Date: 25th April. 2022

BUA CEMENT; A Dive into Company Performance and Financial Analysis

25th April, 2022.

By Jude Chibuzor Nwaonu

Company Report- BUA CEMENT

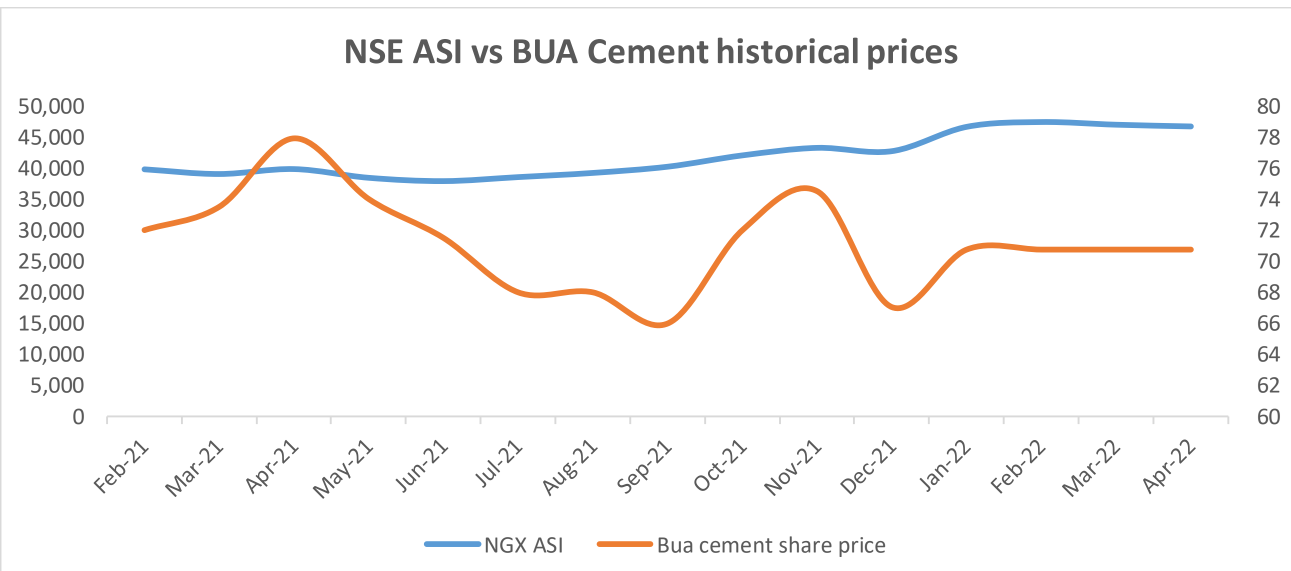
Gifted Analysts Academy

Date: 25th April. 2022

INVESTMENT SUMMARY

We issue a sell recommendation on BUA Cement PLC(BUACEMENT.NSE) Based on a target price of ₦58.6k representing a 13% downside on the closing price of ₦70.75 as of march 30th, 2022. Our valuation is based on a methodology mix of Discounted cash flow model (70%), Dividend discount model (10%) and Multiples valuation (20%)

PROFILE	
Target price	₦58.6k
Closing price	₦70.75k
Upside/(Downside)	-13%
52 week high	₦77.9k
52 week low	₦60.3k
Shares outstanding	33.8bn
Market Cap.	2.39trn
Beta	0.55



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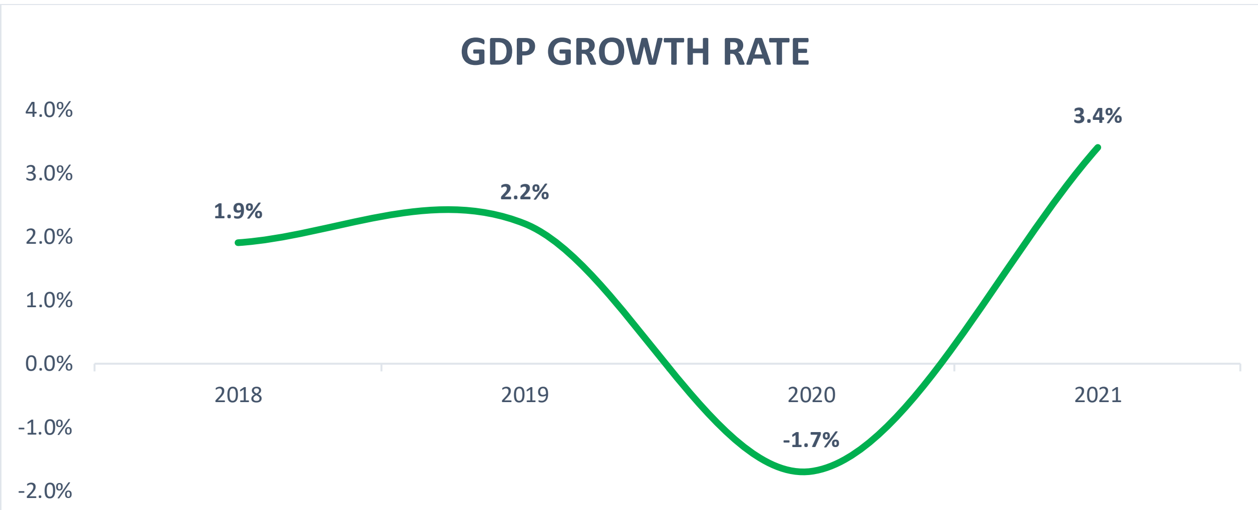
MACROECONOMIC ANALYSIS

The Nigeria economy witnessed a boost in 2021 after it slid into a recession in 2020 as a result of the outbreak of covid-19. According to the data released by National Bureau of Statistics (NBS), the Nigerian economy grew by 3.4%y/y in 2021 after decline of 1.9% y/y in 2020. The growth was largely attributed to the steady recovery of the economy from the impact of the pandemic given the effect of (1) government stimulus packages and (2) reopening of the economy.

Figure 1: Nigeria real GDP growth



ANALYZING THE SECTORS PERFORMANCE IN 2021FY.

Amongst the six major sectors (Agriculture, Mining and quarrying, Manufacturing, Trade, Information and communication, and Real Estate) in the Nigeria economy, only the mining and quarrying sector had a growth decline of 7.8%y/y, this decrease is attributable to the crude oil production in line with (1) underinvestment in the sector, (2) covid-19 complexities relating to the refineries, and (3) thefts and vandalizations. Meanwhile, the agricultural sector grew by 2.1% y/y in 2021FY while the Trade sector grew by 8.6%y/y. The Agricultural sector's growth was induced by government interventions amidst the persistent security challenges in the country, while that of the trade sector was triggered as a result of rebound in trading activities during the review year. The Real Estate sector grew by 2.3%y/y while the

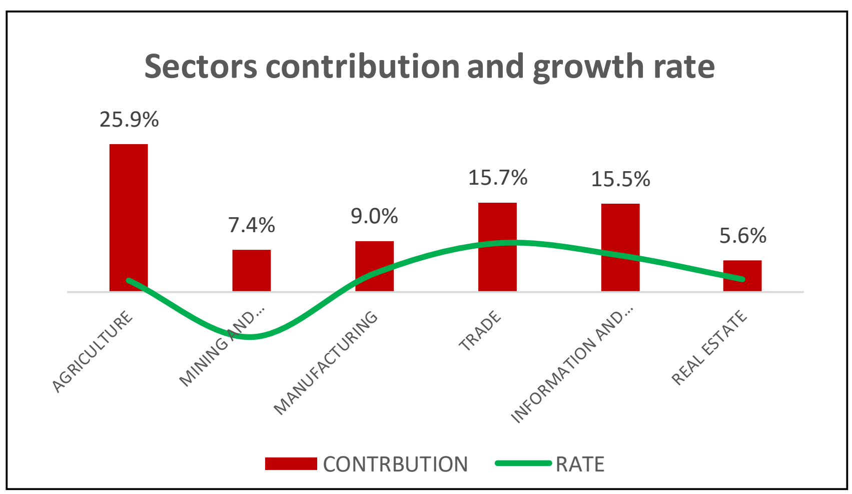


Figure 2 – source: NBS data

Information and communication sector followed in line with a growth rate of 6.5%y/y. Lastly, the manufacturing sector grew by 3.3%y/y with a value of 6.5 trillion. It houses 12 components sub-sectors, which include the cement industry. Overall, we attribute the growth of the manufacturing sector to the impact of the CBN's intervention to the real sector of the economy, despite challenges relating to access to foreign exchange and currency depreciation.

SEGMENTED INDUSTRY

The Nigeria cement industry engages in several activities which ranges from the production, distribution and sales of cement locally and internationally. As a result of limited supply and high demand in the economy, more than 80% of its sales are generated locally while less than 20% are generated across Africa. This industry is one of the most competitive industry in the economy as a result of various government policies which include high entry barrier and amongst others. The key players in this industry include Dangote Cement (DANGCEM) which is the largest with about 60% market share; BUA cement (BUACEMENT) which is the second largest with 20.4% market share; and Lafarge Africa plc (WAPCO) with 19.5% market share.

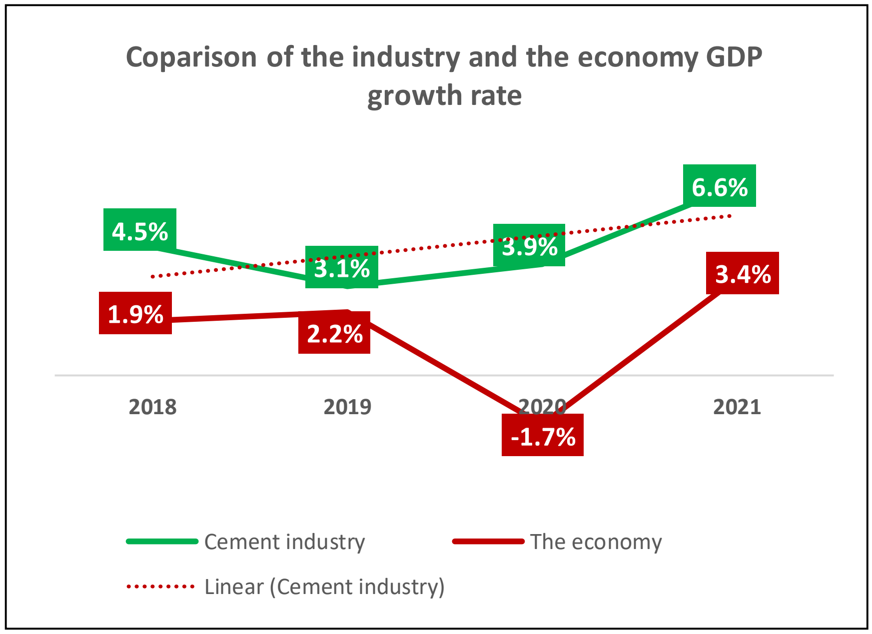


Figure 3 – source: NBS data

This industry is mostly influenced by the public sector, especially the government. To be precise, the public sector contributes about 60% of the total cement demand in Nigeria. The private sector is set to outperform the public sector in the in the near future, this is evidenced by recent performance of the real estate sector and higher housing deficit in the country.

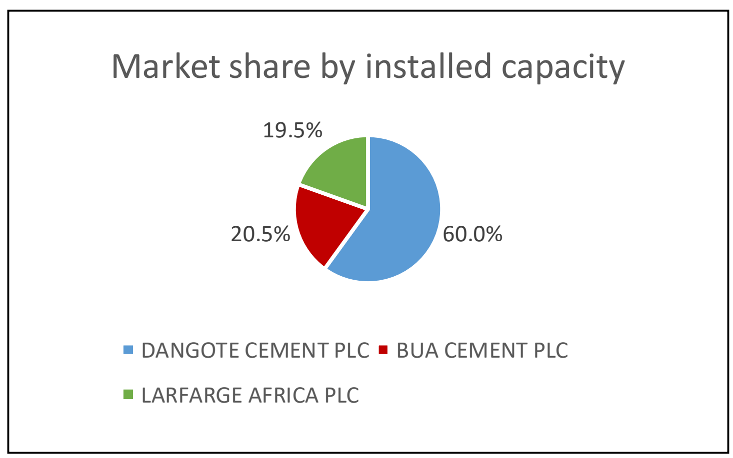


Figure 4 – source: company report; team analysis

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INDUSTRY DYNAMICS

Increase in prices of cement as a result of high input cost:

According to the NBS, Nigeria's headline inflation increased by 10 bps to 15.70%y/y as of February 2022. This was as a result of increase in core inflation by 20 bps to 14.01%y/y. This emanated from the higher energy prices in line with the Russia-Ukraine conflict.

Apart from BUACEMENT which is gradually transitioning its energy source to LNG, thereby reducing its dependence on fuel resources, this recent increase in petroleum prices would have a significant effect on the industry as a result of its high dependence on fuel resources to power their production plants.

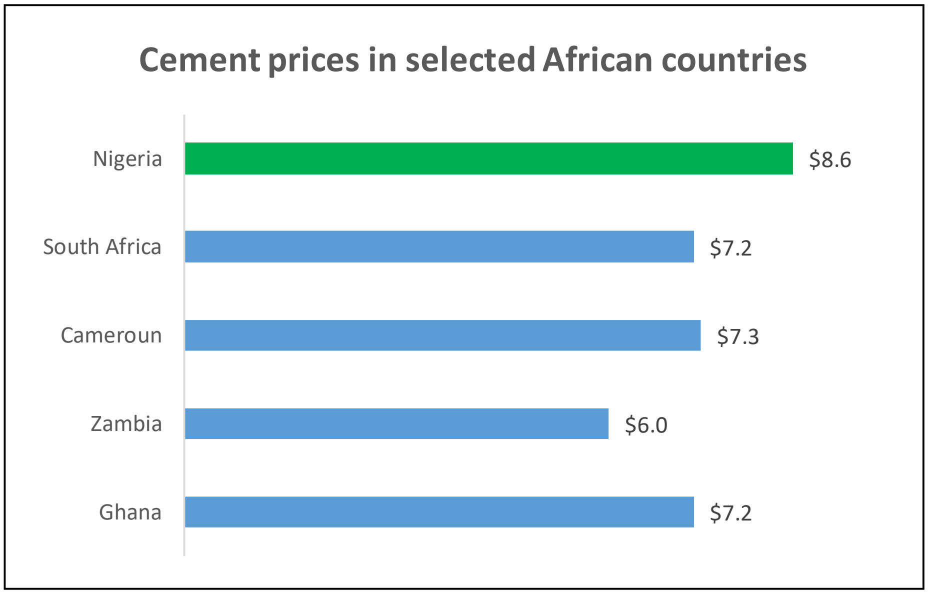

Figure 5 – source: company reports

On Cement per bag basis, wholesale prices have risen above 30% y/y to NGN3500 per bag from its previous price of NGN2600 since the start of 2020. According to management, increased cement prices contributed significantly to the increased top-line in 2021 as the revenue per ton surge up to about NGN45,000. From our analysis, we could still see the price of cement go up in response to (1) higher input prices, (2) continuous barrier to entry in the industry and (3) low price when compared to peers across Africa and the rest of the world. Though, the impact of naira depreciation has placed the dollar price above some African countries.

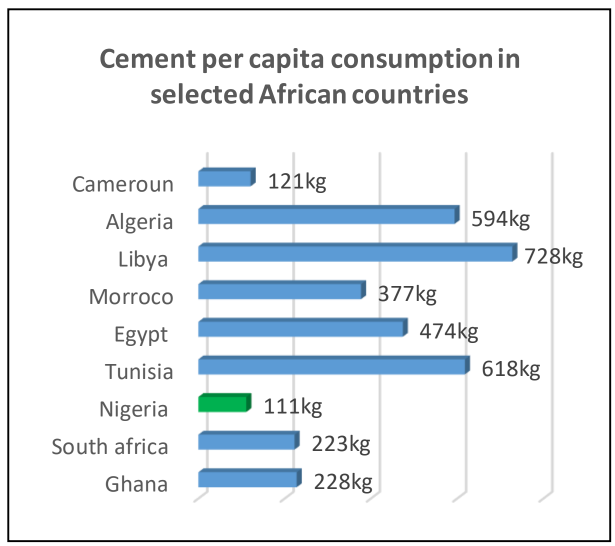

Figure 6 – source: company reports

Undervalued nature of the industry and its possible potential:

The Nigeria cement industry has above 52MMT production capacity per annum with an average annual cement demand of 11 million tonnes. On consumption per capita basis, Nigeria has a cement consumption per capita of 111kg, this is relatively low when compared to the approximate consumption of 728kg in Libya, 223kg in south Africa and 228kg in Ghana. This is the major driver of our conclusion on the industry as being undervalued. For an economy as large as Nigeria with approximately 211.4 million population, its cement consumption should be relatively high. Bringing Ghana into the picture, this country has approximately 220 consumption per capita. Considering Nigeria population compared to Ghana, if its per capita consumption could at least equate that of Ghana, that means its average cement demand would rise to above 20 million tonnes which would in turn call for an expansion in the production capacity of the industry.

Favourable government policy to keep driving the industry upward:

Capital expenditure is one of the explicit factors that drives production upward in the industry. With the reduction in CBN loans and interventions to 5.0% from 9.0%, the cost of debt in the industry has gradually and would continue to reduce which would in turn spur the reduction in the cost of capital expenditures, thereby creating a strong and robust cost structure for itself. This is one of the government policy that has greatly favoured the industry and promoted high production.

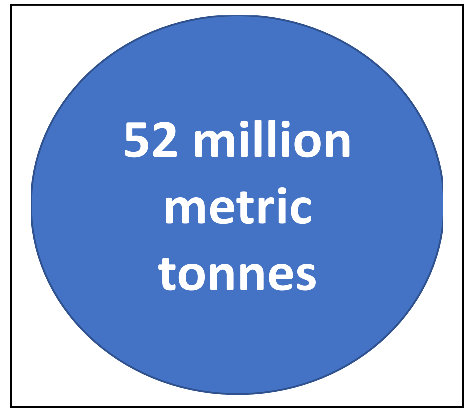

Figure 7 – source: team analysis

Increase in public-private projects, together with the establishments of the Road infrastructure developments and refurbishment investment tax credit scheme (RITC) and the infrastructure corporation Nigeria limited (INFRACO) would greatly facilitate the increase of cement demand in the economy

BUSINESS DESCRIPTION

BUA Cement plc (NSE: BUACEMENT) is a Nigeria-based cement manufacturing company with a market share of 20.4% making it the second largest firm in the industry. The company is primarily engaged in operating its cement manufacturing business through its subsidiaries, and has its plants located in northern and southern Nigeria. Currently the firm has a combined installed capacity of 11MMT per annum across its Edo (6) and Sokoto (5) plants. The company was incorporated in 2008 after it received an importation license from the government. It listed on the Nigeria stock exchange on the 9th of January 2020 to be the third largest Nigerian company with a market capitalization of #1.18 trillion. The company's head office is located in Lagos and its business activities includes production and marketing of cement within and across Nigeria.

BUSINESS MODEL

BUA Cement has positioned itself for a strong growth capacity by its diverse plants locations across Nigeria; it operates on two business segments which includes- wholesales and consumers. The revenue contribution across this segments is mainly the sale of cement which is the finished product of its primary business activities. The company is committed to expanding its footprints into markets within and outside Nigeria which it believes would be fastened through the commencement of African continental free trade agreement(AfCFTA)

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MAJOR HIGHLIGHTS

BUA Cement is set to add 6mmpa production capacity to its plants: During the commissioning of Sokoto line 4 in January 2022, the management of BUA cement had disclosed that it intends to add 3MMT production capacity each to both Edo and Sokoto plant by 2023. According to management, these projects are already on their construction phase and would bring the total company production capacity to 17mmpa when completed.

BUA Cement debuts on the fixed income market: Bua cement successfully concluded its ₦115 billion series 1 fixed rate senior unsecured bond under its maiden #200 billion bond issuance program. The bond was oversubscribed by 19.8% signaling a heightened investor confidence in the company. Following this development, Bua cement series 1 bond becomes the largest ever corporate bond issued in the Nigeria debt capital market.

COMPETITIVE POSITIONING

Bua cement recently clinched itself as the second largest cement producer in Nigeria following its commission of 3mmt production capacity line 4 at the Sokoto plant. The firm has shown its interest of aiming the top position after its announcement and signing an agreement with CBML, a member of the Sinoma group for the construction of an additional 9mmt production capacity in Nigeria. Once completed, this will bring the total installed capacity to 20mmpa.

As a firm which is concerned about the health of its people, it has pioneered in the reduction of carbon emission in the industry. This is evidenced by its recent adoption of Liquefied Natural Gas (LNG) thereby reducing the use of non-pure energy sources. This movement would reduce its environmental risk and market risk (too much exposure to foreign exchange risk as a result of petroleum products demand).

PORTERS' FIVE FORCES

Competitive rivalry among existing firms in the industry: HIGH

Considering the level of cement demand in Nigeria, existing firms in the industry tends to employ various strategy to fill up the supply gap. This is seconded by the fast rising establishment of production capacity by the firms to increase sales and outperform its peers

Threat of new entry: LOW

Factoring in existing firms brand identity and loyalty coupled with the number of its various customer base, new entrants tends to withdraw as It would be difficult to meet up with the old ones. Also, adding the Government policy of entry barrier in the industry, the chance of new entry becomes low.

Threat of close substitute: VERY HIGH

Existing firms in the industry are faced with high demand substitute as the industry produces homogenous kind of product. Little change in taste or price can have a significant change in demand.

Power of suppliers: LOW

Most firms in the cement industry engage in the extraction of the key input to cement production which is limestone, therefore the cost of supply is their hands.

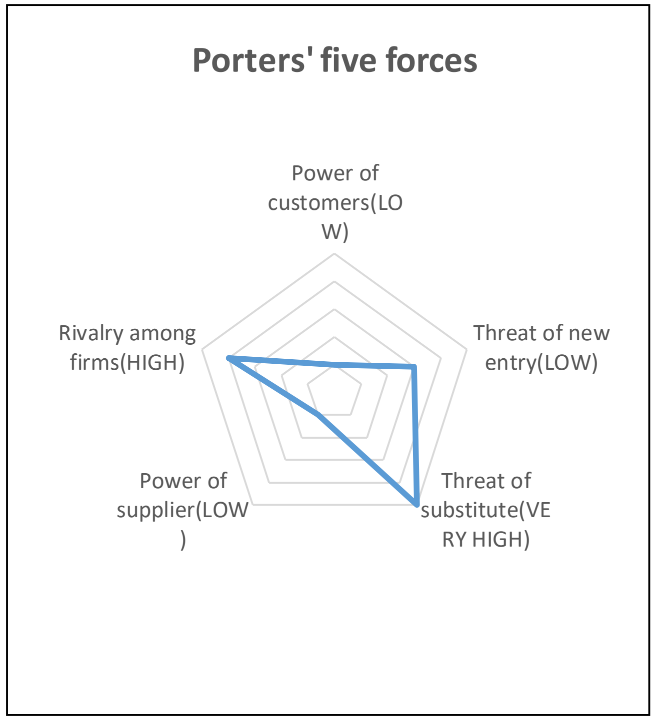

Figure 8 – source: team analysis

Power of customers: LOW

The cost of inputs is similar in the industry, hence the prices of the products tends to be similar. Consumers are thereby left with little or no bargaining power as prices are not determined by the forces of demand and supply. Also with the supply deficit that exist in the economy, suppliers tend to influence prices from their end.

FINANCIAL ANALYSIS

High Historical revenue growth and positive outlook from industry drivers. Bua cement has achieved a tremendous annual growth rate of 23% In its revenue for the FY2021 arising from annual sales of ₦253.7 billion (compared to ₦209.4 billion in FY2020). Buttressing this point, the company has generated a strong Compound Annual Growth Rate (CAGR) of 29% since 2018. The company has one business segment which is just the sale of cement. More than 99% of these sales are within Nigeria while less than 1% are generated out of the country. We have projected a continuous positive sales growth rate for the next 5 years based on our expectations of the markets and Bua's expansion in its plants. Our projected sales has a 22% CAGR from 2022 to 2026**,** which is relatively low when compared to its historical CAGR (29%). The reason for this is because we assumed that the competition in the market would be very high in the near future as a result of new entrants into the industry. We expect Bua cement to significantly outperform its peers with a yoy revenue growth rate of 55.7% in 2023 as a result of the addition in its production capacity bringing it to a total of 17MMPA. We have confidence in this growth estimate because of the company's similar growth rate of 47.5% in 2019 resulting from its consolidation.

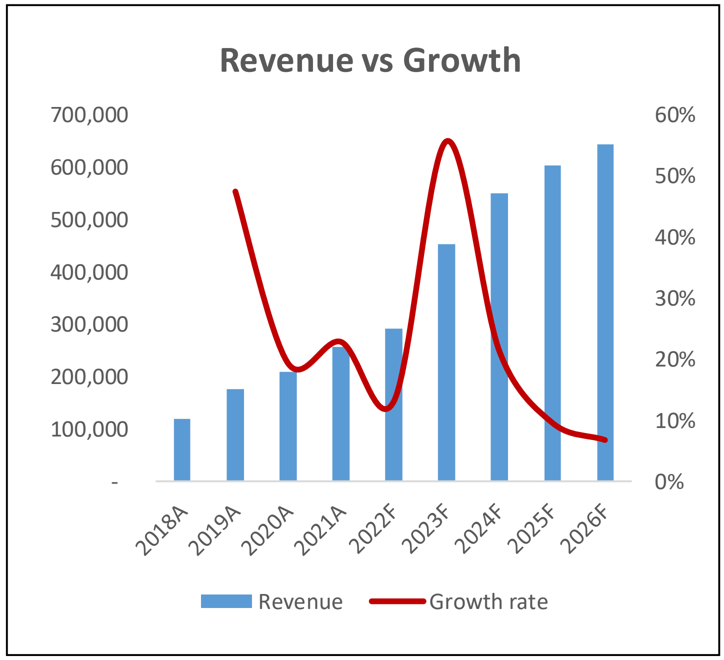

Figure 9 – source: Company report; team analysis

Energy cost to gradually moderate cost of sales as a result of transition to LNG. In 2020, the cost of sales represented 54% of revenue, slightly higher than the company's 2019 and 2021 average cost of sales Margin. This was as a result of the pandemic which led revenue growth to moderate to 19% yoy. Energy expenses as a proportion of cost of sales have been on an average of 20.5% since 2019. This cost is affected by foreign exchange volatility as its price is tagged to the dollar, hence contributing immensely to the increase in cost of sales. Recently, the firm has signed an agreement with a Nigeria-based Liquified natural gas supplier, thereby potentially reducing its market risk and energy cost. Accordingly, we projected an average of 15% energy cost to cost of sales going forward. On the other hand, Operating

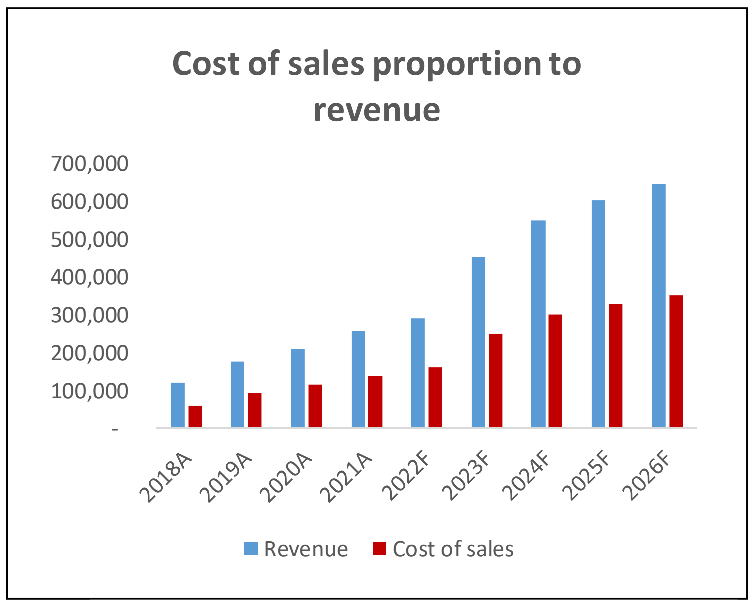

Figure 10 – source: Company report; team analysis

expenses have reflected an average of 5% of revenue since 2019. Forward to 2022, we estimated an average of 8% as a percentage of revenue. Our analysis shows that due to the increasing competition in the industry, Bua cement will continue to spend more on its marketing strategy to increase its market share.

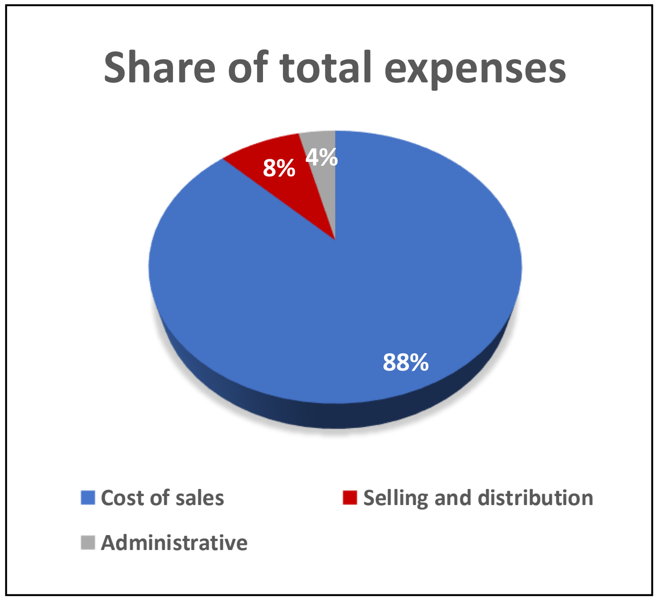

Figure 11 – source: Company report; team analysis

Strong bottom line as a result of efficient cost management and capital mix. Bua cement PBT and PAT increased by 33.2% yoy and 26.8% yoy, respectively in 2021. This shows a strong rebound from its performance of 19.1% and 19.4% in 2020 induced by the COVID-19 pandemic. Bua cement has the best profit margin in the industry as a result of its low leverage and proper operating cost management. As of 2021, the average industry profit was 21%; this has positioned Bua cement above its peers with a strong net income margin of 36% representing a 14% premium. Going forward, we projected an average of 23.6% profit margin, as a result of our forecasted increase in capital expenditure which we believe would be financed via debt. Nevertheless, our projected average Margin still reflects a 2.6% difference above the industry Margin. The firm has grown its PBT at a CAGR of 39% since 2019, this is 10% greater than the topline CAGR of 29.3% showing its Strong top-down growth policy.

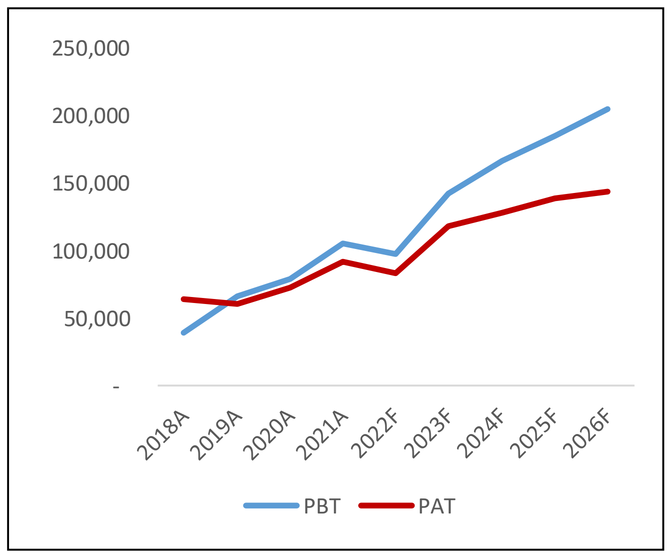

Figure 12 – source: Company report; team analysis

Capital structure. Bua cement has strongly demonstrated a very low leverage capital structure compared to its peers. In 2018 and 2019, the firm debt to capital was less than 0.1x, due to high short-term borrowings and less capital expenditure. Forward to 2019, Debt to capital and debt to equity Rose to 0.3x and 0.4x respectively, given the increase in CAPEX as a result of line 2 addition to the Edo plant. These ratios reflect that if growth opportunities arise, there is enough room for leverage. Our forecast proposes an increase in the ratios as the company is set to embark on high capital expenditure going forward. Evidencing this point, Bua cement has disclosed its possibility of adding 9 more productive capacity to its plants. Hence, we projected an average debt to capital and debt to equity ratio of 0.38x and 0.58x respectively from 2022 going forward.

Liquidity and Capex management. Examining Bua Cement's short-term liquidity position, the company's current ratio stood at 5.3x in 2021 from 3.6x in 2020 indicating steady growth in short-term liquidity. We believe the firm's short-term liquidity is well managed by maintaining adequate reserves, and reserve borrowing facilities. Hence we see no liquidity concern as the level is high above 1. At the same time, the company has consistently proven to be profitable to its shareholders. It has constantly returned an average of 20% to its shareholders since 2019. The average return on assets settled at 14.5% since 2019 while the return on capital employed settled at 18%. Between 2022 and 2026 we estimated an average return of 30% to shareholders as a result of continued strong growth in net income and asset management.

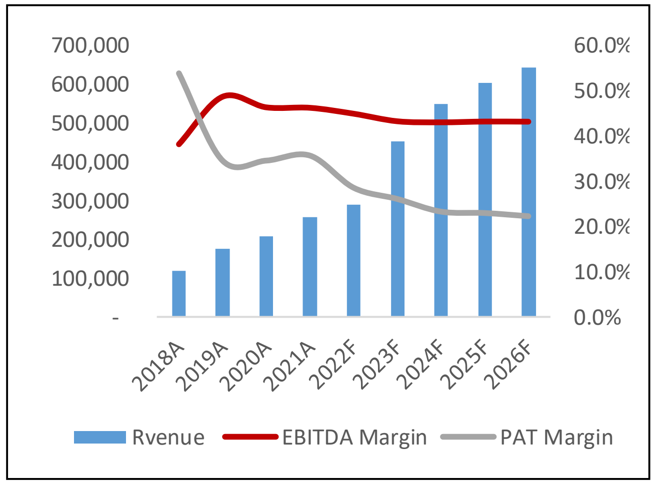

Figure 13 – source: Company report; team analysis

In 2020, Bua's Capex margin stood at 61%, the highest in the company's history, in line with the following; a) slow growth in revenue as a result of the covid-19 restrictions and b) increase in capital expenditure resulting from line 4 production capacity construction at Sokoto plant. The firm has demonstrated resilience in Capex margin with a 24% margin in 2021. Going forward, we estimated that the firm will grow its Capex from ₦60 billion in 2021 to ₦253 Billion in 2023 resulting in a margin of 52% in the corresponding year. Afterwards, our estimate reflects a moderate average margin of 17% between 2024 and 2026. This projected rebound in CAPEX margin is due to our assumption of low capital spending from 2024 to our forecast period.

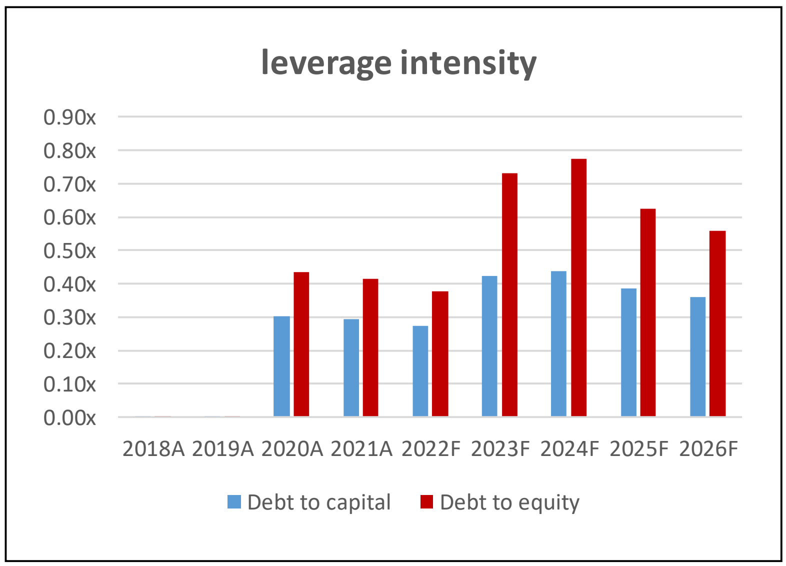

Figure 14 – source: Company report; team analysis

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VALUATION

We issue a sell recommendation on Bua Cement with a Target price of ₦58.6 per share, representing a 13% downside from the closing price of ₦70.75 per share on March 30th, 2022. Our Target price is based on a mix of three methodologies - the discounted cash flow(DCF) to the firm model with a Target price of ₦69, the dividend discount model with a Target price of ₦44, and a relative valuation (EBITDA multiple) with a Target price of ₦31. We, respectively, attributed a weight of 70%, 10%, and 20% to each methodology. The choice of attributing less weight to DDM and Multiples valuation is driven by the following; (a) Bua cement just started paying out dividends in 2020 and does not yet have a long and stable dividend payout history, and (b) lack of enough comparable companies to Bua cement as they are only three major firms in the industry.

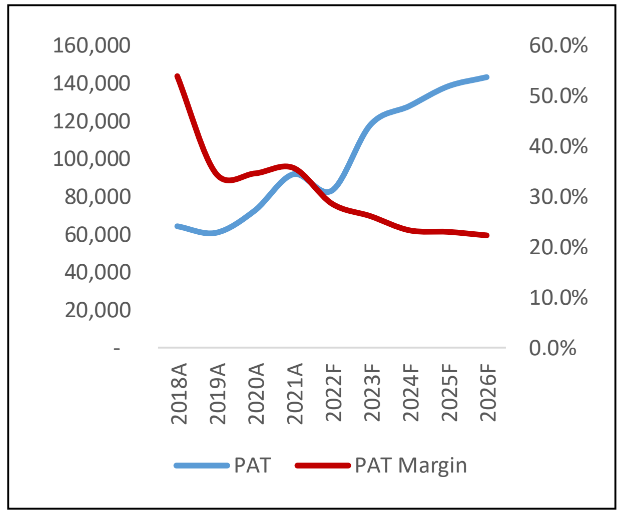

Figure 15 – source: Company report; team analysis

Estimating the risk-adjusted discount rate. We applied a WACC of 16.71% to discount the Free cash flow to the firm. We adjusted the company's capital mix giving an optimum debt weight of 10% of the market enterprise value. The computation of cost of equity is based on the capital asset pricing model using the following inputs; (a) Risk-free rate equals 10-year Nigeria government bond rate of 12.25%, (b) Nigeria's market risk premium of 9.68% gotten from Aswath Damodaran website. (c) 0.55 Beta obtained from the Covariance/Variance analysis of the NGX ASI and Bua cement share price daily performance since 2020 which was unlevered using the company's current capital structure.

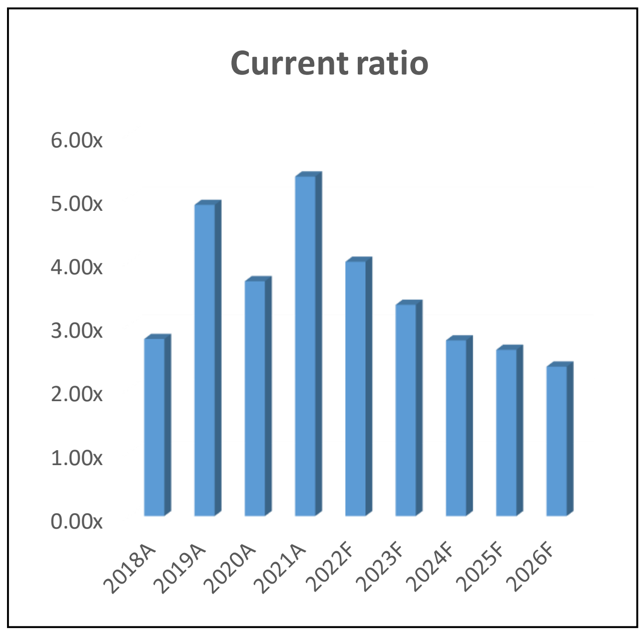

Figure 16 – source: Company report; team analysis

INTRINSIC VALUATION

Discounted cash flow model: The DCF model was selected because Bua cement has a quite stable free cash flow expected to increase over time which reflects the fundamentals of the company. A very optimistic combination of a 16.71% discount rate(WACC) and a terminal growth rate of 11% which is our expected long-term real GDP growth rate of the cement industry resulted in an intrinsic share price of ₦69 representing a 3% downside.

Dividend discount model: we included a DDM in our analysis with a weighting of 10% and a Target price of ₦44 per share representing a downside of 38%. Our dividend forecast reflects a CAGR of 13%, this continuous growth is based on the company's ability to generate strong earnings for its shareholders at an average payout ratio of 86% which resulted in an equity value of ₦2.36 trillion.

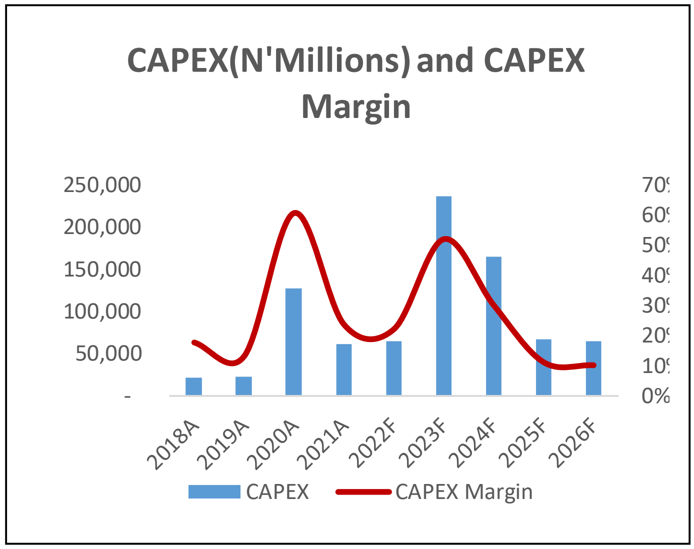

Figure 17 – source: Company report; team analysis

RELATIVE VALUATION

This methodology was primarily focused on an EV/EBITDA multiple. This is due to the importance of EBITDA as a pre-interest, pre-depreciation, and amortization cash flow figure. We analyzed and valued the company based on the industry average of 8.3x which resulted in an intrinsic value of ₦31. This represents a downside of 56%. Due to the large discount to its current share price, we remain confident that this valuation reaffirms our sell recommendation and validates our Target price of ₦58.6 per share.

CONCLUSION

Though we issued a sell recommendation on BUA Cement plc, which mostly was influenced by our relative valuation methodology. Putting into consideration the disadvantages of the Multiples valuation used for this firm, which is inconsiderate of the firm's growth rate, we strongly believe that Bua cement's market share price could still trade at a premium for a very long time. Our proposition is based on the market sentiment together with a continuous sound performance of the company, resulting from a highly unserved market in an undervalued industry.

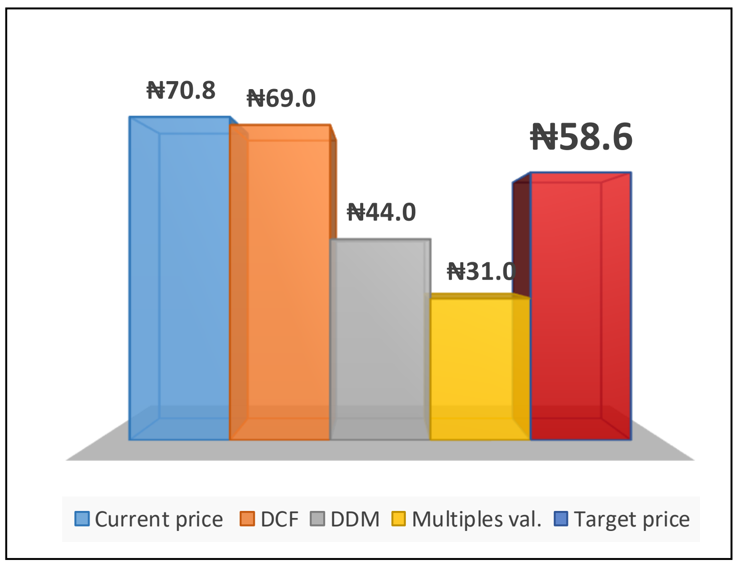

Figure 18 – source: team analysis

Appendices

1 - Statement of profit or loss

INCOME STATEMENT (N'MILLIOMS)	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	119,012	175,518	209,443	257,333	291,060	453,220	550,000	603,000	644,000
Cost of sales	(59,060)	(93,075)	(113,965)	(137,240)	(159,555)	(249,630)	(299,442)	(329,321)	(351,275)
Gross profit	59,952	82,443	95,478	120,093	131,505	203,590	250,558	273,679	292,725
Other income	3,953	50	376	1,438	3,953	50	376	1,438	3,953
Selling and Distribution Costs	(6,081)	(4,307)	(4,867)	(8,026)	(10,187)	(19,035)	(24,750)	(27,316)	(29,302)
Administrative Expenses	(12,522)	(10,516)	(10,320)	(8,735)	(11,465)	(19,711)	(26,097)	(27,664)	(29,499)
Impairment write back	(2,461)	3,758	1,356	-	-	-	-	-	-
Operating Profit	42,841	71,428	82,023	104,769	113,805	164,894	200,087	220,138	237,877
Finance income	75	157	860	654	1,659	1,797	3,144	3,918	2,529
Finance Costs	(3,750)	(5,349)	(3,836)	(126)	(17,415)	(23,907)	(36,457)	(38,825)	(34,952)
Minimum Tax charge	-	(11)	(171)	(266)	(301)	(468)	(569)	(623)	(666)
Profit Before Taxes	39,166	66,225	78,876	105,031	97,748	142,314	166,205	184,608	204,789
Income tax expense	24,905	(5,614)	(6,529)	(13,288)	(14,662)	(24,193)	(38,227)	(46,152)	(61,437)
Profit After Taxes	64,071	60,611	72,347	91,743	83,086	118,121	127,978	138,456	143,352

2 – Vertical analysis

PL VERTICAL ANALYSIS	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of sales	-50%	-53%	-54%	-53%	-55%	-55%	-54%	-55%	-55%
Gross profit	50%	47%	46%	47%	45%	45%	46%	45%	45%
Other income	3%	0%	0%	1%	1%	0%	0%	0%	1%
Selling and Distribution Costs	-5%	-2%	-2%	-3%	-4%	-4%	-5%	-5%	-5%
Administrative Expenses	-11%	-6%	-5%	-3%	-4%	-4%	-5%	-5%	-5%
Impairment write back	-2%	2%	1%	0%	0%	0%	0%	0%	0%
Operating Profit	36%	41%	39%	41%	39%	36%	36%	37%	37%
Finance income	0%	0%	0%	0%	1%	0%	1%	1%	0%
Finance Costs	-3%	-3%	-2%	0%	-6%	-5%	-7%	-6%	-5%
Minimum Tax charge	0%	0%	0%	0%	0%	0%	0%	0%	0%
Profit Before Taxes	33%	38%	38%	41%	34%	31%	30%	31%	32%
Effective tax rate	64%	-8%	-8%	-13%	-15%	-17%	-23%	-25%	-30%
Profit After Taxes	54%	35%	35%	36%	29%	26%	23%	23%	22%

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Date: 25th April. 2022

3 - Statement of Financial position

STATEMENT OF FINANCIAL POSITION (N'MILLIONS)	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
ASSETS										
Non-current assets										
Property plant and equipment		387,435	393,406	523,313	580,859	624,386	829,490	958,329	983,724	1,004,958
Right-of-use of assets		-	76	70	77	103	149	180	204	214
Intangible assets		1,024	2,782	4,285	4,993	5,728	8,856	10,786	11,804	12,618
Deferred tax assets		10,972	12,141	-	-	-	-	-	-	-
Total non-current assets	**-**	**399,431**	**408,405**	**527,668**	**585,929**	**630,218**	**838,495**	**969,295**	**995,732**	**1,017,790**
Current assets										
Inventories		20,933	27,202	31,505	41,093	41,767	65,488	78,792	86,388	92,212
Due from related parties		62,361	16,754	-	-	-	-	-	-	-
Trade and other recievables		2,434	2,619	83,308	39,234	44,733	69,702	84,557	92,714	99,019
Cash and cash equivalents		2,815	15,587	123,821	62,250	67,434	117,986	147,067	94,919	161,700
Total current assets	**-**	**88,543**	**62,162**	**238,634**	**142,577**	**153,933**	**253,176**	**310,417**	**274,021**	**352,930**
Total assets	**-**	**487,974**	**470,567**	**766,302**	**728,506**	**784,151**	**1,091,671**	**1,279,712**	**1,269,753**	**1,370,720**
EQUITY										
Share capital		16,932	16,932	16,932	16,933	16,932	16,932	16,932	16,932	16,932
Retained earnings		91,481	146,834	159,916	181,658	189,967	207,685	226,881	247,650	269,153
Reorganisation reserve		200,004	200,004	200,004	200,005	200,004	200,004	200,004	200,004	200,004
Actuarial reserve		195	(72)	(897)	(773)	(773)	(773)	(773)	(773)	(773)
Total equity	**-**	**308,612**	**363,698**	**375,955**	**397,822**	**406,130**	**423,848**	**443,044**	**463,813**	**485,316**
LIABILITIES										
Current liablilities										
Bank overdraft		102	562		-	-	-	-	-	-
Trade and other payables		34,287	36,342	23,869	22,305	40,587	48,329	75,573	59,075	87,448
Contract liabilities		7,937	32,869	42,138	78,244	101,871	158,627	192,500	211,050	225,400
Due to related parties		124,075	919	34,498	1,416	1,416	1,416	1,416	1,416	1,416
Current tax liabilities		2,258	814	922	1,726	14,922	36,212	70,234	111,079	165,604
short-term borrowings		3,717	20,861	105,649	32,241	36,950	84,119	124,084	103,619	104,208
Lease liabilities		-	42	37	39	31	28	24	21	18
Government grant		26	6	901	902	901	901	901	901	901
Provision for decomisioning liabilities		3,346	4,048	124	-	-	-	-	-	-
Total current Liabilities	**-**	**175,748**	**96,461**	**208,138**	**136,873**	**196,679**	**329,632**	**464,732**	**487,161**	**584,995**
Non-current liabilities										
Lease liabilities		-	7		-	-	-	-	-	-
Long-term borrowings		118		50,449	51,672	55,425	126,178	186,126	155,429	156,312
Debt security issued		-		113,195	113,551	97,330	183,425	157,222	134,761	115,510
Employee benefit obligations		2,202	2,909	3,646	3,760	3,760	3,760	3,760	3,760	3,760
Deferred tax liabilities		1,288	7,492	1,120	13,071	13,071	13,071	13,071	13,071	13,071
Government grant				4,632	4,918	4,918	4,918	4,918	4,918	4,918
Provision for decomisioning liabilities		6		9,167	6,840	6,840	6,840	6,840	6,840	6,840
Total non-current liabilities	**-**	**3,614**	**10,408**	**182,209**	**193,812**	**181,343**	**338,192**	**371,936**	**318,779**	**300,410**
Total liabilities	**-**	**179,362**	**106,869**	**390,347**	**330,684**	**378,022**	**667,824**	**836,668**	**805,940**	**885,405**
Total equity and liabilities	**-**	**487,974**	**470,567**	**766,302**	**728,506**	**784,151**	**1,091,671**	**1,279,712**	**1,269,753**	**1,370,720**
check?	-	-	-	-	-	-	-	-	-	-

4 - Statement of Cash flows

CASH FLOW STATEMENT (N'MILLIONS)	2017A	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Profit before income taxes		39,166	66,225	78,876	105,032	97,748	142,314	166,205	184,608	204,789
Adjustments for:										
Depreciation and impairment of PPE		6,553	13,946	15,199	15,269	20,506	30,571	36,161	40,934	43,166
Amortisation and impairment of intangible assets		57	148	228	395	453	701	853	934	998
Write off of Intangible assets		-	12	-	-	-	-	-	-	-
Unrealised foreign exchange losses		3,786	183	616	-	-	-	-	-	-
Net impairment gain/loss on financial asset		2,461	(3,758)	(1,356)	-	-	-	-	-	-
Decommissioning Liability- unwinding of discount		-	-	-	(1,533)	-	-	-	-	-
Unwinding of Deferred revenue		-	-	-	(1,146)	-	-	-	-	-
Minimum Tax		-	11	171	266	301	468	569	623	666
Profit on disposal of PPE		(8)				-	-	-	-	-
Depreciation of right of use asset		-	38	56	82	78	129	160	169	184
Defined Benefit Plan Amendment		-	67	1,187		-	-	-	-	-
Provision for end of service benefit obligation		442	391	(65)	433	-	-	-	-	-
Finance income		(75)	(157)	(860)	(654)	(1,659)	(1,797)	(3,144)	(3,918)	(2,529)
Finance cost		3,750	5,349	3,836	126	17,415	23,907	36,457	38,825	34,952
Cash flow from operation before WC		**56,132**	**82,455**	**97,888**	**118,270**	**134,843**	**196,294**	**237,261**	**262,175**	**282,225**
(Increase)/Decrease in trade and other receivables		(1,397)	(185)	(80,689)	44,074	(5,499)	(24,969)	(14,856)	(8,157)	(6,305)
(Increase)/Decrease in inventories		(8,433)	(6,268)	(4,304)	(9,588)	(674)	(23,721)	(13,305)	(7,596)	(5,824)
(Increase)/Decrease in due from related parties		(28,438)	51,557	17,030						
Increase in prepayment (right of use asset)		-	(77)	6	(89)	(26)	(46)	(31)	(23)	(10)
Increase/(Decrease) in trade and other payables		(1,840)	2,055	(12,473)	(1,564)	18,282	7,742	27,244	(16,498)	28,373
Increase/(Decrease) in due to related parties		(5,367)	(125,666)	32,843	(33,082)	-	-	-	-	-
Increase in contract liabilities		5,941	24,932	9,269	36,105	23,627	56,756	33,873	18,550	14,350
Increase/(Decrease) in Government Grant		(42)	(26)	5,527	(210)	(0)	0	(0)	0	(0)
Increase/(Decrease) in provisions		-	-	-	7	-	-	-	-	-
Cash flows net investment in WC		**16,556**	**28,777**	**65,097**	**153,923**	**170,553**	**212,056**	**270,187**	**248,452**	**312,810**
Defined benefit paid during the year		(262)	(67)	(101)	(106)	(380)	(597)	(728)	(793)	(849)
Interest received		75	100	860	-	1,659	1,797	3,144	3,918	2,529
Interest paid		(420)	(432)							
Interest repayment		(389)	(2,478)	(13,287)	(11,947)	(17,415)	(23,907)	(36,457)	(38,825)	(34,952)
Tax paid		(334)	(1,919)	(744)	(863)	(1,466)	(2,903)	(4,205)	(5,307)	(6,912)
Net cash generated from operations		**15,226**	**23,981**	**51,825**	**141,007**	**152,950**	**186,444**	**231,940**	**207,445**	**272,627**
Investing activities										
Purchase of property, plant and equipment		(20,924)	(22,794)	(127,119)	(60,667)	(64,033)	(235,674)	(165,000)	(66,330)	(64,400)
Purchase of intangible assets		(114)	(460)	(1,731)	(1,103)	(1,189)	(3,829)	(2,783)	(1,952)	(1,812)
Proceeds from disposal of property, plant and equipment		22		-	-					
Net cash flows from investing activities		**(21,016)**	**(23,254)**	**(128,850)**	**(61,770)**	**(65,222)**	**(239,503)**	**(167,783)**	**(68,282)**	**(66,212)**
Financing activities										
Lease Liabilities increase/(decrease)		-	(5)	(65)	2	(8)	(3)	(4)	(3)	(3)
Dividend paid to equity holders		(1,571)	(5,257)	(59,263)	(70,000)	(74,777)	(100,403)	(108,781)	(117,687)	(121,849)
Proceed from borrowing		5,626	56,737	228,722	-	50,000	150,000	150,000	-	50,000
Proceeds from debt security issued		-	-	113,170	-	-	100,000	-	-	-
Net repayment of borrowings		(2,474)	(39,905)	(96,768)	(72,713)	(57,760)	(45,983)	(76,290)	(73,621)	(67,781)
Net cash flows from financing activities		**1,581**	**11,570**	**185,796**	**(142,711)**	**(82,545)**	**103,611**	**(35,076)**	**(191,312)**	**(139,633)**
Net cash and cash equivalent		**(4,209)**	**12,297**	**108,771**	**(63,474)**	**5,184**	**50,552**	**29,081**	**(52,149)**	**66,781**
Cash and cash equivalents at Beginning		6,921	2,713	15,024	123,821	60,347	65,531	116,083	145,164	93,016
Effect on exchange rate difference			16	25	-	-				
Cash and cash equivalents at End		**2,712**	**15,026**	**123,820**	**60,347**	**65,531**	**116,083**	**145,164**	**93,016**	**159,797**

5 – Discount rate

CAPITAL STRUCTURE		
DEBT	**Book value of debt**	**weight to total debt**
Short term borrowings	32,241	16%
First bank term loan	15,999	8%
Fidelity bank RSSF loan	17,724	9%
Union bank RSSF loan	17,949	9%
Bua cement series 1 bond	113,551	57%
Total	197,503	100%
EQUITY	**Market value of equity**	
value	2,395,903	
Total captital structure	**2,593,406**	
Actual		
Debt	8%	
Equity	92%	
Target		
Debt	10%	
Equity	90%	

WEIGHT AVERAGE COST OF CAPITAL	
COST OF EQUITY	
Risk free rate	12.25%
Equity risk premium	9.68%
Beta	0.55
cost of equity	**17.53%**
COST OF DEBT	
Risk free rate	12.25%
Corporate debt spread	1.00%
Gross cost of debt	13.25%
tax	30.00%
cost of debt	**9.28%**
WACC	**16.71%**

6 – Working capital

Working capital schedule	2018A	2019A	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Current assets									
Trade and other recievables	2,434	2,619	83,308	39,234	44,733	69,702	84,557	92,714	99,019
Inventories	20,933	27,202	31,505	41,093	41,767	65,488	78,792	86,388	92,212
Total current assest	23,367	29,821	114,813	80,327	86,499	135,190	163,350	179,102	191,230
Current liabilities									
Trade and other payables	34,287	36,342	23,869	22,305	40,587	48,329	75,573	59,075	87,448
Contract liabilities	7,937	32,869	42,138	78,244	101,871	158,627	192,500	211,050	225,400
Current tax liabilities	2,258	814	922	1,726	14,922	36,212	70,234	111,079	165,604
short-term borrowings	3,717	20,861	105,649	32,241	36,950	84,119	124,084	103,619	104,208
Total non current assets	48,199	90,885	172,578	134,516	194,330	327,287	462,391	484,823	582,660
Net working capital	(24,832)	(61,064)	(57,765)	(54,189)	(107,831)	(192,097)	(299,041)	(305,721)	(391,429)
Changes in working capital		36,232	(3,299)	(3,576)	53,642	84,266	106,944	6,680	85,708

7 – Sensitivity analysis

DCF

69	14%	15%	16%	17%	18%	19%	20%
7%	62	53	45	41	35	31	28
8%	71	60	51	46	38	34	30
9%	85	69	58	51	43	37	33
10%	106	82	67	59	48	41	36
11%	140	102	80	69	54	46	40
12%	209	135	99	83	63	52	45
13%	414	202	131	104	75	61	51

WACC	16.71%
Perpetuity growth rat	11%

DDM

44	14%	15%	16%	17%	18%	19%	20%
7%	40	35	31	29	26	24	22
8%	45	39	34	31	27	25	23
9%	53	44	38	34	30	27	24
10%	64	51	43	38	32	29	26
11%	82	62	50	44	36	31	28
12%	119	80	60	51	40	35	30
13%	229	115	77	63	47	39	34

8 – Comparable Multiples

VALUATION MULTIPLES		EV/REVENUE	EV/EBITDA	P/E
DANGOTE CEMENT	DANGCEM	3.6x	8.3x	12.8x
LARFARGE	WAPCO	1.2x	5.0x	7.5x
LARFARGEHOLCIM	LHM.CS	7.0x	12.6x	28.7x
Maximum		7.0x	12.6x	28.7x
75th Percentile		5.3x	10.4x	20.7x
Median		**3.6x**	**8.3x**	**12.8x**
25th Percentile		2.4x	6.6x	10.2x
Minimum		1.2x	5.0x	7.5x
BUA CEMENT	BUACEMENT	9.8x	21.3x	26.1x