

High Cost Pressure Drags Earnings

Summary: BUACEMENT sustained its growth momentum in Q1:2023 as the topline increased by +9.65% to NGN106.35bn (from NGN96.99bn in Q1:2022). The growth in net sales was fueled by price revision activities (ex-factory prices from NGN3700 to NGN4300 per bag) while sales volume dropped by 7.36% to 1.60Mt (vs 1.73Mt in Q1:2022) given the reduction in construction activities during the period.

Similarly, production cost during the quarter grew by +14.74% to NGN55.98bn (vs NGN48.79bn Q1:2022). The major drivers were material cost and consumables (up 35.03% and 47.01% respectively) reflecting the inflationary environment as well as the cash crunch witnessed in Q1:2023.

Consequently, the firm's after-tax-profit fell by 19.13% to NGN26.80bn (vs. NGN36.14bn Q1:2022) with a significant drag emanating from the surge (+100.50%) in operating expense to NGN12.03bn (from NGN6.00bn in Q1:2022) given the increase in marketing & advertisement expenses, distribution costs and depreciation charge.

Positive: Return on Asset and Asset turnover improved to 4.85% and 0.13x (vs.4.58% and 0.11x in Q1:2022) respectively.

Negative: Gross margin and EBITDA margin declined to 47.37% and 36.09% (vs. 49.69% and 43.70% in Q1:2022) respectively.

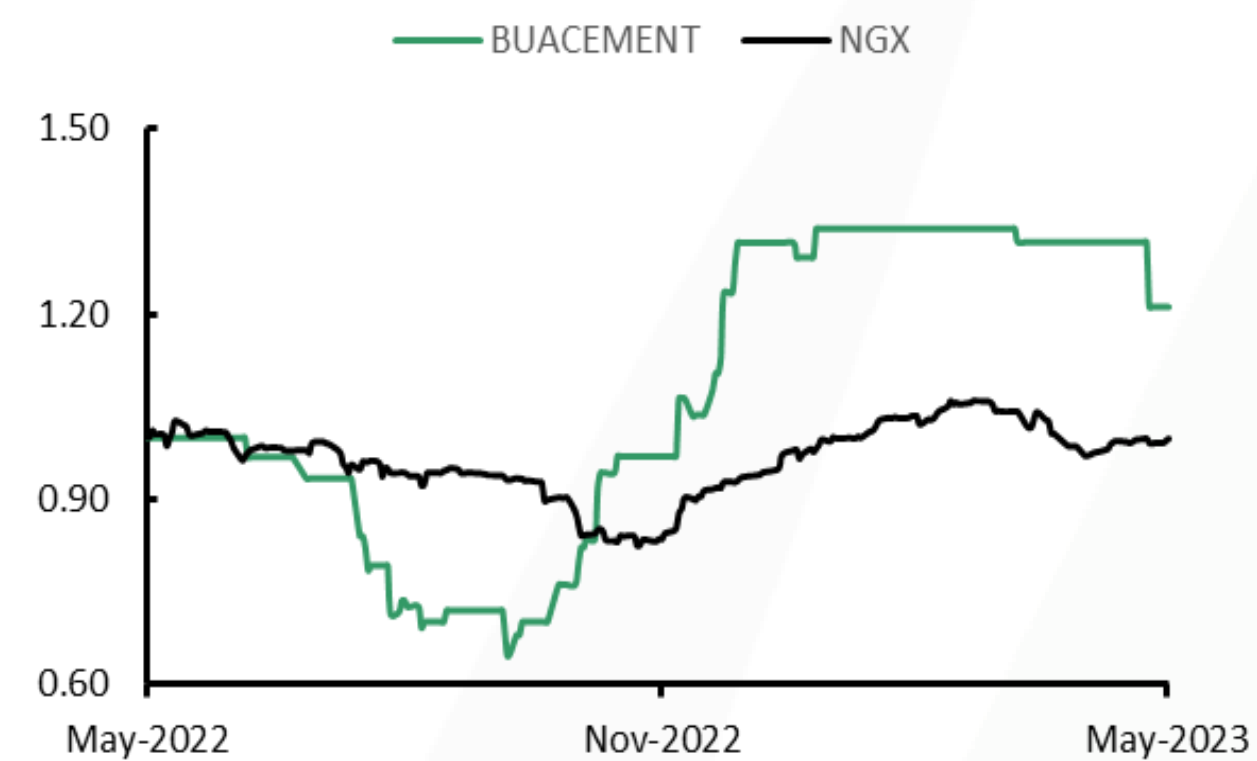
Outlook: For the rest of the year, we project a modest earnings growth for the firm given the expectation of a higher cost and operating expenses which would pressure the firms' performance.

Valuation

Trailing EPS	2.98
BVPS	7.41
P/E	32.80x
P/BV	8.06x
Target EV/EBITDA	16.45x
Dec-2023 Exp.	
EBITDA per share	4.88
Dec 2023 Target price	NGN80.25
Current Price	NGN90.00

Stock Highlights

Yr Hi	97.85
Yr Lo	90.00
YTD return	+0.10%
Beta	0.41
Adjusted Beta	0.61
Shares outstanding	33.86bn
Market cap [NGN]	3.31trn
Financial year end	December



Sensitivity Analysis of Dec-2023 Target Price to key model inputs

	EBITDA Per Share					Min	78.15
	4.78	4.83	4.88	5.39	5.90	Max	99.14
16.35	78.38	78.94	79.74	88.08	96.42		
16.40	78.62	79.18	79.98	80.35	96.71		
16.45	79.49	79.43	80.23	88.62	97.01		
16.63	79.86	80.23	81.11	89.59	98.08		
16.81	80.35	81.17	81.99	90.57	99.14		

Recommendation: SELL TP: 80.23 CP: 90.00 UPP: -12.18%

Financial Highlight (NGN'Bn)

Profit and Loss Account	Q1:2022	Q1:2023	Y/Y Growth
Revenue	96.99	106.35	+9.65%
Cost of sales	48.79	55.98	+14.74%
OPEX	6.00	12.03	+100.50%
Operating Profit	42.38	38.39	-9.41%
Net Finance Cost	0.30	2.65	+783.33%
PBT	42.00	35.46	-15.57%
PAT	33.14	26.80	-19.13%
Balance Sheet	Q1:2022	Q1:2023	Y/Y Growth
Property, Plant and Equipment	669.01	679.22	+1.53%
Total Asset	874.01	838.59	-4.05%
Total Equity	411.11	437.91	+6.52%
Total Debt	243.15	224.57	-7.64%
Total Liabilities	462.90	400.68	-13.44%

Key Metrics

Profitability Ratio	Q1:2022	Q1:2023	3-yr Hist. Avg
ROA	4.58%	4.85%	11.50%
ROE	8.06%	6.12%	21.55%
Net Margin	34.17%	25.20%	32.29%
Efficiency Ratio	Q1:2022	Q1:2023	3-yr Hist. Avg
Asset Turnover	0.11	0.13	0.36
Liquidity Ratio	Q1:2022	Q1:2023	3-yr Hist. Avg
Current Ratio	0.77	0.91	0.97
Quick Ratio	0.56	0.52	0.16
Cash Ratio	0.19	0.18	0.12
Solvency Ratio	Q1:2022	Q1:2023	3-yr Hist. Avg
Interest Coverage	1397.93	14.49	2.00
Debt to Equity	0.59	0.51	0.55
Debt to Asset	0.28	0.27	0.30

*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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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.

Movements in Price Target

Company Name: BUACEMENT

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
31-December-2023	90.00	76.13	80.23	BUY	SELL

Company Name: Bua Cement Plc

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