

Cost Pressures Weigh on Best Q3 Topline

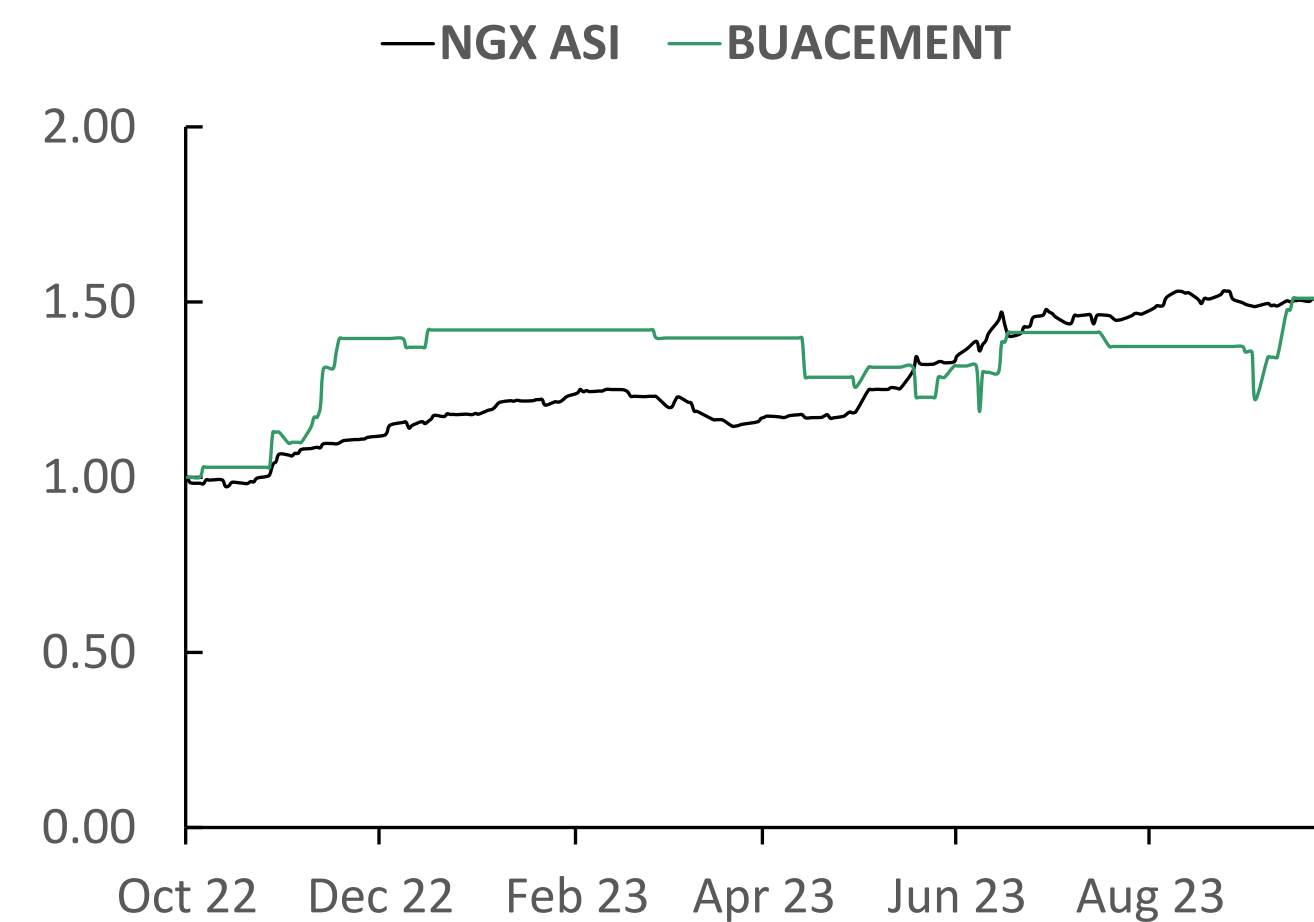
Summary: In the 9M:2023 financial report, BUA Cement Plc. (**BUACEMENT**) recorded a remarkable +27.90%YoY revenue growth reaching NGN335.86bn, (vs NGN262.59bn in 9M:2022). The growth in revenue can be attributed to both price adjustments and increased sales volumes during the period. Notably, in Q3:2023, the company's revenue surged by 55.05%YoY to NGN114.79bn, marking the highest third-quarter growth on record (since Q3:2019), despite facing challenges like reduced export volumes due to the political situation in Niger which started in July. **BUACEMENT** reported significant surge in its cost of sales (+30.53%YoY), to NGN186.44bn. This was driven by higher energy costs (+26.67%YoY), material costs (+47.35%YoY), and operations & technical expenses (+58.34%YoY). Consequently, the Cost-to-sales ratio climbed to 55.54% (vs. 54.39% in 9M:2022). Additionally, operating expenses witnessed a substantial uptick (+48.39% YoY to NGN30.86bn), primarily due to increased distribution (+75.37%) and staff costs (+52.91%). In the same vein, finance costs jumped significantly by 269.19%YoY, owing to the substantial FX loss incurred (63.78% of finance cost) and the NGN139.89bn IFC syndicated 10-year loan (obtained at SOFR+5.5%). However, **BUACEMENT** reported lower effective tax rate for the period (11.29% vs 16.66% in 9M:2022), due to the firm's tax incentive. Thus, the firm's PAT grew marginally by 2.77% YoY to NGN76.07bn (from 74.01bn in 9M:2022).

Positives: Liquidity ratios improved to 1.13x, 0.84x and 0.60x (from 0.77x, 0.56x and 0.25x in 2022Y) due to increase in inventories (+43.52%), receivables (+768.41%) which offset the impact of the +1862%Ytd increase in dues to related parties.

Negatives: Gross and EBITDA margins declined to 44.49% and 35.63% (vs 45.61% and 37.79% in 9M:2022) owing to the growth in costs. Similarly, Net margin and interest coverage ratio declined to 22.65% and 2.51x (vs 28.19% and 7.19x in 9M:2022), due to the increase in interest expense on borrowings. Additionally, the firm's leverage remained high as its Debt-to-Total asset, Debt-to-EBIT and Debt to equity ratios grew to 0.37x, 3.16x and 0.96x, (vs 0.28x, 1.87x and 0.59x in 2022FY) respectively.

Our outlook for the 2023FY remains optimistic, driven by anticipated revenue growth (expected volumes growth from Q4 "win with the King promo" sales and dry season effect). Nevertheless, we acknowledge the ongoing influence of FX losses and inflation on operating expenses, as well as the impact of tax incentives on this outlook. With these factors in mind, we project a 12.04% YoY improvement in topline performance and a 2.05% YoY increase in net profit.

Valuation		Stock Highlights	
Trailing EPS	3.01	Yr Hi	105.80
BVPS	25.81	Yr Lo	83.15
P/E	35.17x	YTD return	+8.24%
P/BV	4.10x	Beta	0.41
Target EV/EBITDA	16.48x	Adjusted Beta	0.61
Dec-2023 Exp.		Shares outstanding	33.86bn
EBITDA per Share	4.87	Market cap (NGN)	33.86trn
Dec 2023 Target price	NGN82.11	Financial year end	December
Current Price	NGN105.00	Most Recent Period	9M:2023



Recommendation: SELL TP: 82.11 CP: 105.0 UPP: -21.80%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	Y/Y Growth
Revenue	335.86	262.59	27.90%
Cost of Sales	-186.44	-142.83	30.53%
Gross Profit	149.42	119.77	24.76%
OPEX	30.86	20.79	48.43%
Other Income	1.12	0.27	310.77%
EBITDA	119.68	99.25	20.59%
PBT	85.75	89.33	-4.00%
PAT	76.07	74.01	2.77%

Balance Sheet	9M:2023	2022A	YtD Growth
Property, Plants and Equip.	707.15	669.01	5.70%
Total Debt	378.47	243.15	55.65%
Total Assets	1,016.91	874.01	16.35%
Total Equity	393.77	411.11	95.78%
Non-Current Liabilities	359.17	205.34	74.92%
Total Liabilities	624.55	462.90	34.92%

Key Metrics

Profitability Ratio	9M:2023	2022A	3-yr Hist. Avg
Return on Asset	25.46%	7.02%	11.50%
Return on Equity	19.32%	23.97%	21.52%
Net Margin	22.65%	27.98%	32.29%

Liquidity Ratio	9M:2023	2022A	3-yr Hist. Avg
Current Ratio	1.13x	0.77	0.97x
Quick Ratio	0.84x	0.56	0.76x

Efficiency Ratio	9M:2023	2022A	3-yr Hist. Avg
Asset Turnover	0.33x	0.41x	0.35x

Solvency Ratio	9M:2023	2022A	3-yr Hist. Avg
Debt-to-Asset Ratio	0.37x	0.28x	0.61x
Debt-to-Equity Ratio	0.96x	0.59x	0.30x

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs

Min	71.49
Max	93.22

Target EV/EBITDA	4.56	4.62	4.87	5.12	5.37
16.36	71.49	75.58	79.67	83.76	87.85
16.61	72.59	76.74	80.89	85.04	89.20
16.86	73.68	77.89	82.11	86.32	90.54
17.11	74.77	79.05	83.33	87.60	91.88
17.36	75.86	80.20	84.54	88.88	93.22

*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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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.

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Movements in Price Target

Company Name: BUA Cement Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
8-Nov -2023	105.00	82.11	-	SELL	SELL
21-July-2023	95.00	73.82	82.11	SELL	SELL

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