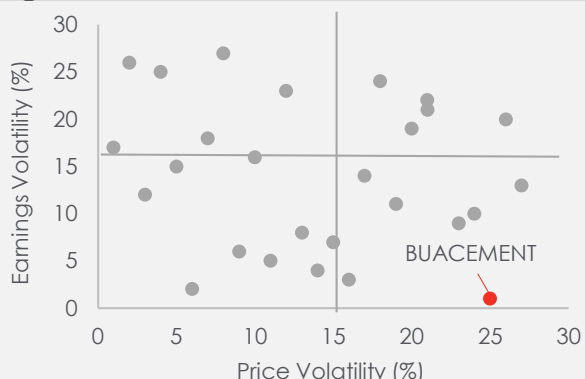


Energy mix optimisation to drive margin growth

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Risk Rating: High

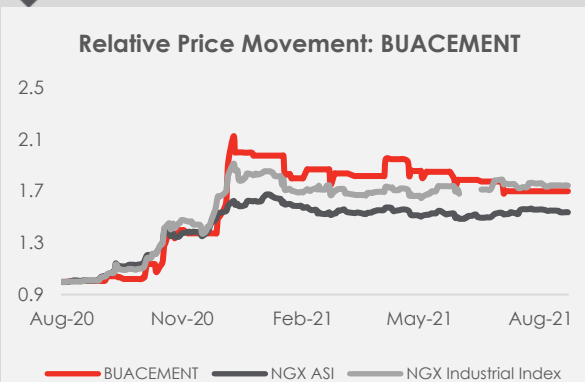


Note: Refer to appendix for complete description of risk rating

Key Data

Last Price (₦)	68.00
Last Price (\$)	0.17
52 week High/Low (₦)	85.00/ 38.75
1M Price Change (%)	0.0
3M Price Change (%)	-8.1
6M Price Change (%)	-9.0
YTD Change (%)	-12.1
Beta	0.9
Market Capitalization (₦'bn)	2,302.8
Market Capitalization (\$'mn)	5,589.0
Shares Outstanding. (Units'bn)	33.9
Float (%)	35.2
Dividend Yield (%)	2.8

Price Performance Chart



Sources: Bloomberg, United Capital Research

Stock Rating
SELL

Target Price
Old: N42.2
New: N48.0

Expected Return
-29.5%

BUA Cement Plc ("BUACEMENT" or "The Group") recently reported its financials for H1-2021 which showed a 26.9% y/y and 24.6% y/y growth in PBT and PAT to N49.7bn and N43.4bn, respectively. This was largely supported by strong growth in topline (+22.7% y/y), which outpaced the increase in Cost of sales (+19.1% y/y), on account of lower energy cost-per-tonne (-1.4% y/y). Profitability was also aided by lower financing charges (-49.9% y/y) and subdued tax charges. Below, we assess the cement manufacturer's H1-2021 numbers and provide our outlook for FY-2021 and beyond.

Stronger demand and price increases buoy topline

BUACEMENT's topline increased by 22.7% y/y to N124.3bn, slightly exceeding our expectation of N121.0bn. Revenue growth was aided by the twin effect of higher average price realisation and increased sales volume. Sales volume climbed 11.0% y/y to 2.7mmt, while Revenue-per-tonne increased 10.6% y/y to N45,479.14/tonne due to price increases (through discount cuts) to compensate for persistent cost pressures during the period. Sustained domestic demand fueled the group's growth, as BUACEMENT remained laser-focused on serving the Nigerian market, with exports once again taking the backseat.

Energy mix optimisation eases pressure on costs

The performance was aided by success in curtailing cost growth. Cost-of-sales-per-tonne saw a 7.3% y/y increase to N24,210.3/ton – slower than the price-driven increase in Revenue-per-tonne (10.6% y/y). Notably, Energy cost-per-tonne decreased by 1.4% y/y to N9,103.69/ton from N9,234.36/ton, driven by energy mix optimization, a surprising development given the trend of rising unit cost of fuels across the industry. According to the management, the Group commenced the substitution of coal with Liquefied Natural Gas (LNG) in H1-2021. Overall, Cost of sales during the period rose by 19.1% y/y, owing to inflationary impacts and Naira devaluation during the period. Thus,

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the Group's Gross margin expanded by 61bps y/y from 46.2% to 46.8%.

EBITDA margin expands despite rise in OPEX

BUA Cement's Operating expenses increased by 54.6% y/y during the period, driven by an increase in Administrative expenses (up 57.9% y/y), largely on account of increased salaries. As a result, the OPEX/Sales ratio increased from 4.9% in H1-2020, to 6.1% in H1-2021. However, the strong increase in sales, as well as the less prominent increase in Cost of Sales, drove a 23.6% y/y increase in Group EBITDA to N58.4bn from N47.3bn. EBITDA margin consequently expanded by 26bps to 47.0%.

Lower financing costs buoy bottomline

Despite a significant surge in total borrowing (+606.0% y/y to N184.0bn) on account of the N115.0bn series 1 bond issued in H2-2021, we observed a 49.9% y/y decline in Net finance cost to N824.1m in H1-2021, from N1.6bn in H1-2020. The decline was largely driven by higher Interest income (+297.2% y/y to N402.0m) and decline in Interest on loans (-46.8% y/y to N931.1m). Additionally, BUACEMENT's effective tax rate increased by 1.6 ppts y/y to 12.7% for H1-2021. Notably, the low tax rate is due to the fact that Group's manufacturing line in Sokoto (Line 2) and Line 1 in Okpella are still under pioneer status. Overall, Profit Before Tax and Profit After Tax climbed by 26.9% y/y and 24.6% y/y, respectively, to N49.7bn and N43.4bn.

Outlook: Energy mix optimisation to drive margin expansion

Going into H2-2021, we maintain our expectation for Revenue to grow by 15.5% to N241.9bn. The Group is largely on course, having achieved 51.4% of our full year revenue projection in H1-2021 by pushing out more volumes and increasing prices. At the start of the year, we had anticipated the Group's additional 3mmt capacity in Sokoto to support volume growth during the year. However, the new 3mmt line will be commissioned by year end owing to pandemic-related setbacks. We expect revenue growth in Q3-2021 and Q4-2021 to be relatively strong, driven by demand, albeit somewhat de-emphasized by seasonal rains particular to Q3, as well as the high base of the same period last year.

Also, we expect to see improved cost efficiency in H2-2021, as BUACEMENT management revealed that it successfully implemented the substitution of imported coal in the Sokoto plant with LNG in Jun-2021. Given the persistent weakness of the Naira and the dollar shortage, this will significantly reduce the pressure on energy costs while reducing BUACEMENT's carbon footprint, as local LNG is cheaper than imported coal and LNG is much cleaner than coal. Management also stated that the group will phase out liquid fuel-powered generators and replace them with LNG-powered generators. Overall, we have revised our PAT growth estimate upwards by 2.8ppts to 11.9% y/y from 9.1% y/y as earlier forecast, on account of lower energy costs than previously anticipated.

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Valuation: **SELL rating maintained despite upgraded TP**

Summarily, factoring the current realities in the Nigerian financial market, which drove favourable adjustments to cost of equity, we revise our Target Price (TP) higher to N48.0/share which translates a downside of 29.5% at the current price of N68.00. This implies a SELL rating on the stock, as the ticker remains overvalued on a relative basis with a P/E of 28.5x, compared with the 11.2x sector average (ex-BUACEMENT) in Nigeria.

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Financial Highlights (N'Mn)

Headlines	H1-2021	H1-2020	Change
Revenue	124,278	101,261	22.7%
Cost of sales	-66,158	-55,539	19.1%
Gross profit	58,120	45,723	27.1%
Other Income	73	48	52.3%
Operating expenses	-7,669	-4,961	54.6%
Net finance costs	-824	-1,644	-49.9%
Profit/Loss Before Tax	49,700	39,165	26.9%
Taxation	-6,304	-4,345	45.1%
Profit/Loss After Tax	43,396	34,819	24.6%
	H1-2021	FY 2020	
Cash and bank balances	57,326	123,821	-53.7%
Trade & Other Receivables	30,088	83,308	-63.9%
Trade & Other Payables	24,096	23,869	1.0%
Total borrowings	184,054	272,655	-32.5%
Net Assets	349,351	375,955	-7.1%
Total Assets	665,858	766,303	-13.1%
Gross Margin	46.8%	45.2%	1.6%
Net Margin	34.9%	34.4%	0.5%
Cost to Sales	53.2%	54.8%	-1.6%
Leverage Ratio (Debt/Equity)	52.7%	72.5%	-19.8%
Price (N)	67.3		
Trailing 12M EPS (N)	2.4		
BVPS (N)	10.3		
P/E (x)	28.2		
P/BV (x)	6.5		
Trailing 12M ROAE	22.3%		

Sources: Company Financials, United Capital Research

Disclosure Appendix

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Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).

Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.

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Low: Low probability of an imminent systematic risk or/and unsystematic risk

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Company	Disclosure
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Fidelity Bank Plc	h
Flour Mills of Nigeria Plc	h
Forte Oil Plc	g
International Breweries Plc	a,h
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