

### Strong Margins Despite Cost Pressure

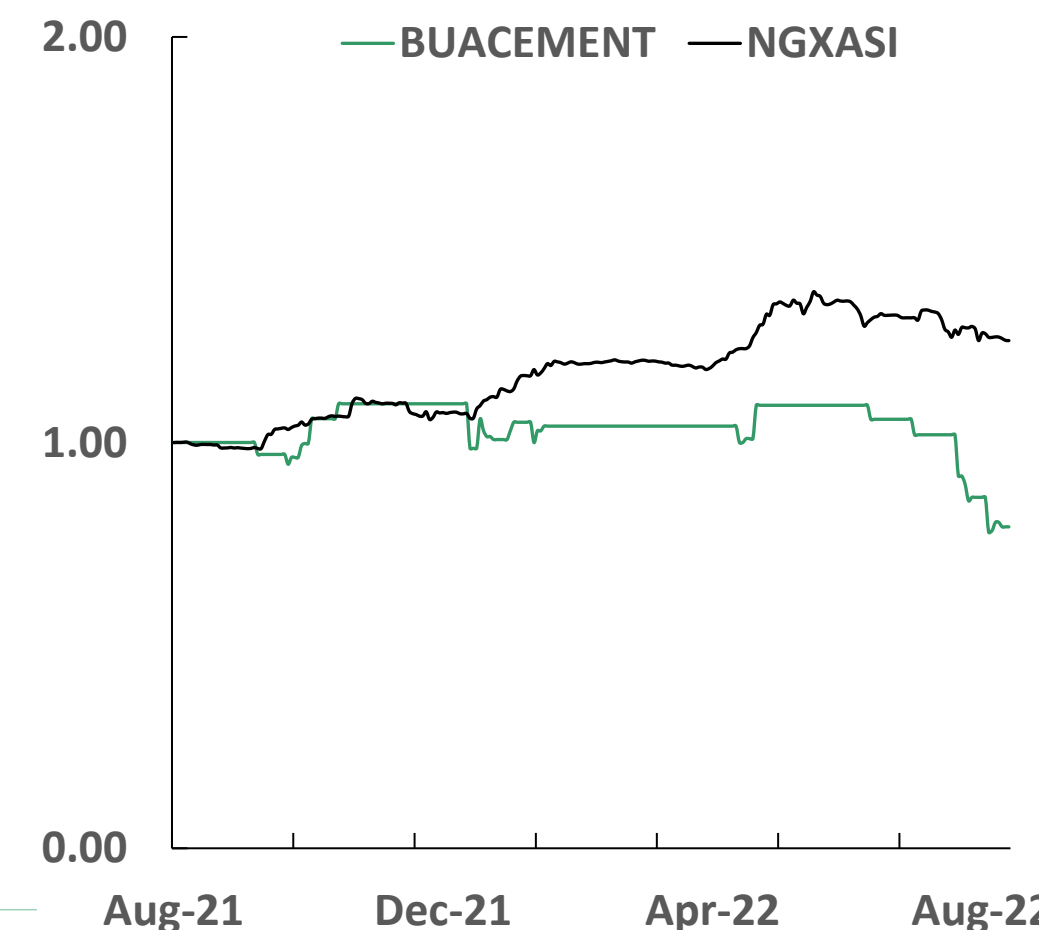
**Summary:** BUACEMENT in its financial scorecard for H1:2022, recorded revenue growth of 51.73% YoY to NGN188.56bn as a result of an increase in the sale of cements. Other income channels improved (175.76% YoY to NGN0.20bn) due to insurance claims (up 706.82% YoY). Operating expense jumped 76.32% YoY to NGN13.52bn during the period as hike in global commodity prices caused materials (+48.23%), energy (+64.66%), and other production expenses (+426.72%) to soar.

Operating profit grew by 53.86% to NGN77.73 (vs. NGN50.52 in H1:2021) which caused EBITDA margin to rise at 41.23% YoY (vs. 40.65% YoY in H1:2021). Hence, PAT improved (by 41.40% YoY to NGN61.36bn) despite a spike in net finance cost to NGN2.84bn (vs. NGN0.82bn in H1:2021). The spike in finance cost was due to the increase in interest expense and foreign exchange. **Based on our expectation of a significant improvement in top-line and the company's sustained cost saving initiatives, we maintain a positive outlook for BUA Cement in 2022FY.**

**Positives:** Gross margin improved to 48.29% YoY (vs. 46.77% in H1:2021) while interest coverage stood at 18.18x (vs. 14.71x peer average in H1:2022).

**Negative:** Working capital declined by 0.77x to NGN12.57bn due to significant rise in trade payable to NGN73.27bn (vs. NGN22.27bn in H1:2021).

Valuation		Stock Highlights	
Trailing EPS	3.19	Yr Hi	NGN74.25
BVPS	13.56	Yr Lo	NGN51.35
P/E	1.81X	YTD return	-23.42%
P/BV	3.78x	Beta	1.06
Target PE	18.34x	Adjusted Beta	1.04
Dec-2022 Exp.		Shares outstanding	33.86bn
EBITDA per Share	4.35	Market cap [NGN]	1.76trn
Dec 2021 Target price	<b>NGN76.13</b>	Financial year end	December
Current Price	NGN52.00	Most Recent Period	H1:2022



Sensitivity Analysis of Dec-2022 Target Price to key model inputs							
						Min	74.65
						Max	95.98
		4.26	4.30	4.35	4.86	5.37	
Target EV/EBIT DA	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	<b>76.13</b>	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	

**Recommendation: BUY TP: 76.13 CP: 52.00 UPP: 46.40%**

#### Financial Highlight (NGN'bn)

Profit and Loss Account	H1:2022	H1:2021	Y/Y Growth
Revenue	188.56	124.27	51.73%
Cost of Sales	(97.50)	(66.15)	47.38%
Gross Profit	91.05	58.12	56.67%
OPEX	(13.52)	(7.66)	76.32%
Other Income	0.20	0.07	175.76%
EBITDA	77.73	50.52	53.86%
PBT	74.89	49.70	50.69%
PAT	61.36	43.39	41.40%

Balance Sheet	H1:2022	2021A	YtD Growth
Property, Plants and Equip.	635.70	578.89	9.81%
Total Debt	195.98	197.09	(0.56%)
Total Assets	861.04	728.51	18.19%
Total Equity	459.48	398.12	15.41%
Non-Current Liabilities	203.68	185.04	10.08%
Total Liabilities	401.56	330.39	21.54%

#### Key Metrics

Profitability Ratio	H1:2022	2021A	3-yr Hist. Avg
Return on Asset	31.31%	5.96%	11.99%
Return on Equity	13.35%	10.90%	26.56%
Net Margin	89.20%	34.92%	35.62%

Liquidity Ratio	H1:2022	H1:2021	3-yr Hist. Avg
Current Ratio	1.11x	0.99x	1.17x
Quick Ratio	0.87x	0.72x	1.03x

Efficiency Ratio	H1:2022	H1:2021	3-yr Hist. Avg
Asset Turnover	0.07x	0.06x	0.34x

Solvency Ratio	H1:2022	H1:2021	3-yr Hist. Avg
Debt-to-Asset Ratio	0.22x	0.27x	0.31x
Debt-to-EBITDA Ratio	2.52x	3.90x	1.89x

\*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals



### Revenue Growth Supports Margins

**Summary:** Lafarge Africa (WAPCO) improved its revenue by 28.67% YoY to NGN186.58bn in H1:2022. The rise in topline was impacted by all-round growth across the Cement (+28.19%), Concretes (+45.27%) and other products (+73.79%) of the business.

However, in line with industry trend, production cost rose by 24.78% YoY to NGN90.51bn as variable cost (which represents 65.17% of total cost of sales) spiked (by 51.52% YoY) premised on the hike in global commodity prices and soaring inflation. Nevertheless, cost-to-sales ratio moderated to 48.51% (50.02% in H1:2021) due to drop (+19.53%) in fixed costs.

Similarly, operating expenses spiked by 36.24% YoY to NGN47.76bn as the company doubled down on campaign activities for its products and recorded an increase in distribution expenses (+41.30% YoY). However, operating profit improved by 27.02% to NGN48.54bn (vs. NGN38.21bn in H1:2021) resulting from a positive topline highlighted earlier. Consequently, after-tax profit advanced by 32.09% to NGN37.41bn (vs. NGN28.32bn in H1:2021) causing a rise in net margin to 20.05% YoY (vs. 19.53% YoY in H1:2021)

**Positives:** The interest coverage ratio rose to 25.21x in H1:2022 from 13.81x in H1:2021 which indicates the company is in a good position to cover its debts obligations. Gross margin also improved to 51.49% (vs. 49.98% in H1:2021)

**Negative:** Earnings quality as a ratio of cash receipt from operating activities dropped to 1.25x (vs. 1.94x in H1:2021). EBITDA margin declined to 26.02% (vs. 26.35% in H1:2021).

**Recommendation: BUY TP: 38.65 CP: 23.95 UPP: 61.38%**

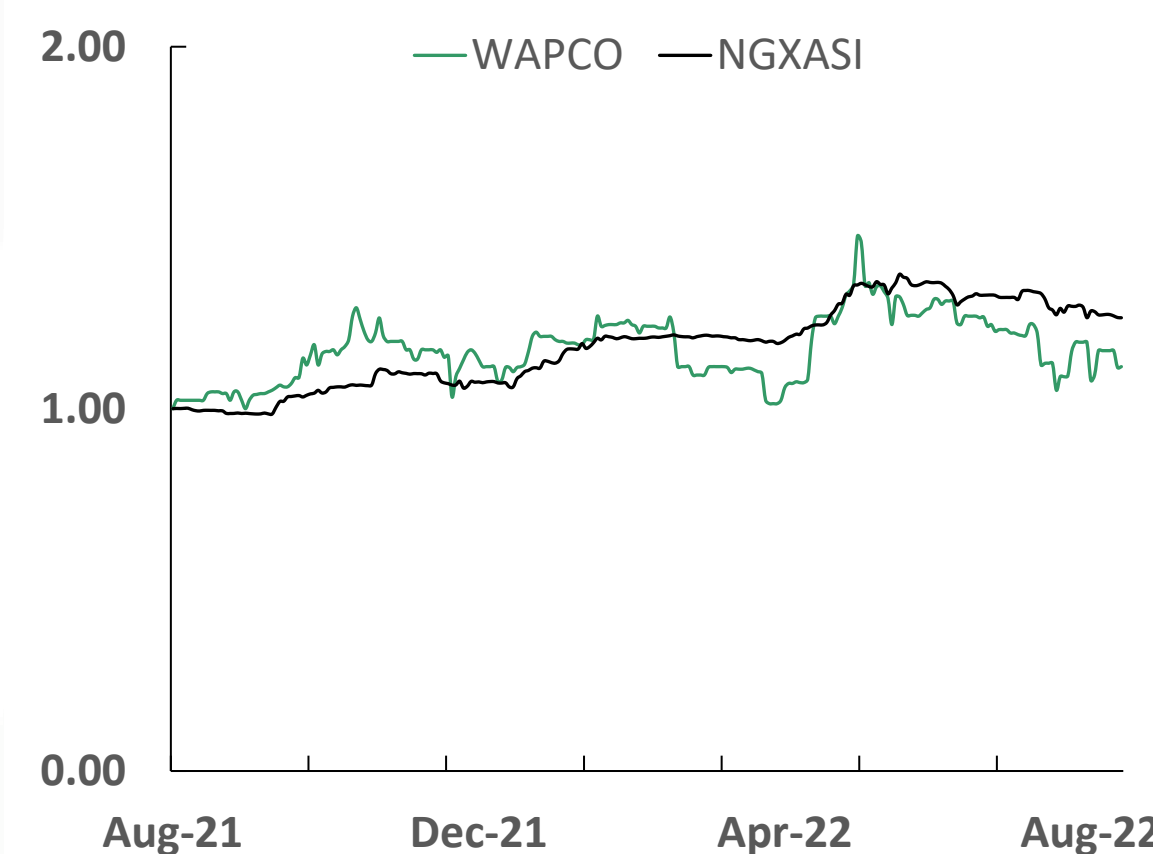
#### Financial Highlight (NGN'bn)

Profit and Loss Account	H1:2022	H1:2021	Y/Y Growth
Revenue	186.58	145.01	28.67%
Cost of Sales	(90.51)	(72.54)	24.78%
Gross Profit	96.07	72.47	32.55%
OPEX	(47.76)	(35.06)	36.24%
Other Income	0.19	0.29	31.86%
EBITDA	48.54	38.21	27.02%
PBT	46.87	36.74	27.57%
PAT	37.41	28.32	32.09%

Balance Sheet	H1:2022	2021A	YtD Growth
Property, Plants and Equip.	334.82	338.72	(1.15%)
Total Debt	26.88	23.28	15.44%
Total Assets	568.02	526.83	7.82%
Total Equity	399.86	378.56	5.63%
Non-Current Liabilities	16.15	17.22	(6.20%)
Total Liabilities	168.16	148.27	13.41%

Valuation	Stock Highlights
Trailing EPS	3.73
BVPS	24.82
P/E	6.41x
P/BV	0.96x
Target EV/EBITDA	6.46x
Dec-2022 Exp.	
EBITDA per Share	5.61
Dec 2021 Target price	NGN38.65
Current Price	NGN23.95
Yr Hi	31.75
Yr Lo	21.80
YTD return	0.00%
Beta	1.42
Adjusted Beta	1.28
Shares outstanding	16.11bn
Market cap (NGN)	385.78trn
Financial year end	December
Most Recent Period	H1:2022



Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	37.86
						Max	45.16
		5.50	5.56	5.61	6.12	6.63	
Target EV/EBITDA	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	<b>38.65</b>	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	

#### Key Metrics

Profitability Ratio	H1:2022	2021A	3-yr Hist. Avg
Return on Asset	6.59%	5.38%	6.29%
Return on Equity	9.36%	7.48%	8.85%
Net Margin	20.05%	19.53%	12.69%

Liquidity Ratio	H1:2022	2021A	3-yr Hist. Avg
Current Ratio	1.04x	1.04x	0.91x
Quick Ratio	0.70x	0.70x	0.59x

Efficiency Ratio	H1:2022	2021A	3-yr Hist. Avg
Asset Turnover	0.33x	0.28x	0.48x

Solvency Ratio	H1:2022	2021A	3-yr Hist. Avg
Debt-to-Asset Ratio	0.05x	0.04x	0.09x
Debt-to-EBITDA Ratio	0.57x	0.63x	0.13x

\*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals



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**Company Name:** BUA Cement Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-Aug-2022	51.35	76.13	-	BUY	BUY
25-May -2022	74.25	70.83	76.13	BUY	BUY

**Company Name:** Lafarge Africa Plc (WAPCO)

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
25-Aug-2022	23.95	38.65	-	BUY	BUY
25-May -2022	28.05	38.65	38.65	BUY	BUY

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Company	Disclosure
BUA Cement Plc	
Lafarge Africa Plc (WAPCO)	

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