	86.76	95.79	
	18.52	75.43	76.18	76.93	85.87	94.80	
	18.34	74.65	75.39	76.13	84.98	93.82	
	18.54	75.51	76.26	77.01	85.96	94.90	
	18.74	76.36	77.13	77.89	86.93	95.98	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
Revenue	61.19	96.99	303.37	364.69	443.39	550.00	654.05
Cost of sales	32.06	48.79	137.70	154.40	181.61	231.00	273.31
Gross Profit	29.13	48.20	165.67	210.29	261.78	319.00	380.74
OPEX	3.51	6.00	21.39	24.89	30.53	31.68	37.09
Other Income	0.02	0.19	2.90	3.70	4.43	4.29	5.29
EBITDA	25.65	42.38	147.18	189.10	235.68	291.62	348.93
Net Finance Cost	0.88	0.03	(2.70)	(2.01)	(1.63)	(0.84)	0.05
PBT	24.77	42.35	125.16	167.39	212.68	266.59	322.45
PAT	22.37	33.14	108.07	143.12	188.23	235.93	285.37

<i>Balance Sheet</i>	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	578.89	595.43	605.35	640.71	686.30	745.17	817.43
Total Debt	197.09	204.05	278.18	403.84	545.05	700.58	407.22
Total Assets	728.51	783.73	901.14	1,045.55	1,215.12	1,435.64	1,662.57
Total Equity	398.12	431.26	406.94	420.06	438.83	464.67	499.07
Total Current Liabilities	145.36	147.63	241.37	323.49	421.14	552.52	679.42
Non-Current Liabilities	185.04	204.84	252.83	302.00	355.16	418.46	484.08
Total Liabilities	330.39	352.47	494.20	625.49	776.30	970.97	1,163.50

<i>Financial Ratios</i>	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
Gross Margin	47.61%	49.69%	54.61%	57.66%	59.04%	58.00%	58.21%
EBITDA Margin	41.92%	43.70%	48.52%	51.85%	53.15%	53.02%	53.35%
Net Margin	36.55%	34.17%	35.62%	39.24%	42.45%	42.90%	43.63%
Return on Asset	3.07%	4.23%	11.99%	13.69%	15.49%	16.43%	17.16%
Return on Equity	5.62%	7.68%	26.56%	34.07%	42.89%	50.77%	57.18%
Return on Invested Capital	2.76%	2.87%	13.00%	14.91%	16.93%	18.11%	18.96%
Earnings Per Share	0.66	0.98	3.19	4.23	5.56	6.97	8.43
Asset Turnover	0.08x	0.12x	0.34x	0.35x	0.36x	0.38x	0.39x
Financial Leverage	1.83x	1.82x	2.21x	2.49x	2.77x	3.09x	3.33x
Debt to Asset Ratio	0.27x	0.26x	0.31x	0.39x	0.45x	0.49x	0.24x
Debt to EBITDA Ratio	7.68x	4.81x	1.89x	2.14x	2.31x	2.40x	1.17x
Current Ratio	0.99	1.24	1.17	1.21	1.21	1.21	1.21
Quick Ratio	0.72	0.92	1.03	1.10	1.11	1.12	1.11

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
isaaconaolapo@meristemng.com (+234 803 234 8275)
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)
trustees@meristemng.com

Group Business Development

saheedbashir@meristemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 3942967)
emekaikpechukwu@meristemng.com (+234 803 791 5731)
info@meristemng.com

Client Services

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

Investment Research

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: meristem.com.ng

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 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 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.

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: BUA Cement Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
20-May-2022	74.25	70.83	68.38	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
BUA Cement 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 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, based on 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 2022 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.