



Lafarge Africa Plc H1 2024 Result: Cost Pressures Weaken Profit as PBT Stumbles -15.71%.



Image Credit: Proshare Graphics

Proshare.

Issue Date:

Friday, August 16, 2024

A Market Intelligence and Strategic Advisory Group Report

Production:

Proshare Graphics.

Unlock **exclusive access** to reliable **market information**, **comprehensive reports**, and **expert analysis**.



Visit www.proshare.co

Proshare.

BEYOND PROFIT
How a Nigerian Company Built a Culture of Credibility

Available at the following Outlets:

amazon books, Indiegogo, igytmkoko, Jeda, Kowright



Proshare.

Cement has become the motherlode in Africa, and building materials manufacturers are the sheikhs of the new African growth age. However, the growth has come with bumps and potholes caused by various supply-side and macroeconomic difficulties, ranging from rising interest rates and domestic operating costs to foreign exchange uncertainty (in Nigeria). Nevertheless, most cement manufacturers, including Lafarge Africa, are weathering the storm.

Higher cement price and renewed government focus on construction suggests a promising outlook for the industry in 2024. The scenario for cement industry cooled off slightly in Q1 2024 dipping to 2.05% in Q1 2024 from 3.26% in Q4 2023 as profit margins took a tumble. Analysts note that higher cement prices resulted in higher revenue growth, but upward cost pressures, foreign exchange (FX) revaluation losses, and falling household purchasing power took a bite out of operating profit.

Some dominant players mildly avoided the net earnings freeze with their diversified structure and wider market share, but others took a knock. Lafarge Africa saw profit before tax (PBT) roughly fall below its four-year average of N46.39bn. The pre-tax and post-tax profits dived by -15.71% and -17.25% to N46.62bn and N29.35bn, respectively, driven by rising cost of sales (+56.90% YoY), finance costs (+2,278.57% YoY), and operating costs (+36.62%). Declining profitability affected the group's financial ratios, except for the leverage ratio, which improved with lower debt.

Key Highlights in H1 2024.

- Lafarge Africa's revenue rose by +49.52% from N197.68bn in H1 2023 to N295.57bn in H1 2024.
- Cost of sales increased by +56.90% to N147.93bn in H1 2024 from N94.28bn in H1 2023.7
- Gross profit rose by +42.79% to N147.63bn in H1 2024 from N103.39bn in H1 2023.
- Administration expenses grew by +49.02% to N16.75bn in H1 2024 from -N11.24bn in H1 2023.
- Finance income dipped by -76.98 to N1.02bn in H1 2024 from N4.43bn H1 2023, while finance cost grew by +2278.57% to N33.30bn in H1 2024 from -N1.40bn in H1 2023.
- Profit-before-tax declined by -15.71% to N46.62 in H1 2024bn and profit-after-tax equally dropped by -17.25% to N29.35bn in H1 2024.
- Total assets grew by +12.28% to N735.10bn in H1 2024 from N654.69bn in H1 2023.
- Inventories rose by +0.03% to N1.76bn in H1 2024 from N1.71bn in H1 2023.
- Retained earnings increased by +6.06% to N198.97bn in H1 2024, fuelling a +3.4% growth in Shareholder's fund to N433.89bn.

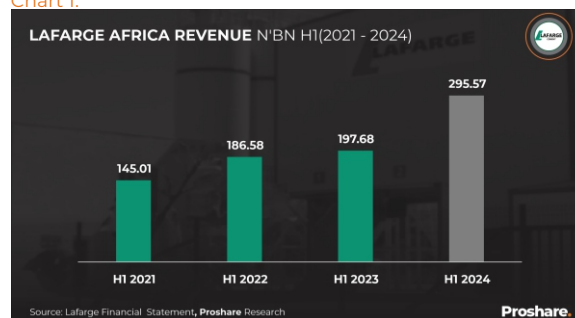
Key Highlights in Q2 2024.

- Lafarge Africa's Top-line earnings rose by +49.07% to N157.80bn in Q2 2024 from N105.86bn in Q2 2023.
- Cost of sales increased by +54.90% to N75.81bn in Q2 2024, leading to a slower growth in gross profit rose by +44.06% to N81.99bn in Q2 2024 from N56.92bn in Q2 2023.
- The cement producer's administrative cost rose by +54.53% to N8.48bn, selling & distribution costs by +22.14% to N26.39bn in Q2 2024.
- Lafarge Africa had a negative net finance income of N9.78bn in Q2 2024 as finance costs grew by +2849.95% to N12.13bn ahead of finance income of N2.35bn in Q2 2024.
- Despite the elevated operating costs, the cement clinker's pre-tax and post-tax profit grew by +15.66% and +17.86% to N37.92bn and N24.16bn in Q2 2024.

Revenue.

Lafarge Africa's first-half revenue has risen in the last four years, settling at N295.57bn in H1 2024. The revenue rose by +49.52% from N197.68bn in H1 2023 to N295.57bn in H1 2024, driven by higher demand for cement and elevated cement prices. Cement sales accounted for 97% of revenue growth, while aggregates, concrete and other products accounted for the remaining 3% (see chart 1)

Chart 1:



Profitability.

Given the higher cost of sales, finance costs, selling & distribution costs, and administrative expenses, Lafarge Africa's profitability (PBT and PAT) slid by -15.70% and -17.27% to N46.63bn and N29.35bn, respectively. The group's lower finance and other income were insufficient to suppress the cost pressure and FX revaluation losses. (see chart 2)

Chart 2:



Cashflow.

The group's lower profit squeezed cash from operating activities, falling by -80.45% to N18.76 bn in H1 2024. Also, the acquisition of property, plant and equipment worth N27.80bn reduced net cash from investing activities while loan repayment, dividend payment and interest payment under financing operations further weighed on cash and cash equivalent. At the end of H1 2024, the cash and cash equivalent declined by -48.87% to N90.84bn in H1 2024 from N177.65bn in H1 2023. This implies lower liquidity driven by a lump sum principal repayment, this would not reoccur in the remaining quarters of 2024 (see table 1)

Table 2:

	H1 2023 (N'bn)	H1 2024 (N'bn)
Net cash generated from operating activities	95.94	18.76
Net cash generated from investing activities	11.78	26.57
Net cash from financial activities	24.57	69.76
Cash and cash equivalent	177.65	90.84

Financial Position.

Lafarge Africa saw an improved financial position; its assets grew by +12.28% to N735.10bn in H1 2024 from N654.69bn in H1 2023, driven by growth in property, plant and equipment, cash and cash equivalents, and trade receivables. The group's borrowings decreased by -95.74% to N1.65bn in H1 2024 from N38.69bn in H1 2023, opening capacity for new borrowings and lessening finance costs in the interim. Despite the lower profit, the group's retained earnings grew by +6.27% to N244.72bn, driving a +3.44% growth in shareholder's fund to N433.80bn. Lafarge Africa's habit of keeping low receivables and larger payables to ensure liquidity continued in H1 2024, with payables rising by +56.78% while receivables saw a slower growth of +27.06%. Analysts observed the group's inventories rose by +52.16% to N84.06bn, mainly driven by larger semi-finished and finished goods. This could hint at a slow demand for products (see table 2)

Table 2:

FINANCIAL POSITION		
	H1 2023 (N'bn)	H1 2024 (N'bn)
Asset	654.69	735.10
Total Borrowing	38.69	1.65
Retained Earning	187.61	198.97
Shareholders Equity	419.36	433.79
Trade Receivable	7.19	9.14
Trade And Other Payables	104.03	163.10
Inventories	55.23	84.05

Source: Lafarge Financial Statement, Proshare Research

Valuation.

With the share price rally in H1 2024, Lafarge Africa's share price rose above the company's historical earnings growth. The price-to-earnings (P/E) rose to 18.71x in H1 2024 from 13.41x in H1 2023, driven by higher market value relative to earnings per share (EPS). Nevertheless, Lafarge's P/E was lower than the industry average of 39.9x and other dominant industry players, hinting at a possible hidden value. The price-to-book value (P/V) was above 1.00x, at 1.26x in H1 2024 (see table 3).

Table 3:

VALUATION		
	H1 2023	H1 2024
Price to Book (P/B)	1.13	1.26
Price to Earning (P/E)	13.41	18.71
Market capitalisation	475.18	548.47

Source: Lafarge Financial Statement, Proshare Research



Financial Ratio.

The profit moderation slightly impaired most of Lafarge Africa's financial ratios in H1 2024. The group's profitability, liquidity, and efficiency ratios declined in H1 2024 compared to previous years. However, Lafarge Africa maintained its low leverage status, with the debt-to-equity (D/E) ratio declining to 0.004x in H1 2024 from 0.09x in H1 2023 and the debt-to-asset ratio falling to 0.002x (see table 4).

Table 4:

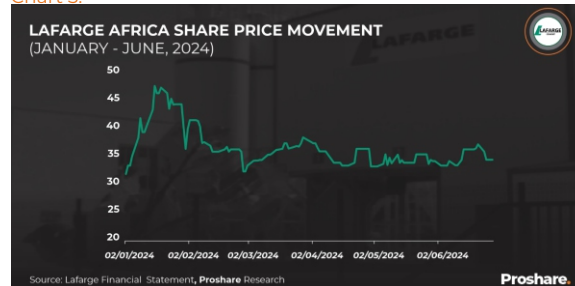
FINANCIAL RATIOS		
	H1 2023	H1 2024
Debt-to-equity	0.09x	0.004x
Debt-to-assets	0.06x	0.002x
Current ratio	1.24x	1.05x
Return on assets	5.42%	3.99%
Return on equity	8.46%	6.77%
Gross profit margin	52.30%	49.95%
Net profit margin	17.94%	9.93%
Inventory	1.71x	1.76x
Acid test ratio	0.97x	0.72x

Source: Lafarge Financial Statement, Proshare Research

Share Price Movement.

Lafarge Africa's share price started 2024 at N30 per share, climbing sharply to over N45 per share by early February, driven by the elevated cement price and the Federal government's focus on construction. However, it faced a correction, dropping back to around N35 per share by mid-March but slightly recovered after the earnings release. It fluctuated between N35 and N40, with N35 as the support and N45 as resistance. By June 28, 2024, the share price settled at N34.05k, with a year-to-date (YTD) return of +8.10%. The return was lower than the broad market (NGX All share index) YTD return of +33.81% (see chart 3)

Chart 3:



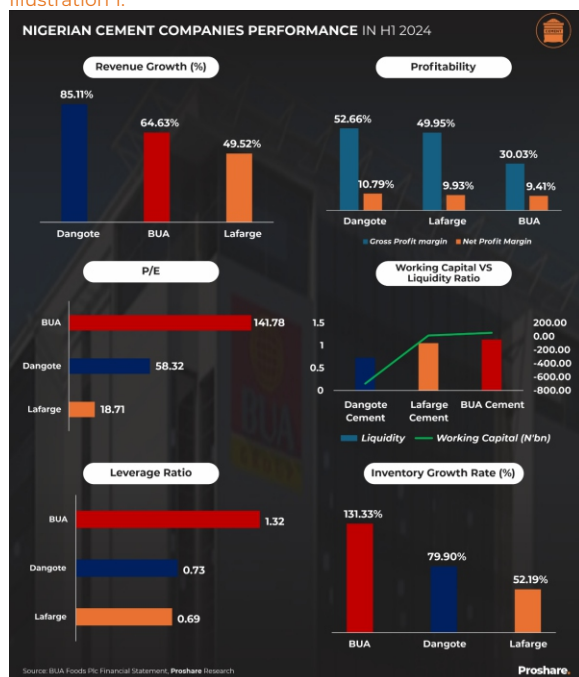
Competitor Analysis: Operating Headaches Shrink Profit Margins.

Despite the rising potentials for cement manufacturing across Africa, for Nigerian cement makers the country's challenging economic environment has threatened its performance. Rising input prices, operating expenses and

significant FX exposure hurt profitability. The three largest domestic cement companies saw lower profit margins. Lafarge Africa and BUA Cement saw their profit decline while Dangote Cement's larger market share in Nigeria and subsidiaries in Africa sustained growth in revenue and gross and net profit margins.

Higher cement price spurred Investors' interest in the three cement companies in H1 2024, raising the share price relative to earnings. Thus, the P/E ratio rose triple-digits for BUA at 141.78x, while Dangote and Lafarge Africa had double-digits, at 58.32x and 18.71x, respectively. BUA and Dangote's P/E stood above industry average of 39.9x. Lower profit constrained Lafarge's liquidity, squeezing working capital. Dangote Cement was the least liquid, while BUA Cement was the most liquid through new borrowings. Lafarge Africa was the least leveraged (see illustration 1).

Illustration 1:



Closing Thoughts.

Lafarge Cement increased its topline in H1 2024 due to strong demand and higher prices, helping to reduce the impact of higher operating expenses and FX losses. However, post-tax profit and profit margins fell as revenue growth did not fully offset the rise in expenses. Analysts expect high FX exposure to continue to pose a threat to the group's performance for the remainder of 2024.

Related Items.

1. Lafarge Africa Partners with Innovate UK Global Alliance Africa to Drive Innovation in the Construction Sector.
2. Lafarge Africa Plc: Unaudited Results H1 2024 Remained Weak Despite Q2 Resilience.
3. Lafarge Africa Plc Declares N29.35bn PAT in H1 2024 Unaudited Results, (SP: N36.80k).
4. Lafarge Africa Launches ECOPlanet, Nigeria's 1st Low Carbon Multipurpose Cement.
5. Lafarge Africa Empowers 60 Women Entrepreneurs with 22 Million Naira Seed Grants Across 13 Host Communities in Cross River State.
6. Lafarge Africa Plc Notifies of the Appointment of Mr Gbenga Oyebode as Board Chairman.
7. Lafarge Africa Hosts Inaugural Suppliers Summit on Sustainable Business and Innovations.
8. Lafarge Africa Flags Off Elderly Care Programme, Distributes Food Palliatives to 350 Aged Members.
9. Lafarge Africa Q1 2024 Report: FX Revaluation Loss and Operating Costs Cuts Income -61.26%.
10. Resolutions Passed at the 65th Annual General Meeting of Lafarge Africa Plc.
11. Lafarge Africa Plc Announces the Voluntary Retirement Of Mr Adebode Adefioye as Chairman.
12. Lafarge Africa Plc to Hold Board Meeting April 25, 2024.
13. Lafarge Africa Plc Commissions 20km Evacuation Road in Mfamosing, Cross River State.
14. Lafarge Africa Plc FY 2023 Results: PBT Grows by 15.33% Despite FX Revaluation Loss.
15. Lafarge Africa Plc Declares N51.14bn PAT in FY 2023 Results; Down 4.7% YoY, Impacted by FX Devaluation Losses; Proposes N1.90k Final Dividend.
16. Lafarge Africa Plc to Hold Board Meeting on February 26th 2024.
17. Lafarge Africa Plc 9M 2023 Result: Finance Income Shores Up Earnings as FX Losses Hurt Bottom Line.

[Click Here to](#)

Subscribe

to our **Market Intelligence** notes for updates.

Thank you.

Advice To Users of This Report.

Proshare, founded in 2006, is a trusted professional practice and financial information hub dedicated to serving as a critical bridge between the markets, investors, regulators, and stakeholders. By delivering credible, reliable, and timely engagements, we assist the marketplace to shape thought-led conversations premised on evidence-based insights that hold the firm accountable collaboratively.

Practice Ethos and Disclaimer

Proshare does not guarantee any results or investment returns based on the information contained in this report. Although we have used our best efforts to provide the most accurate information, we do not promise verbally or in writing that you will earn a profit when or if you use the information contained therein and/or take the actions that might have been prescribed here by the author or our analysts, any reliance you place on our content for decision making is at your own risk. Reports often contain complex technical language, kindly seek expert analysis or expert opinions to help interpret the findings accurately. Context is key, and understanding is essential to grasp the report's true implications. We encourage our discerning readers to seek additional education and insights as you navigate the complexities of the report. As consumers of news and information, we play a role in responsible reporting, be cautious of spreading unverified or misleading information about the report's contents or corporate entities mentioned in the report.

Copyright

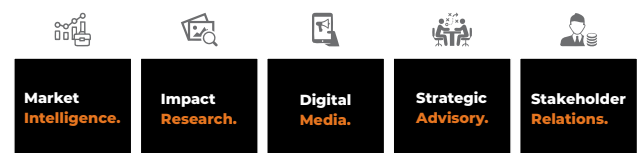
The copyright of the materials in this report belongs to Proshare Nigeria Ltd. While we encourage the dissemination of our work, permission to reproduce or republish any portion of the report should be directed to the office of the MD/CEO of Proshare Nigeria Ltd. This work is licensed under the Trademark and Copyrights Laws of the Federal Republic of Nigeria and is registered accordingly at the National Library and other relevant agencies. Proshare's Reports are critical to its education, empowerment, and enlightenment. It is designed to provide market impact commentary on economic, financial, and business developments. While the partners and acknowledged references are responsible for their work, the report issued is designed to document facts.

Creation Date

This report was published on August 16, 2024, and is based on the best publicly available information at that time. The PDF version was created on August 16, 2024. For comments, feedback, and updates, kindly send us an e-mail via research@proshare.co. Thankyou.



Teslim SHITTA-BEY
 Managing Editor/CE


Tosin IGE
 Head, Research



Contacts.

- | | |
|--|--|
|  Olufemi AWOYEMI , <i>mni</i>
ceo@proshare.co |  www.proshare.co |
|  Teslim SHITTA-BEY
teslim.bey@proshare.co |  +234 902 407 5284 |
|  Tosin IGE
research@Proshare.co |  @proshare |
|  Ademidun SHOGO
ireconomist@Proshare.co |  proshare.co |
| |  proshare.co |
| |  proshare.co |

 Plot 590b, Lekan Asuni
 Close, Off Toyin Omotosho Street,
 Omole Phase 2, Isheri Olowora
 Ikeja, Lagos, Nigeria **PC: 105102**
 Tel: **0700 – PROSHARE**
 E-mail: info@proshare.co