

LAFARGE AFRICA PLC



...Solid Performance, Promising Outlook

March 26, 2025.



Earnings Note

Event

Lafarge Africa ("the Group") had a dynamic year, characterised by the launch of new products, cost optimisation initiatives, and efforts to manage the impact of currency volatility on foreign obligations. Overall, the Group's operational efficiency translated into sustained value creation for shareholders.

In 2024, the Group launched three new products - Watershield Cement, Gypsum Plaster (POP), and Eco Planet (launched in the East) to expand its market reach. We believe that these product launches, coupled with operational efficiency and an upgraded distribution network, were key drivers of the 12% volume growth reported by management. Additionally, to mitigate the impact of rising input costs, the Group implemented price increases during the year. While the Federal Government advocated for lower cement prices, pricing in the sector remained relatively high. On the back of higher volumes and prices, revenue grew by 72% to N696.76 billion (FY 2023: N405.50 billion).

Despite the strong revenue growth, gross margin contracted by 122 basis points to 50% (FY 2023: 51%), reflecting the Group's challenge of fully absorbing escalating input costs. For context, costs of goods outpaced revenue growth, soaring by 76% to N350.05 billion (FY 2023: N198.79 billion). This surge was primarily driven by a 91% jump in variable costs, which accounts for 66% of total cost of sales. Notably, the key drivers of variable costs increase were significant rises in fuel and power expenses (+110% year-on-year), and raw materials (+59% year-on-year).

Operating Efficiency Gains

Management stated that the Group implemented proactive strategies to optimise its distribution network and enhance operating efficiency. These initiatives included constructing an evacuation road at the Mfamosing plant, which shortened the travel distance per trip to 20 kilometres from 50 kilometres, and continued investment in CNG trucks, among other measures.

These efforts effectively reduced the operating expense margin by 300 basis points, which in turn supported the expansion of the operating profit margin, partially offsetting the impact of a lower gross margin. Consequently, operating profit margin expanded by 254 basis points to 28% (FY 2023: 25%). In absolute terms, operating profit surged by 90% to N193.33 billion (FY 2023: N101.99 billion).

The Borrowings and Finance Costs Paradox

The Group significantly reduced its borrowings in 2024, with total borrowings declining by 92% to N2.21 billion (FY 2023: N26.25 billion). As a result, its debt-to-equity ratio fell to 0.00x from 0.06x in 2023, making it the least leveraged among industry peers. Notably, Dangote cement and BUA Cement have debt-to-equity ratios of 1.21x and 1.49x, respectively, in 2024.

Notwithstanding the substantial decline in borrowings, finance costs surged by 270% to

HOLD

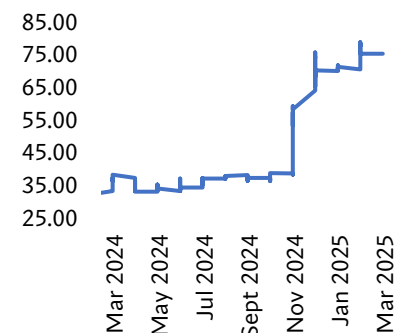
Fair Value Estimate: N75.15

Total Return: +5%

Stock Data

Current price (N)	73.80
Shares Outstanding (mn)	16,108
Market Cap (N'mn)	1,188,755
52-week high (N)	78.55
52-week low (N)	32.60
Trailing EPS (N)	6.22
Forward EPS (N)	10.23
Forward PE (X)	7.12
Justified PE Multiple (X)	7.35

Price Movement



Stock Data	FY 2023	FY 2024	FY 2025F
P/E	23.24x	11.87x	7.21x
P/BV	2.73x	2.36x	1.83x
PBT Margin	20%	2%	28%
PAT Margin	13%	1%	19%
RoE	12%	21%	29%
Dividend Yield	3%	2%	3%

Analysts

Isaac Osaro

i.osaro@wstc.com.ng

Oluwadamilola Pase

o.pase@wstc.com.ng

Samuel Odunjo

s.odunjo@wstc.com.ng

Desmond Gabriel

d.gabriel@wstc.com.ng

Habeeb Oladehinde

h.oladehinde@wstc.com.ng

N18.28 billion (FY 2023: N4.94 billion), primarily driven by a 290% surge in bank charges, which includes letter of credit charges, over-the-counter (OTC) charges for non-deliverable futures and other bank account charges.

Additionally, FX losses worsened to N24.27 billion (FY 2023: N21.05 billion), reflecting the impact of Naira depreciation. The currency weakened by 41% against the dollar in the NAFEM market, closing 2024 at N1,539/\$ from N971/\$ at the start of the year.

Solid Bottomline Growth

Despite the surge in the FX losses and finance cost, the Group's robust operating profit offset the impact, resulting in a profit before tax growth of 89% to N152.52 billion (FY 2023: N80.70 billion). Although, tax expenses grew by 77%, profit after tax still settled at N100.15 billion, a remarkable 96% growth from N51.14 billion reported in 2023. Consequently, EPS improved to N6.22 (2023: N3.17).

Dividend Information

Despite the increase in EPS, the Group dividend payout declined to 19%, resulting in a dividend payment of N1.20k for the year (2023: N1.90k). This suggests that management prioritised long-term sustainability over short-term distribution.

Corporate Action

In December 2024, the Group informed the investing public that Holcim Group signed an agreement with Hauxin Cement to sell its shareholding in Lafarge Africa Plc. Upon completion, the Hauxin Cement entities will hold a combined 83.81% shareholding in Lafarge Africa Plc.

According to the Group's press release, following completion of this transaction, Lafarge Africa Plc will remain listed on NGX, and, subject to regulatory approvals, Hauxin Cement intends to launch a mandatory take over offer in compliance with applicable laws and regulations.

Outlook

We maintain a positive outlook for the construction industry in 2025, supported by a potential decline in interest rates and a moderation in inflation, both of which could foster economic improvement. A reduction in interest rates would lower borrowing costs, making it easier for businesses and individuals to finance construction projects, thereby boosting demand for building materials. Additionally, as inflation moderates, input costs such as cement, steel, and labor may stabilise, thereby improving profit margins for construction firms and encouraging more infrastructure investments. Given Lafarge Africa Plc's apparent focus on enhancing capacity utilisation and expanding its distribution network, we believe the Group is well-positioned to capitalise on the anticipated growth in the sector.

Notably, Lafarge Africa has demonstrated a strong commitment to innovation, as seen in the launch of new products for two consecutive years - introducing the Ecolabel brand in 2023 and three additional products in 2024. While there is no certainty of similar product rollouts in 2025, this track record suggests that the Group may continue leveraging innovation to drive growth and expand its market presence. As a result, we project a 28% increase in revenue for 2025.

Additionally, we anticipate a 30% growth in operating profit, largely driven by the Group's intensified cost optimisation strategies. Key initiatives include advancing decarbonisation efforts and increasing reliance on locally sourced alternative fuels to enhance cost efficiency. Moreover, the adoption of smart green depots powered entirely by solar energy and an expansion of the CNG truck fleet are expected to yield sustained cost savings.

Furthermore, the proposed acquisition by Hauxin Cement, once completed, presents a strategic opportunity for Lafarge Africa. The expected synergies could enhance operational efficiency, strengthen market positioning, and unlock new growth avenues in the medium to long term.

Valuation

We retain our **HOLD** recommendation for the stock with a revised fair value of N75.15 (previously: N49.75). Notably, the news of Holcim Group signing an agreement to sell its shareholding in Lafarge Africa Plc to Hauxin Cement was well received by investors, resulting in a surge in the share price. Currently, the share price stands at N73.80, and our fair value of N75.15 offers a total return of 5% (inclusive of 3% dividend yield).

This valuation which was derived using a blend of discounted cash flow (DCF), discounted dividend model (DDM), residual income (RIM), and enterprise valuation (EV/EBITDA) methodologies, reflects our expectation of sustained value creation through operating efficiency and increased volume growth.

FY 2024 Financial Performance

Income Statement (N'mn)	FY 2024	FY 2023	Growth (%)
Revenue	696,758	405,503	72%
Cost of sales	(350,047)	(198,787)	76%
Gross profit	346,711	206,716	68%
Other income	7,188	892	706%
Operating income	353,898	207,608	70%
Selling expense	(120,423)	(78,055)	54%
Admin expense	(40,147)	(27,561)	46%
Operating expense	(160,569)	(105,616)	52%
Operating profit	193,329	101,992	90%
Non-operating (loss)	(40,810)	(21,297)	92%
Finance income	2,062	4,654	-56%
Finance expense	(18,277)	(4,938)	270%
FX loss	(24,271)	(21,045)	15%
Impairment reversal/(charge) on receivables	(323)	32	1120%
Profit before tax	152,519	80,695	89%
Tax	(52,374)	(29,554)	77%
Profit after tax	100,145	51,141	96%
Balance Sheet (N'mn)	FY 2024	FY 2023	Growth (%)
Assets			
PP & E	409,761	360,219	14%
Other Asset	193,357	88,573	118%
Inventory	104,192	54,341	92%
Receivables	9,619	7,870	22%
Cash	237,859	168,370	41%
Others	35,721	1,999	1687%
Total Assets	990,510	681,372	45%
Liabilities			
Loans & Borrowings	2,214	26,245	-92%
Payables	394,186	175,938	124%
Others	89,468	44,138	103%
Total Liabilities	485,869	246,320	97%
Net Assets	504,641	435,052	16%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Revenue	405,503	696,758	876,907	1,087,365	1,261,343	1,450,544	1,653,621
EBITDA	129,238	222,305	293,868	366,862	404,960	476,137	558,753
EBIT	102,023	193,005	250,022	321,193	357,029	426,819	508,318
Profit before taxation (PBT)	80,695	152,519	242,307	321,309	357,738	428,130	509,985
Net profit (PAT)	51,141	100,145	164,769	218,490	243,262	291,129	346,790
EPS (₦)	3.17	6.22	10.23	13.56	15.10	18.07	21.53
DPS (₦)	1.90	1.20	2.25	2.98	3.32	3.98	4.74
Balance sheet (NGN mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Current assets	239,059	414,003	501,079	636,207	923,378	1,229,200	1,505,427
Non-current assets	442,313	576,507	612,840	610,269	610,795	620,662	622,704
Total assets	681,372	990,510	1,113,919	1,246,476	1,534,173	1,849,863	2,128,131
Current liabilities	208,963	408,846	386,819	337,227	429,748	507,808	503,273
Non-current liabilities	37,356	77,023	77,020	76,928	76,910	76,929	76,990
Shareholders' equity	435,052	504,641	650,080	832,321	1,027,515	1,265,126	1,547,868
Book value per share (₦)	27.01	31.33	40.36	51.67	63.79	78.54	96.09
Cash flow statement (NGN mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Cash from operating activities	150,897	212,011	176,330	229,989	361,701	391,531	385,571
Cash from investing activities	(36,835)	(69,697)	(51,698)	(52,699)	(48,255)	(51,148)	(50,081)
Cash from financing activities	(65,613)	(74,863)	(30,351)	(38,122)	(49,872)	(54,810)	(65,283)
Net increase/ (decrease) in cash	48,449	67,451	94,281	139,168	263,575	285,573	270,208
Free cash flow to equity	91,084	95,994	110,677	173,531	309,192	336,278	331,090
Ratio analysis	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
EBITDA margin	32%	32%	34%	34%	32%	33%	34%
Operating margin	25%	28%	29%	30%	28%	29%	31%
ROE	12%	21%	29%	29%	26%	25%	25%
ROA	8%	12%	16%	19%	17%	17%	17%
Dividend payout ratio (%)	60%	19%	22%	22%	22%	22%	22%

Source: Company Accounts, WSTC Research

Disclaimer & Disclosures

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

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