

Positive Performance Despite Cost Pressures

Growth in Sales Volume Strengthens Top line Performance

BUA Cement Plc (**BUACEMENT**) recorded strong revenue growth of 40.28% (to NGN360.99bn) in 2022FY. The remarkable performance reflects the increase in sales volume, upward price revision (as inflationary pressures mounted) and market expansion outside Nigeria. Specifically, **BUACEMENT** was the only listed cement player in Nigeria that recorded an increase in sales volume in 2022 as its volume dispatched increased to 6,300 kilotons in 2022 from 5,400 kilotons in 2021 (driven by added volume from the additional installed capacity of 3 million metric ton per annum from the new line-4 in Sokoto). Consequently, **BUACEMENT** outperformed its peers, overtaking **WAPCO** (c. 5,861 Kilotons) to become the second largest cement producer by volume and installed capacity. Similarly, the firm's exporting activities is gradually gathering momentum as sales outside the Nigerian market improved by +87.74% YoY. However, we note that the firm's operation in Nigeria remains the major contributor to topline (98.79%), while its operations outside Nigeria contributed 1.21%. Also, across its various business segments, sale of bagged cement was the major contributor to topline (99.47%) while the sale of bulk cement made up the rest (0.53%). **We expect BUACEMENT to sustain its positive performance in 2023FY. This is on the back of the firm's plan to leverage its newly increased production capacity to boost sales volumes. This is also anchored on the expected increase in cement demand from the local market and the possibility of a further increase in price given the persistent inflationary pressures. Hence, we project a 11.53% YoY growth in revenue to NGN402.60bn in 2023.**

Soaring Cost Pressures Weakens Margins

Despite the firm's cost-saving initiatives (introduction of liquified natural gas (LNG) to the fuel mix and installation of a 50MW gas power plant), its production cost expanded (+45.12% YoY to NGN197.94bn) leading to uptick in cost to sales ratio (54.83% vs. 53.01% 2021FY). The major drivers for the increase in costs include energy consumption (+78.09% YoY), raw materials (+9.06%), and operations and maintenance charges (+45.35% YoY). As a result, operating margin fell to 35.93% (vs. 40.50% in 2021FY) which is below **DANGCEM** 36.20% and above **WAPCO** 22.56% operating margins. Similarly, **BUACEMENT** operating expenses (OPEX) spiked (+86.67% YoY) particularly due to the rise in selling, distribution and administrative expenses as foreign exchange losses (adverse exchange rate movement), acquisition of additional trucks and higher fuel costs drove OPEX higher. The firm also recorded significant growth in net finance cost (+693.56% YoY) as interest repayment on bank loans and debt security soared, dragging the firm's interest coverage ratio to 12.23x (vs. 61.10x in 2021FY). Nevertheless, expansion in revenue outweighed the growth in total cost and supported the firm's earnings (+12.13% YoY to NGN101.96bn), although net margin weakened 28.25% (vs. 35.00% in 2021) it was higher than peers (**DANGCEM** 23.62%, **WAPCO** 14.21%). **Premised on our expectation of a significant improvement in topline, projected decline in global energy prices by World Bank in 2023 and the company's commitment to expanding its alternative fuel sources, we expect an earnings growth of 11.62% YoY in 2023FY.**

Poor Working Capital Management Impacts Liquidity

The firm's liquidity position weakened as the current ratio, quick ratio and cash ratio fell to 0.77x, 0.56x and 0.25x (vs. 0.99x, 0.72x and 0.46x in 2021FY) below the industry average of 0.98x, 0.73x and 0.39x. This was as a result of decrease in cash position (-22.93%), a jump in trade payables (+250.62%) and significant increase short term borrowings (+102.70%) as the firm took on more loans. Thus, the firm's working capital further worsened to **NGN59.80bn** in 2022 from **NGN1.16bn** at the end of 2021. **We opine that the sustained weakness in the firm's liquidity position could pose a threat to the firm's ability to meet its short-term obligations.**

Recommendation

In arriving at our 2023FY target price, we project an EBITDA Per/share of NGN4.88 and adopted an EV/EBITDA of 16.45x. Thus, we arrived at a target price of **NGN80.23**, a downside potential of -18.01% when compared to its closing price on 24 March 2023.

Company **BUACEMENT**

Valuation

EPS	NGN3.46
BVPS	NGN12.14
P/E	28.77x
P/BV	8.19x
Target EV/EBITDA	16.45x
Dec-2023 EBITDA Per Share	4.88
Dec 2023 Target price	80.23
Current Price	97.85
Up/Downside Potential	-18.01%

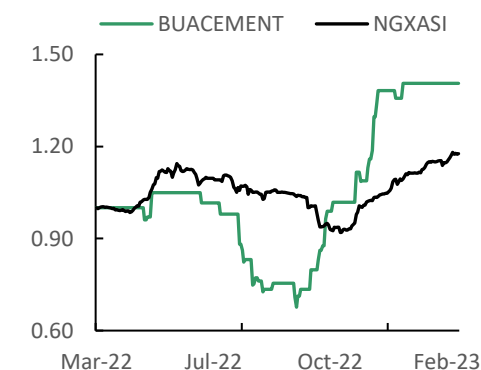
Ratings **SELL**

Key metrics

ROE	28.48%
ROA	13.40%
Net margin	32.43%
Asset Turnover	0.41x
Leverage	2.13x

Share/Share Price Statistics

Yr Hi	NGN99.45
Yr Lo	NGN96.00
YTD return	+1.74%
Beta	0.32
Adjusted Beta	0.55
Shares outstanding	33.86bn
Market cap [NGN]	3.37trn
Financial year end	December



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	78.15
						Max	99.14
		4.78	4.83	4.88	5.39	5.90	
Target EV/EBITDA	16.35		78.94	79.74	88.08	96.42	
	16.40	78.38	79.18	79.98	80.35	96.71	
	16.45	78.62	79.43	80.23	88.62	97.01	
	16.63	79.49	80.23	81.11	89.59	98.08	
	16.81	80.35	81.17	81.99	90.57	99.14	

Financial Highlights and Forecasts (NGNbillion)						
Profit & Loss Account	2021A	2022A	2023F	2024F	2025F	2026F
Revenue	257.33	360.99	402.60	443.39	550.00	654.05
Cost of sales	136.40	197.94	201.30	221.67	268.25	324.27
Gross Profit	120.92	163.04	201.30	221.72	281.75	329.77
OPEX	19.33	36.11	40.26	45.58	57.52	67.59
Other Income	2.63	2.79	4.09	4.43	4.29	5.23
EBITDA*	119.70	152.28	165.13	180.57	228.52	267.48
Net Finance Cost	1.09	8.61	11.93	9.17	5.62	2.92
PBT	103.13	120.15	133.12	149.64	198.31	237.63
PAT	90.07	101.96	113.81	132.44	175.50	201.30

Balance Sheet	2021A	2022A	2023F	2024F	2025F	2026F
Property, Plant and Equipment	578.89	613.75	654.43	699.65	758.14	830.03
Total Debt	201.72	246.20	256.95	271.67	291.66	317.96
Total Assets	728.51	926.68	1075.87	1238.34	1457.54	1687.34
Total Equity	398.12	410.34	428.25	452.79	486.10	529.93
Total Current Liabilities	145.36	336.64	343.63	401.44	524.43	648.75
Non-Current Liabilities	185.04	334.11	270.13	279.83	329.59	368.00
Total Liabilities	330.39	670.76	613.77	681.23	856.01	1016.75

Financial Ratios	2021A	2022A	2023F	2024F	2025F	2026F
Gross Margin	46.99%	54.95%	50.00%	50.01%	51.23%	50.42%
EBITDA Margin	40.50%	48.83%	41.02%	40.73%	41.55%	40.90%
Net Margin	35.00%	36.79%	28.27%	29.87%	31.91%	32.15%
Return on Asset	12.49%	14.33%	10.58%	10.69%	12.04%	12.46%
Return on Equity	22.26%	32.36%	26.58%	29.25%	36.10%	39.68%
Return on Invested Capital	19.13%	24.46%	22.84%	24.62%	30.29%	33.83%
Earnings Per Share	2.66	3.92	3.36	3.91	5.18	6.21
Asset Turnover	0.35x	0.39x	0.37x	0.36x	0.38x	0.39x
Financial Leverage	1.83x	2.26x	2.51x	2.73x	3.00x	3.18x
Debt to Asset Ratio	0.28x	0.27x	0.24x	0.22x	0.20x	0.11x
Debt to EBITDA Ratio	1.35x	1.40x	1.56x	1.50x	1.28x	1.91x
Current Ratio	0.99	0.89	1.18	1.30	1.29	1.28
Quick Ratio	0.72	0.77	1.05	1.17	1.18	1.17

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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.

Movements in Price Target

Company Name: BUA Cement Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
27-March-2023	97.85	76.13	80.23	SELL	SELL

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BUA Cement Plc	

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