

## Elephant Strides Towards Lower Emission

### Topline Expansion with a Green Outlook

Lafarge Africa Plc. (**WAPCO**) recorded a stronger topline performance in H1:2023 - a growth of 5.95% YoY to NGN197.68bn (compared to NGN186.59bn in H1:2022). Sales in the period were mostly supported by higher cement price in Q2:2023 (average of NGN5300 per bag from NGN3900 per bag in Q2:2022), leading the Q2:2023 standalone revenue up by 10.29% YoY. This also helped to cushion the impact of the marginal revenue expansion in Q1:2023 (+1.37% YoY) owing to lower sales volume due to challenges brought on by the cash shortage and election-related supply chain disruptions. On a segmental basis, revenue from its cement segment (c. 97% of total revenue) shot up by 5.97% in H1:2023, aggregate and concrete revenue by +7.16%, while mortar sales plummeted by **32.45%**. The group also launched its environmentally friendly cement brand in Nigeria, named RoadCem during the period, in a move to maintain its dedication to reduce its greenhouse gas emissions. **We expect this to position the firm favorably to fulfill construction requirements in both public and private sector, thereby contributing to further revenue expansion. Going forward in 2023, we anticipate that the introduction of RoadCem, along with the newly introduced Eco-label, to positively impact WAPCO revenue performance. This expansion strategic pairing aligns with the increasing infrastructure requirements and the growing environmental consciousness. We also expect the increasing governmental infrastructural activities in the construction sector as well as further price adjustments to improve topline for the 2023FY. Hinged, our projection is for revenue to expand by 11.68% YoY to NGN416.83bn in 2023FY.**

### Margins Buckle Under Elevated Cost Pressures

**WAPCO's** production costs grew by +4.17% YoY to NGN94.29bn in H1:2023 driven by higher fixed costs (+19.49%) while variable productions costs (c.62.55% of production cost) declined marginally by 0.01%, highlighting its cost efficiencies in the period. The cost to sales ratio also improved to 47.70% (from 48.51% in H:2021) due to the higher topline expansion. In similar fashion, **WAPCO's** operating expenses reflected the elevated prices for Automotive Gas Oil (AGO) in the period shooting up by 7.89% YoY on the back of an increase in both selling and distribution (+6.97% YoY), and administration expenses (+11.24%YoY). Consequently, operating margins improved marginally to 26.45% (vs 26.01% in H1:2022), although significantly lower than peers **DANGCEM** (39.97%) and **BUACEMENT** (39.33%). We note the 24.33% reduction in finance costs despite recording higher interest-bearing liabilities (+5.75%) during the period, signifying the usage of cheaper debt alternatives. Overall, the firm recorded a profit before tax of NGN55.32bn (+17.99%) in H1:2023. However, Following the expiration of **WAPCO's** Mfamosing line II plant (in Calabar state) pioneer tax incentive, the company effective tax rate increased to 35.86% (from 20.20% in H1:2022), leading to lower profit after tax in the period (**5.16%** YoY to NGN35.48bn from NGN37.41bn in H1:2022). Profitability margins – *Net margin*, *Trailing Return on assets* and *Return on equity* – thus declined to 17.95%, 5.42% and 8.46% (from 20.05%, 6.23% and 8.99%), respectively. **We expect the firm to further adopt alternative energy sources, which should reduce production and operating expenses in 2023FY. The expiration of its pioneer tax status in 2022 could however potentially impact its tax expense compared to 2022 period. However, based on our optimistic projection for revenue, we expect a net margin of 13.51% in 2023, implying a net profit of NGN56.30bn**

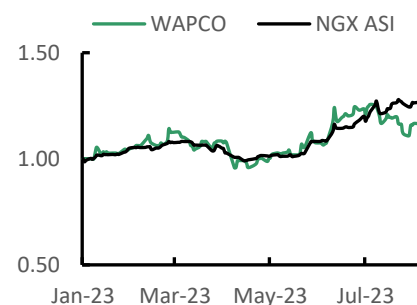
### Trade Payables Management Boosts Cash from Operations

In H1:2023, **WAPCO** sustained its positive cash flow from operations (CFO) driven by a 24.74% increase in trade payables (mostly owed to related parties). This increased the firm's earnings quality and liquidity ratios: Earnings quality, current and quick ratio increased to 2.70x, 0.89x and 0.97x (from 1.25x, 0.70x and 0.85x in 2022FY), respectively. However, the company's ability to fund current liabilities from its operations weakened, evident in the decreased operating cashflow coverage of 0.47x (vs 0.59x 2022FY). Furthermore, despite a notable rise (+96.73%) in the purchase of property, plant, and equipment (PPE), the firm's CFO-to-CapEx ratio rose to 6.89x (from 6.60x in H1:2022), highlighting the company's ability to fund its investments from internal sources, limiting the possibility of further debt raise and its riskiness to equity investors.

### Recommendation

Based on our projections of an EBITDA per share of NGN6.80 and a target EV/EBITDA of 5.07x, we arrived at our target price of NGN34.48. This reflects an upside potential of 16.68% from its closing price of NGN29.55 as of 9<sup>th</sup> October 2023. We, therefore, retain our "**BUY**" recommendation on the stock.

Company	WAPCO
<b>Valuation</b>	
EPS	3.21
BVPS	26.04
P/E	8.64x
P/BV	1.07x
Target EV/EBITDA	5.07x
Dec-2023 EBITDA per share	NGN6.80
Dec 2023 Target price	<b>34.48</b>
Current Price	29.55
Up/Downside Potential	<b>+16.68%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics-</b>	
ROE	12.89%
ROA	8.42%
Net margin	13.37%
Asset Turnover	0.59%
Leverage	1.56x
<b>Stock Highlights</b>	
Yr Hi	30.50
Yr Lo	23.00
YTD return	<b>+23.13%</b>
Beta	1.08
Adjusted Beta	1.05
Shares outstanding	16.11bn
Market cap [NGN]	398.72bn
Financial year end	December
Most Recent Period	H1:2023



**Analyst**  
**Jennifer Audu**  
[Jenniferaudu@meristemng.com](mailto:Jenniferaudu@meristemng.com)  
+2348052964933

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	28.79
						Max	40.66
EBITDA per share							
		6.30	6.55	6.80	7.05	7.30	
Target EV/EBITDA	4.57	28.79	29.93	31.08	32.22	33.36	
	4.82	30.37	31.57	32.78	33.98	35.19	
	5.07	31.94	33.21	34.48	35.74	37.01	
	5.32	33.52	34.85	36.18	37.51	38.84	
	5.57	35.09	36.48	37.88	39.27	40.66	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Revenue	186.59	197.68	416.86	479.39	551.29	633.99	729.08
Cost of sales	-90.52	-94.29	-165.02	-183.22	-207.06	-240.78	-276.46
<b>Gross Profit</b>	<b>96.07</b>	<b>103.40</b>	<b>251.84</b>	<b>296.17</b>	<b>344.24</b>	<b>393.20</b>	<b>452.62</b>
OPEX	-47.77	-51.54	-123.94	-142.79	-164.23	-189.68	-217.50
Other Income	0.20	0.43	0.50	0.48	0.28	0.32	0.36
<b>EBITDA</b>	<b>48.55</b>	<b>52.29</b>	<b>128.40</b>	<b>153.86</b>	<b>180.28</b>	<b>203.84</b>	<b>235.49</b>
Net Finance Cost	-1.67	3.03	-10.25	-11.15	-13.95	-12.18	-12.26
<b>PBT</b>	<b>46.88</b>	<b>55.32</b>	<b>83.57</b>	<b>107.53</b>	<b>125.12</b>	<b>146.64</b>	<b>172.21</b>
<b>PAT</b>	<b>37.41</b>	<b>35.48</b>	<b>56.30</b>	<b>76.72</b>	<b>87.38</b>	<b>100.55</b>	<b>118.88</b>

Balance Sheet	2022FY	H1:2023	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	341.46	343.38	353.46	357.65	365.96	427.00	438.50
Total Debt	36.59	38.69	38.20	35.36	38.27	37.62	38.20
<b>Total Assets</b>	<b>600.71</b>	<b>654.69</b>	<b>609.64</b>	<b>633.28</b>	<b>663.59</b>	<b>689.63</b>	<b>725.74</b>
<b>Total Equity</b>	<b>416.10</b>	<b>419.37</b>	<b>440.18</b>	<b>452.47</b>	<b>459.31</b>	<b>463.21</b>	<b>469.34</b>
<b>Total Current Liabilities</b>	<b>168.38</b>	<b>202.23</b>	<b>150.63</b>	<b>162.22</b>	<b>181.13</b>	<b>203.74</b>	<b>230.24</b>
<b>Non-Current Liabilities</b>	<b>16.23</b>	<b>33.10</b>	<b>18.82</b>	<b>18.59</b>	<b>23.15</b>	<b>22.67</b>	<b>26.16</b>
<b>Total Liabilities</b>	<b>184.61</b>	<b>235.33</b>	<b>169.46</b>	<b>180.81</b>	<b>204.29</b>	<b>226.42</b>	<b>256.40</b>

Financial Ratios	2022FY	H1:2023	2023F	2024F	2025F	2026F	2027F
Gross Margin	51.49%	52.30%	60.41%	61.78%	62.44%	62.02%	62.08%
EBITDA Margin	26.02%	26.45%	30.80%	32.09%	32.70%	32.15%	32.30%
Net Margin	20.05%	17.95%	13.50%	16.00%	15.85%	15.86%	16.31%
Return on Asset	8.08%	7.98%	9.30%	12.34%	13.48%	14.86%	16.80%
Return on Equity	8.99%	8.46%	12.79%	16.95%	19.02%	21.71%	25.33%
Earnings Per Share	0.33	0.22	3.49	4.76	5.42	6.24	7.38
Asset Turnover	3.22x	3.32x	0.68x	0.76x	0.83x	0.92x	1.00x
Financial Leverage	1.44x	1.56x	1.38x	1.40x	1.44x	1.49x	1.55x
Debt to Asset Ratio	6.10%	5.99%	6.27%	5.58%	5.77%	5.46%	5.26%
Debt to EBITDA Ratio	75.37%	73.99%	29.75%	22.98%	21.23%	18.46%	16.22%
Current Ratio	1.18x	1.25x	1.29x	1.25x	1.18x	0.82x	0.77x
Quick Ratio	0.86x	0.97x	0.94x	0.87x	0.80x	0.43x	0.37x

## Contact Information

### Brokerage and Retail Services

[topeoludimu@meristemng.com](mailto:topeoludimu@meristemng.com)

(+234 905 569 0627)

[adaezeonyemachi@meristemng.com](mailto:adaezeonyemachi@meristemng.com)

(+234 808 369 0213)

[contact@meristemng.com](mailto:contact@meristemng.com)

### Investment Banking/Corporate Finance

[rasakisalawu@meristemng.com](mailto:rasakisalawu@meristemng.com)

(+234 806 022 9889)

[davidadu@meristemng.com](mailto:davidadu@meristemng.com)

(+234 810 940 4836)

### Wealth Management

[funmilolaadekola-daramola@meristemng.com](mailto:funmilolaadekola-daramola@meristemng.com)

(+234 805 498 4522)

[crmwealth@meristemng.com](mailto:crmwealth@meristemng.com)

Tel: +234 01 738 9948

### Registrars

[oluseyiowoturo@meristemregistrars.com](mailto:oluseyiowoturo@meristemregistrars.com)

(+234 802 321 0561)

[www.meristemregistrars.com](http://www.meristemregistrars.com)

Tel: +23401-280 9250

### Trust Services

[damilolahassan@meristemng.com](mailto:damilolahassan@meristemng.com)

(+234 803 613 9123)

[trustees@meristemng.com](mailto:trustees@meristemng.com)

### Finance

[olasokomubo@meristemfinance.com](mailto:olasokomubo@meristemfinance.com)

(+234 803 324 7996)

[matthewawotundun@meristemfinance.com](mailto:matthewawotundun@meristemfinance.com)

(+234 802 390 6249)

### Group Business Development

[sulaimanadedokun@mersitemng.com](mailto:sulaimanadedokun@mersitemng.com)

(+234 803 301 3331)

[ifeomaanyanwu@meristemng.com](mailto:ifeomaanyanwu@meristemng.com)

(+234 802 394 2967)

[info@meristemng.com](mailto:info@meristemng.com)

### Client Services

[adefemitaiwo@meristemng.com](mailto:adefemitaiwo@meristemng.com)

(+234 803 694 3034)

[car@meristemng.com](mailto:car@meristemng.com)

### Investment Research

[praiseihansekhien@meristemng.com](mailto:praiseihansekhien@meristemng.com)

(+234 817 007 1512)

[research@meristemng.com](mailto:research@meristemng.com): [www.factset.co](http://www.factset.co)

**Corporate websites:** [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

Meristem Research can also be accessed on the following platforms:

**Meristem Research portal:** [meristem.com.ng/rhub](http://meristem.com.ng/rhub)

**Bloomberg:** MERI <GO>

**Capital IQ:** [www.capitaliq.com](http://www.capitaliq.com)

**ISI Emerging Markets:** [www.securities.com/ch.html?pc=NG](http://www.securities.com/ch.html?pc=NG)

**Reuters:** [www.thomsonreuters.com](http://www.thomsonreuters.com)

**FactSet:** [www.factset.com](http://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 of 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 several metrics and does not relate to a particular size change in one variable.

## Movements in Price Target

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

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
16-Jan-2023	25.30	-	38.65	-	BUY
10-July-2023	29.50	38.65	34.48	BUY	BUY

## 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
Lafarge Africa (WAPCO) 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 so as 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, on the basis of 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 2023 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.