

Higher Income Tax Suppresses Earnings

Summary: The 9M:2023 financial scorecard of Lafarge Africa Plc. (WAPCO) showed that its revenue increased by 7.13% YoY, reaching NGN289.08bn (compared to NGN269.85bn in 9M:2022). In our opinion, the mild growth in topline is attributable to upward price adjustments despite lower volumes sold in the period (a negative offshoot from the naira devaluation and the inflationary macroeconomic environment). The single digit performance was chiefly anchored by the cement segment (+7.00%), which accounted for c.97% to overall revenue during the period. The aggregates and other product segments also expanded by 10.88%YoY and 14.01% YoY, respectively. On the back of its commitment to decarbonization and reducing its energy costs, variable costs (61.78% of production cost) declined marginally by 0.90%. As a result, production costs for the period only ticked up slightly by 4.39%YoY to NGN141.02bn. Cost-to-sales ratio thus moderated to 48.78% (vs 50.05% in 9M:2022). Similarly, operating expenses increased marginally (+0.89% YoY to NGN79.25bn) particularly due to the decline in distribution variable costs (-7.07% YoY), which has historically been the major driver of OPEX. Finance costs jumped significantly by 280.32%YoY, owing to the substantial FX loss incurred (81.47% of finance cost) and NGN7.89bn inflow from borrowings,. Likewise, **WAPCO** reported higher effective tax rate for the period (35.73% vs 16.77% in 9M:2022), attributable to the expiration of the firm's tax incentive in 2022. Thus, the firm's PAT declined by 12.46% YoY to NGN39.30bn (from 44.89bn in 9M:2022)

Positives: Gross and EBITDA margins improved to 58.10% and 31.07% (vs 56.45% and 28.01% in 9M:2022) owing to the slow growth in costs. Additionally, current and quick ratios improved to 1.27x and 0.99x (from 1.17x and 0.85x in 2022FY) due to increase in receivables (+32.73%), prepayments (+11.44%Ytd), offsetting the impact of the 26.95%Ytd increase in trade payables.

Negatives: Net margin fell to 13.60% from 16.64% in 9M:2022. Similarly, interest coverage ratio declined to 8.00x (vs 18.29x in 9M:2022), due to the increase in interest expense on borrowings.

Our outlook for 2023FY remains mixed, premised on expected topline expansion and energy efficiency (which is expected to improve cost efficiency). However, the continuous impact of FX losses, expiration of its tax incentive and the inflationary scene remains significant headwinds to this outlook. Based on the aforementioned, we project a 7.09% YoY increase in topline performance and an 8.89% YoY decline in Net profit.

Valuation		Stock Highlights	
Trailing EPS	3.57	Yr Hi	30.50
BVPS	26.27	Yr Lo	23.00
P/E	7.92x	YTD return	13.33%
P/BV	1.08x	Beta	1.12
Target EV/EBITDA	5.07x	Adjusted Beta	1.08
Dec-2023 Exp.		Shares outstanding	16.11bn
EBITDA per Share	6.80	Market cap (NGN)	385.78trn
Dec 2023 Target price	NGN34.84	Financial year end	December
Current Price	NGN28.00	Most Recent Period	9M:2023



Recommendation: BUY TP: 34.48 CP: 28.00 UPP: 22.92%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	Y/Y Growth
Revenue	289.08	269.85	7.13%
Cost of Sales	141.02	135.08	4.40%
Gross Profit	148.06	134.77	9.86%
OPEX	79.25	78.54	0.90%
Other Income	0.54	0.28	92.86%
EBITDA	89.82	75.59	18.83%
PBT	61.35	53.95	13.72%
PAT	39.30	44.90	-12.47%

Balance Sheet	9M:2023	2022A	YtD Growth
Property, Plants and Equip.	344.10	334.02	3.02%
Total Debt	39.37	32.51	21.13%
Total Assets	643.60	565.64	13.78%
Total Equity	423.19	407.35	3.89%
Non-Current Liabilities	32.83	15.84	107.26%
Total Liabilities	220.41	158.28	39.25%

Key Metrics

Profitability Ratio	9M:2023	2022A	3-yr Hist. Avg
Return on Asset	6.11%	8.93%	8.23%
Return on Equity	9.29%	12.89%	11.65%
Net Margin	13.60%	14.37%	15.05%

Liquidity Ratio	9M:2023	2022A	3-yr Hist. Avg
Current Ratio	1.27x	1.17x	1.01x
Quick Ratio	0.99x	0.85x	0.70x

Efficiency Ratio	9M:2023	2022A	3-yr Hist. Avg
Asset Turnover	0.45x	0.62x	0.54x

Solvency Ratio	9M:2023	2022A	3-yr Hist. Avg
Debt-to-Asset Ratio	0.06x	0.06x	0.07x
Debt-to-EBITDA Ratio	0.44x	0.33x	0.41x

*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

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				

DISCLAIMER

Analysts' 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 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.

Movements in Price Target

Company Name: Lafarge Africa Plc (WAPCO)

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
03-Nov-2023	28.05	34.48	34.48	BUY	BUY
16-Jan -2023	25.30	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 Plc (WAPCO)	

- 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 stockbroking 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 of the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interests in the company.

CONTACT INFORMATION

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
adaezeonyemachi@meristemng.com (+234 808 369 0213)
contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
davidadu@meristemng.com (+234 810 940 4836)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 803 355 0008)
crmwealth@meristemng.com (+234 01 738 9948)

Registrars

oluseyiowoturo@meristemregistrars.com (+234 802 321 0561)
www.meristemregistrars.com (+23401-280 9250)

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
trustees@meristemng.com

Group Business Development

sulaimanadedokun@mersitemng.com (+234 802 454 6575)
ifeomaogalue@meristemng.com (+234 802 394 2967)
info@meristemng.com

Investment Research

praiseihansekhien@meristemng.com (+234 817 007 1512)
research@meristemng.com

Analyst(s)

jenniferaudu@meristemng.com (+234 805 296 4933)

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
brandandcomms@meristemng.com (+23401-280 9250)

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research Portal: research.meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com