CARDINALSTONE

Nigeria | Equity Research | Industrial Goods | Sector Outlook

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Nigeria Cement

Rebounding from a tumultuous year

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NB: All prices in this report are as of 05 January 2024

As Nigeria's cement industry reflects on a challenging 2023, characterised by demand-stifling events like the cash crunch orchestrated by a poorly executed currency redesign policy, the material currency devaluation, and bouts of heavy rainfall, its hope for a gradual recovery in 2024 feeds off the return to relative macroeconomic normalcy and early gains from tough policy reforms.

In 2024, the Nigerian cement industry is expected to benefit from renewed government focus on infrastructure development and construction projects, which could stimulate demand for cement products. With increased budget allocations to critical sectors and ambitious infrastructure initiatives (N1.32 trillion to infrastructure, which represents 5.0% of the total FG 2024 budget), the construction industry is likely to experience a resurgence. Cement manufacturers, in response, are beginning to recalibrate their production strategies in the form of capacity expansion and improved efficiency to meet the anticipated rise in demand. While challenges may persist, the outlook for Nigeria's cement industry in 2024 is one of cautious optimism, with potential growth opportunities emerging amidst the recovery phase.

Volumes to recover in Q4’23E and FY’24E.

In 9M'23, cement sector volumes closed 7.1% weaker YoY at c.20.62 MT, driven by volume declines in DANGCEM's Nigerian operation (-10.86% YoY) and WAPCO (-8.94% YoY), primarily owing to the exogenous factors already highlighted. However, WAPCO had to shut down its Mfamosing plant in Q3'23 for maintenance purposes ahead of an expected demand surge in Q4'23. BUACEMENT was the only player to experience volume growth in Q3'23 (+5.4% YoY), aided by recent capacity expansions and its ability to obtain additional market share by ensuring more competitive prices vs. peers.

Looking ahead, the commencement of the dry season in December is likely to lead to volume growth in Q4'23E, even though full-year outturn (-3.5% YoY to c.28.6 MT) may come in weaker on the impact of the 9M'23 drag. For FY'24E, we anticipate a 14.6% YoY rebound in volumes to c.32.8 MT, with capacity utilisation projected to hit 52.2% vs 50.4% in FY'23E.

Figure 1: Industry capacity set to expand in FY'24E

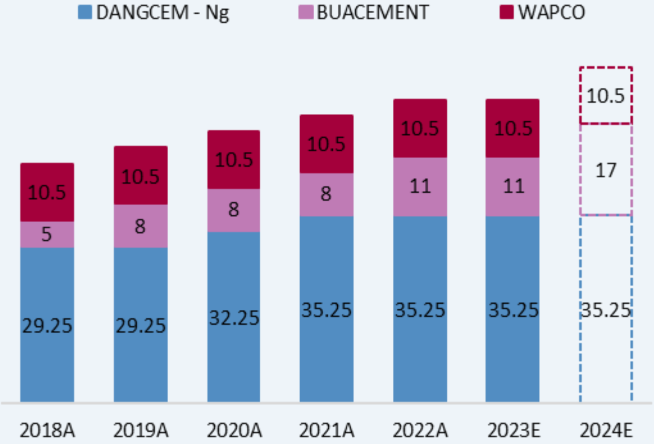
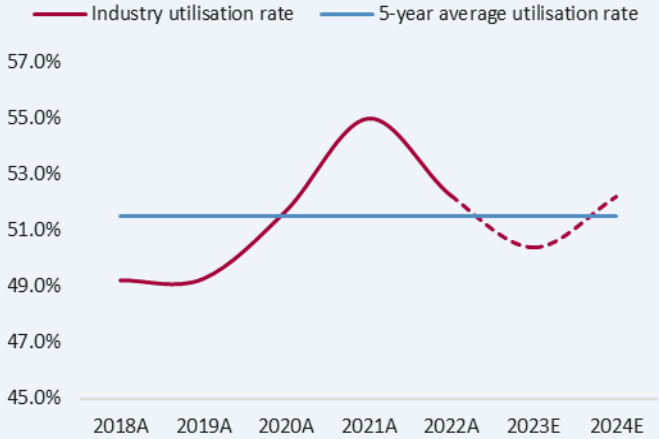


Figure 2: Capacity utilisation to pick up in FY'24E



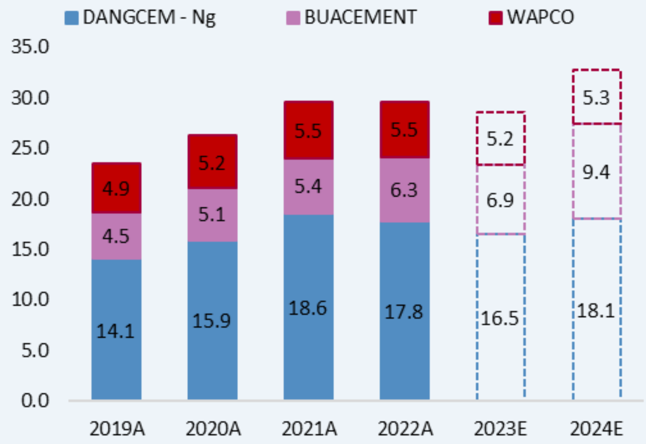
Source: Company financials, CardinalStone Research

Additionally, we expect the following key drivers to be supportive of volume growth in FY'24E;

Key driver	**Comments**
Dry season ramp up	Historical data suggest that H1s tend to be the better-performing half for cement producers, driven by seasonal factors encouraging building and construction activities. We expect players to ramp up volumes during the peak operating period from December to March.
Additional capacity in the offing	In Q1'24, BUACEMENT is expected to commission two new plants – 3.0MT Sokoto Line 5 and 3.0MT Obu Line 3 – bringing the company's total installed capacity to 17.0MT and industry capacity to 62.75MT, up from 11.0MT and 56.75MT, respectively.
Potential price war	Following BUACEMENT's ex-factory price slash to N3,500 In October 2023, we do not rule out the possibility of price reactions from other players. In addition, given public agitation about rising cement prices in the country, it is possible to see some level of government intervention to ease the high cost of cement in the country. The combined effect of the above could drive demand higher, with a knock-on effect on cement volumes.
Inauguration of the Infrastructure Support Fund (ISF)	The new administration of President Bola Ahmed Tinubu has announced the creation of an Infrastructure Support Fund (ISF) as part of a series of measures to boost the economy and ease the inflationary impact of the petrol subsidy removal. The ISF is expected to help Nigeria revamp transportation and upgrade farm-to-market roads across states. It is also expected to fund health, education, power and water projects. We expect this to take off in FY'24E, given the increased budgetary allocation to infrastructure in the Budget.

Federal Mortgage Bank of Nigeria (FMBN) recapitalization	The central focus of the new Minister of Housing and Urban Development is the plan to raise the minimum capital for the Federal Mortgage Bank of Nigeria (FMBN) to N500 billion from N250 billion previously. While specific details are yet to be provided, we anticipate some positive passthrough to cement consumption over the medium-to-long term. The FMBN recapitalisation exercise is also expected to improve access to capital for home builders and support cement consumption in FY'24E and beyond.
Road Infrastructure Tax Credit (RITC) scheme	We expect that continued private-sector participation in the RITC scheme instituted in 2019 may remain supportive of cement demand. Given that the scheme is expected to expire ten years from the commencement date, we expect more private-sector participants to continue to take advantage of the scheme to benefit from associated tax concessions.
Full AfCFTA participation to drive exports	We expect Nigeria's full participation in the AfCFTA to boost cement exports from players like DANGCEM and BUACEMENT. As of 9M'23, BUACEMENT alluded to having earned c.€7.0 million in exports and is working on capturing new markets in Africa.

Figure 3: Industry output to expand in FY'24E



Source: Company financials, CardinalStone Research

"Following BUACEMENT's ex-factory price slash to N3,500 in October 2023, we do not rule out possible price reactions from other players"

Pricing to remain elevated in FY'24E as risk of price war tapers

Barring a potential price war between players in response to BUACEMENT's ex-factory price slash, we maintain that average cement prices would remain elevated in Q4'23E and FY'24E as players aim to protect their margins from rising operating costs occasioned by still-high inflationary pressures (CardinalStone Research forecast— FY'23E: 24.00% YoY & FY'24E: 22.00% YoY) and strong volatility in the foreign exchange (CardinalStone Research forecast—FY'23E: N832.3/$ & FY'24E: N842.2/$). Interestingly, we expect the impact of BUACEMENT's lower prices to take full effect from mid-Q1'24E. A survey on the effectiveness of the price cut in October in some states – especially in Lagos, Abuja and Port Harcourt - indicated that the product was still sold at the old market price (N5,500 – N5,700 per 50kg bag) and scarce in other areas. Management explained that the scarcity of the product in some areas reflected their distances from its manufacturing plants. Given the rising concerns over the sustainability of the new pricing agenda vis-a-vis high cost and transport inflation, we forecast an 11.4% decline in BUACEMENT's revenue per tonne in FY'24 (vs c.10.0% increase in DANGCEM and WAPCO, apiece.)

Figure 4: Revenue per tonne to rise, save for BUACEMENT

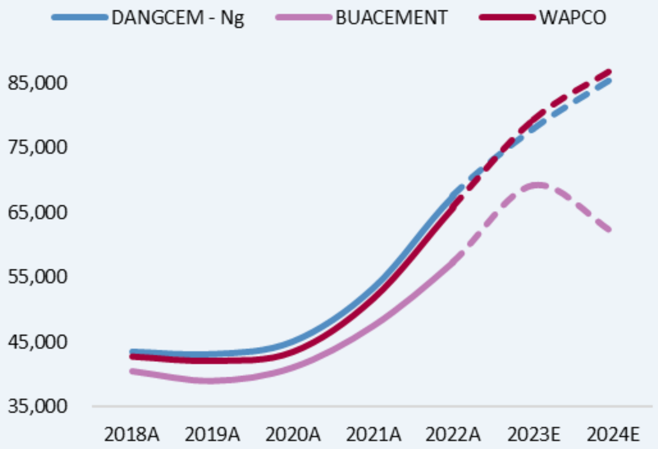
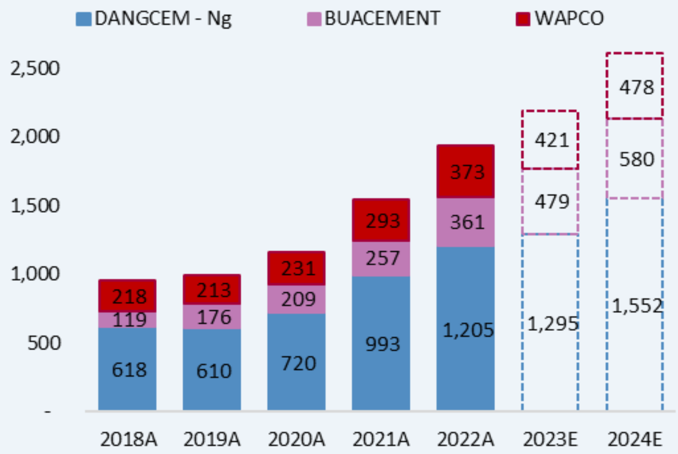


Figure 5: Revenue to rise by c.18.9% YoY in FY'24E



Source: Company financials, CardinalStone Research

Specifically, we expect BUACEMENT's revenue to grow by c.32.8% YoY and c.21.0% YoY in FY'23E and FY'24E, respectively, with capacity-induced volume growth expected to mask the effect of the short-term impact of lower revenue per tonne, induced by the price cut. In the 9M'23 investors/analysts conference call, management noted that the company was already experiencing a significant boost in sales volumes for Q4'23E, consistent with its sharp decline in its outstanding inventory.

For DANGCEM-Ng, we expect a combination of slower price growth and a substantial increase in volumes to drive the 7.4% YoY and 19.9% YoY revenue growth in FY'23E and FY'24E, respectively. Meanwhile, WAPCO is expected to maintain its focus on improving efficiency via its debottlenecking strategy to drive additional volumes. This effort and the impact of favourable pricing may lead to revenue growths of c.12.9% YoY and c.13.3% YoY in FY'23E and FY'24E, respectively. Overall, we forecast industry-wide revenue to grow by c.13.2% YoY and 18.9% YoY in FY'23E and FY'24E, respectively.

Increased adoption of natural gas likely to ease energy cost pressures in FY'24E

There is a consensus in the sector on the need to adopt locally available alternative energy sources to contain rising energy costs. Natural gas is now preferred for production (where possible) and distribution in order to mitigate the risk of global increases in other fuels. Notably, the U.S. benchmark Henry Hub spot price (Natural Gas) is expected to average about $2.84 per million British thermal units (MMBtu) in FY'24E vs 3-year average of $4.28MMBtu. This expectation is due to increases in natural gas production and high inventory levels. Hence, we expect to see some of the current distribution cost pressure ease as players increase the adoption of the relatively cheaper natural gas to AGO, especially for distribution.

At the same time, guidance from the U.S. Energy Information Administration (EIA) suggests that crude oil prices are likely to remain elevated in FY'24E. Specifically, the EIA forecasts an increase in average crude price to $83/bbl in 2024 from $78/bbl in Q4'23 on expectations that OPEC+ production cuts will prevent increases in global oil inventories and keep Brent prices above $80/bbl. Hence, the usual passthrough to fuel prices suggests that the energy cost crisis may remain a concern to non-proactive cement producers in 2024 and provides backing for the optimisation of the energy mix in the sector. Even though we expect the commencement of operations at the Dangote Refinery to lead to improved availability, we see little scope for a material reduction in energy prices in 2024.

Figure 6: FX and Inflation rates to remain volatile

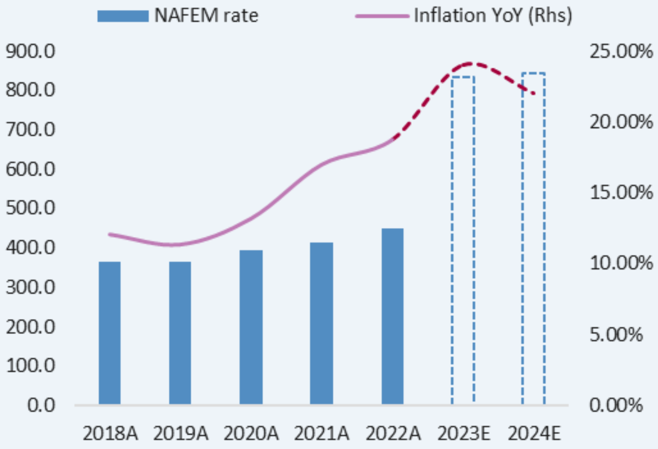
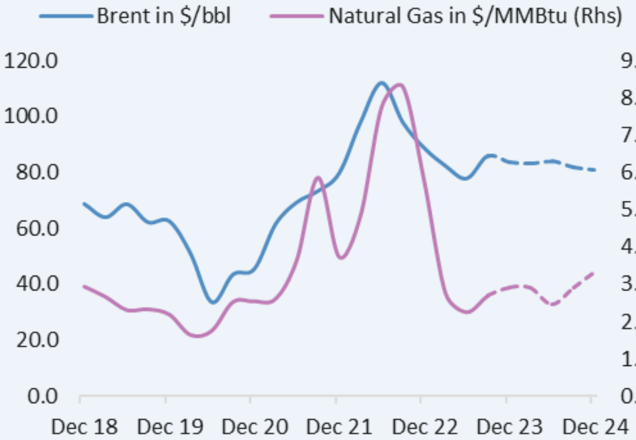


Figure 7: Energy prices remain elevated in FY'24E



Source: Company financials, CardinalStone Research

The impact of the energy mix optimisation initiative has already begun to bear early fruits, as seen in WAPCO's 9M'23 earnings report. The result showed a 9.9% YoY decline in operating expenses, stemming from a 24.6% contraction in distribution variable costs on the introduction of additional gas trucks into the fleet for product distribution. In addition, the company has started using electricity-powered trucks in Ewekoro to reduce distribution costs further. Industry leader (DANGCEM) plans to commission an alternative fuel system in its Okpella plant and institute a phased transition from diesel to CNG-powered distribution trucks in Q4'23. Similarly, BUACEMENT is looking to switch from Heavy Fuel Oil (HFO) to LNG in Sokoto operations and start building a 70MW gas power plant at Obu and Sokoto plants, alongside using CNG trucks. These efforts are likely to positively impact sector operating costs per tonne in the medium term.

Pioneer tax incentives to support bottom-line, save for WAPCO

Apart from WAPCO, other industry players are expected to benefit from lower effective tax rates as additional plant capacities are granted concessions under the pioneer tax incentive scheme. Specifically, BUACEMENT is expected to apply for pioneer tax incentives following the commissioning of its 6.0MT plants in Q1'24E. DANGCEM should also continue enjoying this concession on its 3.0MT Obajana Line 5 and 3.0MT Okpella plants. However, WAPCO may experience higher effective tax rates in the near term due to the expiration of pioneer status on some plants. Its management's aim to seek alternative avenues to lower its tax rate within the provisions available in the Finance Act may provide some relief in the medium term.

Sector Valuation

The NGX Industrial sector index is currently trading at an EV/EBITDA of 8.0x, lower than the five-year mean of 8.4x. Our view is that the discount vs history is in light of cautious investor sentiment due to the weak 9M'23 results. Nevertheless, we believe the sector is poised for recovery in FY'24E, given expectations of increased capacity, strong volumes, and favourable prices. This prognosis suggests strong ROAEs for DANGCEM (35.9%; 5-yr mean: 32.6%), WAPCO (15.8%; 5-yr mean: 9.6%), and BUACEMENT (36.3%; 5-yr mean: 23.5%).

Figure 8: BUACEMENT: EV/EBITDA lower than 4-year mean

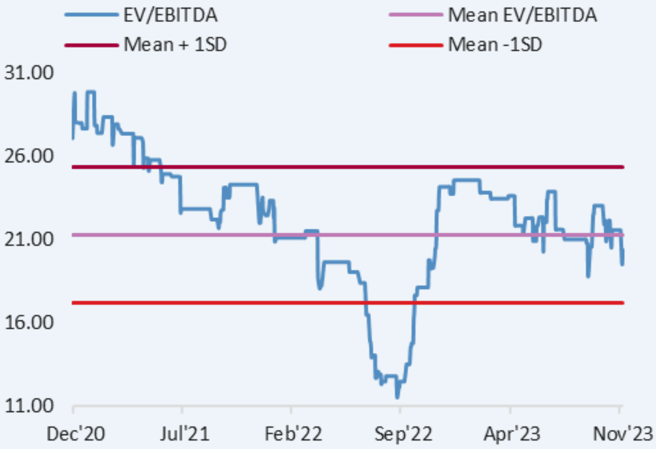
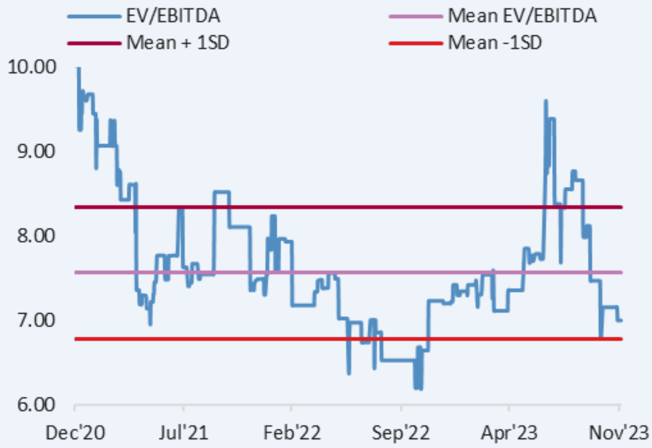


Figure 9: DANGCEM: EV/EBITDA lower than 5-year mean



Source: Capital IQ, CardinalStone Research

Figure 10: WAPCO: EV/EBITDA lower than 5-year mean

Source: Capital IQ, CardinalStone Research

Figure 11: Sector valuation summary

Industrial Goods	Ref Price (N)	Target Price (N)	Upside/ (downside)	Rating	Current PE	Current EV/ EBITDA	4-year Avg PE	4-year Avg EV/ EBITDA	LTM ROE	4-year Avg ROE	Dividend Yield
DANGCEM	325.00	375.58	+15.6%	BUY	12.52x	7.10x	12.93x	7.56x	40.70%	32.58%	6.20%
WAPCO	34.65	41.32	+19.3%	BUY	11.62x	3.57x	9.67x	3.89x	11.60%	10.36%	5.80%
BUACEMENT	102.00	95.16	-6.7%	HOLD	33.52x	21.15x	28.53x	21.24x	26.50%	21.46%	2.70%

Source: NGX, Capital IQ, CardinalStone Research

DANGOTE CEMENT PLC

BLOOMBERG: DANGCEM.NL

Nigeria recovery to spur group performance in FY’24

BUY

Target Price: N375.58
Ref Price: N325.00
Upside/(Downside): +15.6%

Nigerian recovery and strong utilisation across Africa to boost top-line

We see scope for a 4.58MT improvement in Nigerian volumes in Q4'23, aided by peak demand from December to February and barring any external shock akin to the naira scarcity of Q1'23. Despite the Q4'23 expectations, FY'23 volumes are likely to be lower by 7.0% YoY at 16.59MT on the impact of weaker 9M'23. For FY'24E, we forecast a cautious 9.0% YoY growth in output to 18.1MT in Nigerian operations, reflecting a low base effect following driven by challenges in 2023. Sales may also be supported by the ongoing "distributors promo" across various regions in the country. Thus, aided by stable prices in Nigeria and the volume above projections, we forecast a modest 7.4% YoY increase in Nigerian revenue to N1.29 trillion in FY'23 and a 19.0% YoY growth to N1.55 trillion in FY'24.

For Pan-African markets, we expect consolidation on the improvements witnessed in Q3'23 that was supported by the commencement of operations at the 0.45MT Takoradi grinding plant in Ghana and full capacity utilisation in Senegal and Ethiopia after an extended outage due to repair and maintenance activities. In addition, DANGCEM is completing its 1.5MT grinding plant in Cote d'Ivoire, which should combine with tractions in other mentioned climes to drive pan-African volumes 14.5% higher YoY to 11.43 MT in FY'23 and 5.0% YoY to 12.0MT in FY'24. Aided by a positive FX translation effect and the above volume projections, we project a 98.6% YoY surge in Pan African revenue to N824.1 billion in FY'23 and an 8.2% YoY growth to N891.3 billion in FY'24.

Market Data	DANGCEM
Market Cap (N'bn)	5,444.45
Last close price (N)	325.00
52-week high-low price (N)	380.00 - 260.00
Avg 3M daily volume (mn)	0.51

1-year price performance (rebased)

Source: NGX, CardinalStone Research

Cost reduction strategy to ease pressure on margins

In our view, pressures on OPEX are likely to moderate due to the potential impact of the projected decline in natural gas prices, gravitation to the use of alternative fuel (AF) in kilns, and the use of Compressed Natural Gas (CNG) for distribution. Hence, we see scope for an EBIT margin of c39.5% in FY'24E vs 38.3% in FY'23E.

Valuation and Rating

We retain a BUY recommendation on the stock with a 12-month Target Price (TP) of N375.58/share, which implies a potential upside of 15.6% above the reference price. According to our estimates, DANGCEM is trading on a 2024E P/E of 12.3x and EV/EBITDA multiple of 6.7x, a discount to emerging market peer multiples of 21.3x and 14.0x, respectively. We rate the investment case high based on the company's economies of scale advantage, market leadership in Nigeria, and diversification advantage.

Risks to rating and price target

- **Infrastructure projects in the offing**: Governments and international organisations continue to prioritise infrastructure development in Africa. Increased investment in roads, bridges, housing, and other construction projects would create a favourable environment for Dangote Cement. Specifically, the ongoing construction of highways between Douala and Yaounde in Cameroon; the Diam Niadio-Mbour-Kaolack road project in Senegal; and the Rufiji Dam, Mtwara Airport, and Dodoma roads construction projects in Tanzania are major projects expected to spur cement demand in the near term.
- **Increased export competitiveness**: After the foreign exchange market liberalisation, the weakened Naira is poised to enhance the competitiveness of Dangote Cement's products across export destinations. This advantage could support demand and boost export revenues even as the AfCFTA arrangement enters full swing.
- **Stronger-than-expected economic growth:** Stronger growths in Pan-African economies could drive increased construction activity and infrastructure development. Specifically, Ghana's economy is showing signs of gradual improvement with some level of stabilisation in the exchange rate on the back of high fiscal prudence aided by an IMF programme. As of Q3'23, the country recorded 2.0% YoY GDP growth with an 880bps disinflation to 26.45% in November 2023. Despite the short-term challenges, Ghana's cement industry has shown a high level of resilience, supported by pockets of new private housing projects in select urban centres of the country.
- **Competitive landscape:** While DANGCEM is the market leader in Africa, it faces competition from local and international cement manufacturers. Locally, BUACEMENT is expected to commission two new plants – 3.0MT Sokoto Line 5 and 3.0MT Obu Line 3 – that will bring its total installed capacity to 17.0MT. This aggressive growth of competition alongside a growing aggressive pricing strategy could impact the company's market share and profitability.

Figure 12: Dangote Cement Summary of financials and forecasts

Income Statement (N'million)	2021A	2022A	2023E	2024E
Revenue	**1,383,637**	**1,618,323**	**2,118,872**	**2,443,697**
COGS	(551,019)	(662,890)	(879,332)	(1,026,353)
Gross profit	**832,618**	**955,433**	**1,239,540**	**1,417,344**
Other Income	6,221	5,333	21,189	24,437
OPEX	(256,348)	(374,890)	(449,837)	(476,521)
EBIT	**582,491**	**585,876**	**810,892**	**965,260**
Net Interest	(44,125)	(61,874)	(156,980)	(169,508)
PBT	**538,366**	**524,002**	**653,912**	**795,753**
Tax	(173,927)	(141,691)	(183,095)	(222,811)
PAT	**364,439**	**382,311**	**470,817**	**572,942**
EPS	21.24	22.27	28.10	34.20
DPS (NGN)	**20.00**	**20.00**	**24.73**	**30.10**
Payout ratio	94.2%	89.8%	88.0%	88.0%
Shares outstanding	17,000,307	16,873,559	16,752,155	16,752,155

Cash Flow Statement (N'million)	2021A	2022A	2023E	2024E
Cash flow from operating activities	**596,709**	**387,835**	**808,749**	**860,643**
o/w Depreciation & amortization	100,766	120,390	137,820	161,331
o/w Changes in working capital	(60,853)	(158,203)	(40,025)	(44,285)
Cash flow from investing activities	**(126,869)**	**(126,822)**	**(555,762)**	**(442,464)**
o/w Capital expenditure	(185,814)	(65,945)	(529,718)	(488,739)
as % of sales	13.4%	4.1%	25.0%	20.0%
Cash flow from financing activities	**(332,222)**	**(373,779)**	**(497,017)**	**(630,135)**
o/w Dividends paid	(272,005)	(337,471)	(414,319)	(504,189)
o/w Debt issued/(repaid)	4,284	71,276	-	-
Opening Cash and cash equivalents (incl. O/D & FX diff.	202,225	396,609	669,260	425,230
Net change in cash	137,618	(112,766)	(244,030)	(211,956)
Closing Cash and cash equivalents	**339,843**	**283,843**	**425,230**	**213,274**

Balance Sheet (N'million)	2021A	2022A	2023E	2024E
Cash and cash equivalents	339,843	283,843	425,230	213,274
Accounts receivable	47,469	45,490	87,077	100,426
Inventories	167,205	239,563	433,643	506,147
Other current assets	318,525	454,565	497,763	572,472
Current assets	**873,042**	**1,023,461**	**1,443,713**	**1,392,319**
PP&E	1,472,859	1,527,293	1,919,191	2,246,599
Intangible Assets	5,122	6,225	16,951	14,662
Other non-current assets	40,996	58,676	115,842	115,842
Total assets	**2,392,019**	**2,615,655**	**3,495,697**	**3,769,422**
Short-term borrowings	401,393	392,378	510,091	561,101
Payables	371,224	334,899	530,008	618,624
Other short-term liabilities	303,866	294,408	385,450	413,112
Current liabilities	**1,076,483**	**1,021,685**	**1,425,550**	**1,592,836**
Long-term debt	176,562	333,498	376,853	414,538
Other long-term liabilities	155,305	181,525	213,856	213,856
Total liabilities	**1,408,350**	**1,536,708**	**2,016,258**	**2,221,230**
Shareholders' equity	965,370	1,054,369	1,454,861	1,523,614
Minority interests	18,299	24,578	24,578	24,578
Total liabilities & equity	**2,392,019**	**2,615,655**	**3,495,697**	**3,769,422**
BVPS	**56.79**	**62.49**	**86.85**	**90.95**
Net debt/(cash)	238,112	442,033	886,944	975,639

Ratio Analysis	2021A	2022A	2023E	2024E
Gross Margin	60.2%	59.0%	58.5%	58.0%
EBITDA Margin	49.4%	43.6%	44.8%	46.1%
EBIT Margin	42.1%	36.2%	38.3%	39.5%
Net Profit Margin	26.3%	23.6%	22.2%	23.4%
ROE	37.0%	35.4%	31.8%	37.0%
ROA	15.2%	14.6%	13.5%	15.2%
ROIC	25.8%	22.5%	28.0%	24.9%
ROCE	44.3%	36.8%	39.2%	44.3%
OPEX/Sales	18.5%	23.2%	21.2%	19.5%
Net debt/Equity (x)	0.2	0.4	0.3	0.5
Net debt/EBITDA (x)	0.3	0.6	0.5	0.7
Sales/Assets (x)	0.6	0.6	0.6	0.6
Assets/Equity (x)	2.4	2.4	2.4	2.4
Interest cover (x)	8.9	4.5	3.9	4.5
Tax Rate	32.3%	27.0%	28.0%	28.0%
Revenue YoY Growth	33.8%	17.0%	30.9%	15.3%
EBITDA YoY Growth	43.5%	3.3%	34.4%	18.7%
EPS YoY Growth	31.6%	4.8%	26.2%	21.7%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	15.3	14.6	11.6	9.5
P/BV (x)	5.7	5.2	3.7	3.6
EV/EBITDA (x)	8.4	8.4	6.2	5.5
Dividend Yield	6.2%	6.2%	7.6%	9.3%

Source: Company financials, CardinalStone Research estimates.

Note: NGN in millions (except per-share data). The fiscal year ends in December. o/w - out of which

LAFARGE AFRICA PLC

BLOOMBERG: WAPCO.NL

Going-Green agenda to support margins

BUY

Target Price: N41.32

Ref Price: N34.65

Upside/(Downside): +19.3%

Onward with asset debottlenecking strategy

For Q4'23, we expect a strong recovery in volumes after a weak Q3'23 performance (lowest quarterly performance since Q4'20) following the resumption of operations in the Mfamosing plant, which was shut down for maintenance in Q3'23. Management's decision to carry out major maintenance activities on the plant was in order to prepare to take advantage of strong demand in the peak season of cement demand (typically Q4s and Q1s). Despite this expected volume in Q4'23 (30.8% QoQ), full-year outturn is likely to come in 6.0% weaker YoY at 5.17MT, primarily due to the Q3 maintenance issues.

Going into FY'24E, revenue will likely be driven by modest growth in volumes (+3.0% YoY to 5.33MT) as the company stays on the path of a debottlenecking strategy. We expect this strategy to hold more promise in the long term, with associated top-line gains likely to be minimal in the near term. Elsewhere, prices are likely to remain favourable (+6.0% YoY), supporting our sales forecast of N460.14 billion.

Market Data	WAPCO
Market Cap (N'bn)	558.14
Last close price (N)	34.65
52-week high-low price (N)	34.10 - 23.00
Avg 3M daily volume (mn)	2.54

1-year price performance (rebased)

Source: NGX, CardinalStone Research

Lower distribution costs to support margins

WAPCO is beginning to reap the rewards of sustainability in what is called the 'Going Green Agenda" as it ramps up efforts to replace its entire fleet of diesel trucks with CNG and electricity-powered trucks for distribution. Recall from the Q3'23 earnings results that the company's lower OPEX stemmed from a 24.6% decline in distribution variable costs due to the introduction of additional CNG trucks into the fleet. In addition, the company launched its pilot electric-powered truck in its cement operations in Ewekoro, Ogun State. We expect this to continue to ease distribution-related costs and, by extension, support margins.

High effective tax rate to pressure bottom line

Among its peers, WAPCO is the only player to have stopped benefiting from the pioneer incentives. Hence, with a reversion to a higher tax rate, we expect to see linked charges rise going forward even as the company's taxable earnings increase. Without any specifics, management mentioned taking steps to take advantage of other avenues to trim effective tax rates, with the Road Infrastructure Tax Credit (RITC) scheme looking like a viable option.

Valuation and Rating

We raise our 12-month TP to N41.32 (previously N35.71) and retain a BUY rating on the counter. Our 12-month TP implies a potential upside of 19.3% relative to the reference price. Our analysis shows that WAPCO is trading at attractive multiples, including a 2024E P/E of 8.5x and an EV/EBITDA multiple of 3.1x, which are at significant discounts to those of emerging market peers (25.8x and 12.8x, respectively).

Risks to rating and price target

- **Inability to deliver on debottlenecking strategy**: The company has no plans to invest in any additional capacity for now. Instead, it focuses on debottlenecking its existing capacity and improving operations. However, if the company fails in this strategy, the negative impact on revenue and market share could be material.
- **Currency devaluation and inflationary pressures**: In Q3'23, the company recorded a 1,094.7% YoY surge in net finance expense, driven by a substantial N12.4 billion in net foreign exchange loss as a result of the company's balance of letters of credit. The combination of high inflation and volatility in the currency market remains a considerable risk to our projections.

Figure 13: Lafarge Africa's summary of financials and forecasts

Income Statement (Nm)	2021A	2022A	2023E	2024E
Revenue	**293,086**	**373,245**	**421,448**	**460,137**
COGS	(150,506)	(177,023)	(202,295)	(220,866)
Gross profit	**142,581**	**196,222**	**219,153**	**239,271**
Other Income	687	557	843	920
OPEX	(78,160)	(112,585)	(116,320)	(115,034)
EBIT	**65,107**	**84,194**	**103,676**	**125,157**
Net Interest	(2,853)	(14,449)	(13,579)	(8,554)
PBT	**62,254**	**69,745**	**90,097**	**116,603**
Tax	(11,251)	(16,097)	(34,687)	(48,973)
PAT	**51,004**	**53,647**	**55,410**	**67,630**
EPS	3.17	3.33	3.44	4.20
DPS (NGN)	**2.00**	**2.00**	**2.07**	**2.52**
Payout ratio	63.2%	60.1%	60.1%	60.1%
Shares outstanding	16,108	16,108	16,108	16,108

Cash Flow Statement (Nm)	2021A	2022A	2023E	2024E
Cash flow from operating activities	**72,617**	**100,715**	**135,565**	**101,492**
o/w Depreciation & amortization	31,432	24,784	23,695	24,249
o/w Changes in working capital	(25,108)	1,399	21,907	1,060
Cash flow from investing activities	**(17,891)**	**(21,698)**	**(32,081)**	**(33,808)**
o/w Capital expenditure	22,576	23,254	29,501	32,210
as % of sales	7.7%	6.2%	7.0%	7.0%
Cash flow from financing activities	**(60,071)**	**(11,551)**	**(52,369)**	**(52,014)**
o/w Dividends paid	(27,310)	(14,535)	(32,872)	(36,859)
o/w Debt issued/(repaid)	(36,046)	(18,700)	-	-
Opening Cash and cash equivalents (incl. FX diff.)	55,402	50,933	118,398	169,513
Net change in cash	(5,344)	67,466	51,115	15,670
Closing Cash and cash equivalents	**50,057**	**118,398**	**169,513**	**185,183**

Balance Sheet (Nm)	2021A	2022A	2023E	2024E
Cash and cash equivalents	50,057	118,398	169,513	185,183
Accounts receivable	7,197	6,354	6,928	7,564
Inventories	45,010	53,043	55,423	65,957
Other current assets	34,311	18,483	21,989	24,006
Current assets	**136,575**	**196,279**	**253,854**	**282,710**
PP&E	338,722	341,459	347,265	355,225
Intangible Assets	714	91	103	112
Other non-current assets	50,828	62,883	68,700	74,890
Total assets	**526,838**	**600,711**	**669,922**	**712,938**
Short-term borrowings	20,805	35,062	33,430	31,513
Payables	103,177	126,817	155,185	169,431
Other short-term liabilities	7,070	6,503	9,158	9,158
Current liabilities	**131,053**	**168,383**	**197,773**	**210,102**
Long-term debt	2,482	1,530	1,459	1,375
Other long-term liabilities	14,742	14,696	32,050	32,050
Total liabilities	**148,278**	**184,609**	**231,282**	**243,528**
Shareholders' equity	378,561	416,102	438,640	469,411
Total liabilities & equity	**526,838**	**600,711**	**669,922**	**712,938**
BVPS	**23.50**	**25.83**	**27.23**	**29.14**
Net debt/(cash)	(26,770)	(81,806)	(134,625)	(152,295)

Ratio Analysis	2021A	2022A	2023E	2024E
Gross Margin	48.6%	52.6%	52.0%	52.0%
EBITDA Margin	35.0%	29.5%	30.2%	32.5%
EBIT Margin	22.2%	22.6%	24.6%	27.2%
Net Profit Margin	17.4%	14.4%	13.1%	14.7%
ROE	13.5%	12.9%	12.6%	14.4%
ROA	9.7%	8.9%	8.3%	9.5%
ROIC	11.3%	9.4%	8.6%	9.8%
ROCE	14.4%	14.7%	16.1%	18.2%
OPEX/Sales	26.7%	30.0%	27.6%	25.0%
Net debt/Equity (x)	-0.1	-0.2	-0.3	-0.3
Net debt/EBITDA (x)	-0.3	-0.7	-1.1	-1.0
Sales/Assets (x)	0.6	0.6	0.6	0.6
Assets/Equity (x)	1.4	1.4	1.5	1.5
Interest cover (x)	12.3	5.3	5.8	9.5
Tax Rate	18.1%	23.1%	38.5%	42.0%
Revenue YoY Growth	27.1%	27.3%	12.9%	9.2%
EBITDA YoY Growth	33.9%	7.3%	15.8%	17.3%
EPS YoY Growth	65.4%	5.2%	3.3%	22.1%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	10.9	10.4	10.1	8.3
P/BV (x)	1.5	1.3	1.3	1.2
EV/EBITDA (x)	5.2	4.3	3.3	2.7
Dividend Yield	5.8%	5.8%	6.0%	7.3%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

BUA CEMENT PLC

BLOOMBERG: BUACEMENT.NL

New capacity to drive additional market share capture

HOLD

Target Price: N95.16

Ref Price: N102.00

Upside/(Downside): (-6.7%)

Market Data	BUACEMENT
Market Cap (N'bn)	3,454.16
Last close price (N)	102.00
52-week high-low price (N)	107.00 - 81.00
Avg 3M daily volume (mn)	1.21

1-year price performance (rebased)

Source: NGX, CardinalStone Research

Price slash to support volumes: Unlike its peers in the industry, BUACEMENT was able to maintain a consistent volume growth in 2023 (+5.37% YoY as of 9M'23) despite the myriad of macroeconomic challenges. With plans to roll out an additional 6.0MT capacity by Q1'24E, the company expects to capture even more market share following its ex-factory price slash in October 2023. On engagement with management, the company highlighted the significant boost in sales volume since the announcement, evidenced by declining inventory. It also expects even better outcomes in the near term, especially in the peak season of cement demand (December to February).

In responding to the scarcity of its products at current low prices in some markets, management eased concerns and noted the potential for slight variation in prices across regions given their relative proximities to the company's facilities. Elsewhere, the company was able to export 74,000 tons of cement as of 9M'23 (vs 9M'22: 62,000), earning €7.0 million (9M'22: c.€5.50 million) from Niger Republic. Nonetheless, exports to Niger were halted towards the end of Q3 owing to geopolitical challenges. Management expects these exports to resume when the border is reopened but is, in the interim, exploring other opportunities in new markets across Africa. Consequently, we forecast cement volume growths of c.10.0% and c.35.00% for FY'23 and FY'24, respectively.

Focus on business efficiency: The company has resorted to sourcing some vital raw materials locally, as well as reaching agreements with some foreign suppliers to settle significant portions of its obligations in Naira to moderate FX dependence. Management alluded to sourcing the bulk of its FX needs from the parallel market and that it would actively monitor the market to ensure the sourcing of foreign exchange at relatively good rates. The company holds the view that the most challenging phase has passed, considering the extent of FX losses incurred to date. Additionally, there is optimism regarding the initiatives undertaken by the Federal Government to address and stabilize the currency situation.

Elsewhere, management highlighted the completion of a payment integration project with all Nigerian banks in the form of a software application aimed at improving order processing for direct customers and distributors as well as the accuracy of payment confirmation.

Valuation and Rating. We have a 12-month TP of N95.16/s and an unchanged HOLD rating. Our TP implies a potential total return of -3.5% at our reference price. According to our estimates, BUACEMENT is trading on a 2024E P/E of 27.2x and EV/EBITDA multiple of 17.6x, which are at premiums to emerging market peer multiples of 25.8x and 12.8x, respectively. However, we believe the company's rapid growth story is being priced in, especially in light of capacity expansion plans and its ability to capture additional market share, evidenced by consistent volume growth.

Risks to rating and price target

- **Pricing**. Given the recent reduction in ex-factory prices aimed at expanding market share, there is a potential risk associated with price volatility. The strategic decline in prices seeks to capture a larger market segment; however, market conditions or external factors may lead to unexpected price fluctuations within the cement industry, especially a potential price war led by the market leader. In addition, other factors like fluctuations in production costs could impact cement pricing in a manner that deviates from initial expectations.

- **Slower market share capture.** The potential market share capture expected to offset the impact of lower prices might take time. Hence, BUACEMENT could lose on the volume and pricing front for an extended period following unanticipated variations in construction demand and the inability to pull additional customers due to high switching costs. Even well-planned pricing strategies may encounter unforeseen market forces. Therefore, continuous monitoring and adaptation to changing market conditions will be essential to manage this risk effectively.

- **Currency devaluation and inflationary pressures:** In Q3'23, the company recorded a material net foreign exchange loss of N24.8 billion, which resulted in a PBT decline of 35.4%, depressing the PBT margin by 11.4ppts to 8.1%. We recognize the margin-pressuring impact of currency devaluation as an inherent risk to our costs forecast, considering that about 30.0% of production costs are FX -linked, especially energy. The combination of high inflation and currency volatility remains a considerable risk to our projections.

- **Improved gas supply to ease production & distribution costs**. Management highlighted the addition of CNG-powered trucks to its distribution fleet, which it believes can deliver lower carbon emissions and reduce reliance on diesel-powered trucks.

- **Region insecurity.** BUACEMENT is the major cement producer in the North-West region of Nigeria, which has experienced insecurity in recent years. The risk posed here is the threat of disruption to operations, vandalism of BUACEMENT's plants and equipment, and possible disruptions to LNG supply to BUACEMENT and product haulage to its customers.

Figure 14: BUA Cement's summary of financials and forecasts

Income Statement (N'million)	2021A	2022A	2023E	2024E
Revenue	**257,327**	**360,989**	**479,285**	**579,793**
COGS	(136,390)	(197,944)	(263,607)	(336,280)
Gross profit	**120,937**	**163,045**	**215,678**	**243,513**
Other Income	2,628	2,786	2,109	2,332
OPEX	(19,340)	(36,111)	(41,698)	(41,745)
EBIT	**104,225**	**129,720**	**176,090**	**204,100**
Net Interest	(1,351)	(9,566)	(21,578)	(14,749)
PBT	**102,873**	**120,154**	**154,512**	**189,352**
Tax	(12,794)	(19,143)	(21,632)	(30,296)
PAT	**90,079**	**101,011**	**132,880**	**159,055**
EPS	2.66	2.98	3.92	4.70
DPS (NGN)	**2.60**	**2.80**	**3.22**	**3.85**
Payout ratio	77.7%	87.2%	82.0%	82.0%
Shares outstanding ('000)	33,864.35	33,864.35	33,864.35	33,864.35

Cash Flow Statement (N'million)	2021A	2022A	2023E	2024E
Cash flow from operating activities	**154,009**	**149,574**	**191,003**	**225,380**
o/w Depreciation & amortization	15,344	22,135	25,243	25,956
o/w Changes in working capital	34,445	(5,827)	31,198	25,621
Cash flow from investing activities	**(58,077)**	**(102,275)**	**(72,422)**	**(37,300)**
o/w Capital expenditure	(57,614)	(102,285)	(79,561)	(46,383)
as % of sales	22.4%	28.3%	16.6%	8.0%
Cash flow from financing activities	**(157,453)**	**(61,628)**	**19,696**	**(94,230)**
o/w Dividends paid	(70,000)	(88,047)	(108,962)	(130,425)
o/w Debt issued/(repaid)	(72,895)	41,467	135,283	96,875
Opening Cash and cash equivalents (incl. FX diff.)	123,859	62,377	48,047	186,323
Net change in cash	(61,521)	(14,330)	138,277	93,850
Closing Cash and cash equivalents	**62,338**	**48,047**	**186,323**	**280,173**

Balance Sheet (N'million)	2021A	2022A	2023E	2024E
Cash and cash equivalents	62,338	48,047	186,323	280,173
Accounts receivable	38,017	80,708	85,352	79,424
Inventories	39,068	52,468	59,324	63,524
Other current assets	4,776	16,548	0	0
Current assets	**144,199**	**197,770**	**331,000**	**423,121**
PP&E	578,888	669,013	723,332	743,760
Intangible Assets	5,343	7,139	11,982	14,495
Other non-current assets	77	89	150	150
Total assets	**728,507**	**874,012**	**1,066,464**	**1,181,526**
Short-term borrowings	39,810	80,695	64,565	106,541
Payables	22,278	78,112	86,665	110,558
Other short-term liabilities	83,266	98,753	124,641	124,641
Current liabilities	**145,355**	**257,561**	**275,872**	**341,740**
Long-term debt	43,685	44,740	193,696	248,595
Other long-term liabilities	141,350	160,598	161,865	127,530
Total liabilities	**330,391**	**462,899**	**631,433**	**717,865**
Shareholders' equity	398,117	411,113	435,031	463,661
Total liabilities & equity	**728,507**	**874,012**	**1,066,464**	**1,181,526**
BVPS	**11.76**	**12.14**	**12.85**	**13.69**
Growth	*5.9%*	*3.3%*	*5.8%*	*6.6%*
Net debt/(cash)	21,157	77,389	71,938	74,963

Ratio Analysis	2021A	2022A	2023E	2024E
Gross Margin	47.0%	45.2%	45.0%	42.0%
EBITDA Margin	46.5%	42.2%	41.8%	39.5%
EBIT Margin	40.5%	35.9%	36.7%	35.2%
Net Profit Margin	35.0%	28.0%	27.7%	27.4%
ROE	22.6%	24.6%	30.5%	34.3%
ROA	12.4%	11.6%	12.5%	13.5%
ROIC	16.6%	17.3%	15.1%	14.5%
ROCE	17.9%	21.0%	22.3%	24.3%
OPEX/Sales	7.5%	10.0%	8.7%	7.2%
Net debt/Equity (x)	0.0	0.1	0.1	0.1
Net debt/EBITDA (x)	0.2	0.5	0.4	0.3
Sales/Assets (x)	0.4	0.4	0.4	0.5
Assets/Equity (x)	0.6	0.9	1.1	1.3
Interest cover (x)	61.1	12.3	26.6	7.7
Tax Rate	12.7%	16.7%	14.0%	16.0%
Revenue Growth	22.9%	40.3%	32.8%	21.0%
EBITDA Growth	23.1%	27.2%	31.7%	14.3%
EPS Growth	24.3%	12.1%	31.6%	19.7%

Valuation	2021A	2022A	2023E	2024E
P/E (x)	38.3	34.2	26.0	21.7
P/BV (x)	8.7	8.4	7.9	7.4
EV/EBITDA (x)	29.0	23.2	17.6	15.4
Dividend Yield	2.5%	2.7%	3.2%	3.8%

Source: Company financials, CardinalStone Research

Note: N in millions (except per-share data). The fiscal year ends in December. o/w - out of which

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Hold +0.00% to +14.99% expected share price performance

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Lafarge Africa Plc	M
BUA Cement	

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