Conference Call transcript

13 March 2025

BUA CEMENT FY 2024 RESULTS

Operator
Good day, ladies and gentlemen, and welcome to BUA Cement's presentation to analysts and investors for the full year 2024. All attendees will be in listen-only mode. There will be an opportunity to ask questions when prompted. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please note that this event is being recorded. I'd now like to hand the conference over to the Managing Director and Chief Executive Officer, Mr Yusuf Binji. Please go ahead, sir.

Yusuf Binji
Good day, everyone. Thank you for joining us on this call. Today, I will be presenting with Mr Chikezie Ajaero, the Chief Financial Officer that was appointed following the departure of Jacques Piekarski. Chike has been with BUA Group and BUA Cement for the past 20 years and he has held various roles within the finance department until his appointment as the CFO in August last year. My name is Yusuf Binji.

Full year 2024 was a very significant year for us as we commissioned the two new lines at Obu and Sokoto along with two new 70-megawatt power plants. As such, our current installed capacity rose to 17 million metric tonnes per annum in 2024. In addition, we conducted the ground-breaking ceremony for a greenfield 3 million metric tons per annum cement plant at Ososo in Edo State. This will be a state-of-the-art facility running on very economical fuel mix. Upon completion, it will increase our installed capacity to 20 million metric tonnes per annum by the end of 2026.

You already know who we are. BUA Cement is the largest producer of cement in the Northwest, South-South, and the South-Eastern parts of Nigeria. We operate six model lines that are operational across two states, in Sokoto in the northwest and in Edo State in the south. We have been highly rated by the credit rating agencies. We have an AA rating from DataPro and an A+ from Agusto & Co. As at the end of December we have a market capitalisation of ₦3.1 trillion, making us among the top 10 highly capitalised companies in Nigeria.

Now I will talk about our performance in 2024. In terms of the economy and its impact on the business, the continued depreciation of the Naira posed continued challenges for us, impacting our operating and financing costs as the Naira went from ₦907 to a Dollar in January 2024 to ₦1,535 to the Dollar as of December.

Now if you will turn with me to slide 10, which has been shared before the start of this programme, you will see our performance highlights, which we titled a recovery amid volatile currency environment. Against this background, net revenue increased by 90.5% to ₦876.5 billion from ₦460 billion recorded in the prior year. Equally, EBITDA increased by 43.8% to ₦268.6 billion from ₦186.8 billion in 2023, even though EBITDA margin dropped by 10 percentage points to 30.6% from 40.6% in 2023. However, the profit after tax increased by 6.4%

to ₦73.9 billion from ₦69.5 billion recorded in 2023 while earnings per share went up by 6.3% to 218 Kobo from 205 Kobo in 2023.

Now if you will turn with me to slide 11, you will see that our revenue per ton increased by 56.8% to ₦107,092 from ₦68,293 in 2023. The EBITDA increased by 43.8% like I mentioned earlier following the increase in top line revenue even though this was offset by rising operating costs that was driven by the depreciation of the Naira. Consequently, our EBITDA margin dropped to 30.6% from 40.6% in the preceding year.

Turning to slide 12, we highlight the evolution of EBITDA in 2024. Our net revenue increased by ₦416.5 billion year on year, while cost of sales increased by ₦300.2 billion. The major drivers for the increase in cost of sales include the increase in operational activities, operations and maintenance charges, energy costs, staff costs, and depreciation charges. In addition, selling, distribution and admin costs increased by ₦34.5 billion due to the increase in fleet size, fuelling cost, donations, etc. In 2024, we added 515 trucks to our existing fleet.

Now, when we turn to slide 13 we show the impact of forex volatility on our operations. The cost of sales per ton increased to ₦70,405 from ₦40,983 in 2023 due to factors already earlier highlighted in the previous slide. The energy cost per ton increased to ₦34,515 from ₦18,301 in 2023, following a price review, depreciation of the Naira and increase in operational activities. Selling, distribution and administrative cost per ton increased to ₦7,932 from ₦6,441 in 2023, due to an increase in distribution costs resulting from an increase in our fleet size, fuelling costs, depreciation charges, staff costs, security expenses, etc.

On slide 15, you are going to see a highlight of our priorities for the current year 2025. Our focus this year is to stabilise our new lines, deepen our footprint in new and existing markets, and most importantly, drive significant cost reductions in our cost profile. We have started implementing measures to deal with these costs, and you will see the positive outcomes from this year.

If you will turn with me to slide 17, we showcase our environmental and social scorecard. We achieved a 24% increase in production yet maintaining a low net emission impact of 2.9% and energy consumption of 4.8%. Although through resource efficiency, water recycling improved by 5%, we are also attaining a 66% reduction of freshwater aquifers. On sustainable development, we remain committed to minimising the impact of our activities on the environment and continue to engage with all stakeholders.

Implementing community development initiatives through tangible investments, such as providing university scholarships, improving the water supply and healthcare facilities and facilitating skills acquisition to youths. We are implementing our environmental and social action plan according to International Finance Corporation/ World Bank performance standards to ensure efficient management of environmental and social risks, labour and working conditions, resource efficiency and pollution prevention, community health and safety, land acquisition and involuntary resettlement, as well as biodiversity conservation and sustainable management of living natural resources. Ladies and gentlemen, thank you for your patience at this stage. I will request for the lines to be open so we can address some of your questions. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, to the participants who have joined on the webcast, you are welcome to submit your questions in the question box provided on your screen. To the participants who have dialled into the call and would like to ask a verbal question, you may do so by pressing * and then 1 on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press * 2 to exit the question queue. We will pause a moment while we assemble the questions. Our first question comes from the telephone lines from Joshua Chinga of EDC Securities Limited in Nigeria. Please go ahead.

Joshua Chinga
Hello, good afternoon, and thank you very much for your presentation. Congratulations to your wonderful performance. I noticed that the external markets, in terms of your export markets, you intend to export to your external markets. I would like to know which markets are you targeting, which markets are you looking at expanding to and what impact will that have on your financials? Can you give a little guidance around that? Thank you.

Yusuf Binji
Okay, thank you very much. Our market expansion is primarily internally. We want to cover all nooks and corners of Nigeria. That is our priority. And if we have any surplus there, we will export. The traditional export route for us is from our Sokoto plant into the Niger Republic and Burkina Faso. But you are also not unaware of the political turmoil and the change of government and the question or decisions whether those countries are going to be part of a course or not. So, I believe at the moment that is a bit of a hindrance, even though we are still doing some very limited export, less than 1% of our production into Niger Republic. Thank you.

Joshua Chinga
Thank you very much for that. That will be all from me.

Operator
Thank you. At this stage, we have no further questions from the telephone lines. I will now hand over for written questions submitted by the webcast.

Ladipo Ogunlesi [?]
Okay, good afternoon, everyone. Our first question is from Amirat Adamu from ARM. The question reads, what is your current capacity utilisation and by how much do you plan to expand it in the future? The follow-up question is, did production volumes increase and what were the key drivers of your revenue growth? Third question, why did cement exports decline in 2024 full year compared to 2023 full year? Fourth question, how do you plan to manage operating expenses? And finally, what strategies do you have in place to manage your FX exposure moving forward? Thank you.

Yusuf Binji
Okay, thank you very much. A lot of questions. I will attempt to answer the first three and then I will call in my CFO to answer the last two. The capacity utilisation, if you look at it, it was a little below 60%. But mind you, we started two new production lines. At the beginning of 2024, our installed capacity was 11 million tonnes per annum. Then by the end of the year, it moved to 17 million tonnes per annum because we commissioned two

new lines with a total combined capacity of 6 million tonnes. So, it may not be exactly correct when we try to translate our actual production as a function of our install capacity.

I think 2025 will give a much better idea of where we are operating. Now, the increases that we have seen, when you look at the key drivers, you can see pricing also has a big effect, as well as volume increase. And that resulted in the significant increase in our turnover, which almost doubled in 2024 compared to 2023. You know, we commissioned two new lines, and the impact was there and also better capacity utilisation. And don't forget also I believe in 2024 the overall national demand for cement went up by about 14% compared to 2023. So, all this accounted for the increases that you have seen.

Yeah, it's true that our exports went down for reasons that I mentioned earlier. We had the closure of the border after the change of government in the Niger Republic. And that is still also impacting our ability to export cement to the two neighbouring West African countries. And we are also not unaware of the decision of those countries to distance themselves from the Economic Community of West African states. So, like I said earlier, the export is still accounting for less than 1% of our total production. Mr Chike, if you are with us, can you also give an insight on the operational cost management and also how we are managing our forex?

Chike Ajaero

Thank you, MD, and thank you, Amirat, for the question. On how we are managing our operating expenses, if you have looked at our financials, you see our cost is heavy. It's mostly on energy and O&M. So, presently we are already diversifying our energy mix to ensure that we use more of energy that is less tied to fluctuation in foreign exchange. Then we are currently negotiating the contracts that we have on operation and maintenance of our plants to ensure that we have more of local content than foreign. So, with these two measures we are quite sure of driving our cost down significantly.

Then on the forex exposure, equally if you have taken note of the movement in our financials that was uploaded last week that's reported to the public, you will see there have been a significant drop on our exposure to import finance facilities. So, our target is to minimise the exposure that we have on foreign denominated facilities that we have before now locally. Then on the IFC loan, which you are equally aware that we have, and the volume of the IFC loan is $300 million, which is quite substantial. So, on our own part, we are trying to manage by hedging on the cash flow, the cash flow requirement on interest repayments.

So, once we are doing the accrual of interest, we make sure that we provide the cash flow that will be required for the payment of that interest to match the same rates that we'll use in accruing so that on payment, there won't be any need to book additional gain or loss on forex. Equally, on the fair value, based on the volume of the loan, the fair value valuation, knowing that the loan, based on the tenure, is a very long-term loan. So, it's absolutely difficult when it was not hedged at the initial recognition to hedge for the fair value. So, on that part, for the fact that the lines that were financed from the loan are currently in production. So, it's expected that the increased dispatch and profits that we'll gain from the lines that is already running, it will give us enough margin and profits that will help us insulate any shock that might come from fluctuation in exchange rates.

So, these two key items by trying to as much as possible match our cash flow interest payments with the rates that we use in accruing for those interests and making sure that this will grow margin to a sizable portion so that we will not have any cost to have a lower profit at the end of the day from fluctuation in exchange rates. Thank you.

Ladipo Ogunlesi [?]

Thank you, sir. Our next question is from Abeeblahi Rufai, CardinalStone Partners. His question reads, good afternoon, Abeeblahi from CardinalStone Partners. A couple of questions. What is your outlook for volumes in 2025? What is the capex guidance for the year? Should we expect a continuation of the significant capital expenditure witnessed in 2024? Also, are there any plans to raise capital, either through debt or equity, to fund capex or other expansion initiatives?

The financials indicate a nearly six-fold increase in trade payables. What caused this significant spike? Is this a one-off event and what is your guidance on the expected average payables days? In 2024, there was a notable increase in principal repayments on borrowings with relatively low additional drawdowns. Would you say this is a strategy to reduce debt exposure? What are your borrowing plans for 2025 in terms of new drawdowns and repayments? Okay, a couple of questions on FX. What is your outlook on FX losses in 2025? In addition, financial statements show a foreign exchange gain of ₦98 billion. What is the driver? Thank you.

Yusuf Binji

Thank you very much Mr Rufai. We will try to answer your questions together with my Finance Director. But let me just correct your last question. I think there was no forex gain in 2024. It was a forex loss of about ₦93.9 billion. Regarding our volume outlook for 2025, it all depends on the cement demand in Nigeria, but certainly I think it's going to be about 11 to 12 million tonnes annum.

We do not have much huge capex that will come up in 2025. As you know, we have completed two of our lines and all expenditures related to this are expensed. And we have one ongoing project, but I think the payments are not so significant during 2025. We are building a new greenfield plant in Ososo in Edo State. But this is the plant that was moved from another place, and I think substantial payments have already been made. We do not have any plan to raise capital during this year because I believe there won’t be need to go to the capital market so to say.

As you are aware we have a facility from the IFC, AFC, AFDB, and DEG of $500 million, of which we have drawn down about $300 million. The balance of the second tranche of $200 million will be drawn down whenever we are able to meet the milestones and the conditions for the draw down. I will allow Mr Chike to talk on the increase in borrowings and the forex losses also being expected in 2025. I hope there won't be any. Chike?

Chike Ajaero

That's the hope. If I have the crystal ball to predict where the forex will end this year, that means that I'll be a superman. So, it's full of uncertainty that nobody can easily say that this is how. But based on government assurance that they are looking at and budgets, those figures, we are optimistic that if government keeps to the end of their own bargain, that the forex will be more stable in 2025 compared with the volatility that we had in 2024.

Then going on the gain, yes, we have some gain, but at the end, it was a net foreign exchange loss. If you remember or you recall that we had a $300 million loan from IFC, of which the cash was not fully committed as at 2024. So, we had some cash that we have fixed in the bank which we eventually used for the project. So, for cash it will attract exchange gain, while liability will attract exchange loss. So, if you now look at the magnitude of the cash compared to the exposure to the loan, you see that the exposure is higher than the cash that is available. So, the gain is actually coming from the cash that have not been spent from the loan that we had from our lenders.

Then you asked about the spike in trade payables. Majorly, the spike is a reflection of the devaluation of our currency. We still have some foreign creditors that we are revalued at the current rates or at the closing rate of ₦1,538 compared to maybe a lower rate as at the time the liabilities were booked. Then we commissioned two new lines in 2024 and part of the agreement that we have with the EPC contractor is that a percentage, about a certain percentage of the contract sum will be paid about 12 months after commissioning of the plants. And based on accounting, we are capitalising. You have to accrue for all anticipated expenditure and all commitments that are known.

So, for accruing for the retention that will be payable in the next 12 months after the commissioning is what actually gave rise to the increase that we had in trade and other payables. Then you equally mentioned our loan came down. Yes. As part of the strategy, I mentioned before, that we have it to pay down on all our foreign denominated liabilities, especially import finance facility. So, that plan started in 2024, of which we're able to achieve a significant reduction. Then our bond, Series 1, we have a ₦115 billion bond. The repayment of the principal kicked in in June 2024. So, we have already done two repayments, June 2024 and December 2024. Those repayments and the reduction in our import finance facilities are what's accounted for the drop that we had on our exposure to loans. I hope this explanation is enough for the questions that you have asked. Thank you.

Ladipo Ogunlesi [?]

Thank you, sir. Our next question is from Segun Adams, Afrinvest. He says congratulations on your strong performance in 2024. Could you provide insights into your actual volumes for 2025 and your outlook for this year. Additionally, the pioneer status adjustment had a significant impact on the bottom line. Could you offer guidance on expectations moving forward? Do you expect net margin to remain pressured in 2025? Lastly, I would appreciate any comments on the substantial drawdown in the cash reserve in 2024. I think that's already been answered. Thank you.

Yusuf Binji

Let me answer the first question regarding our volume. In 2024 we actually dispatched 8,138,800 tonnes of cement compared to 6,712,210 tonnes of cement in 2023. So, I think that is the most significant information. Mr Chike, can you help us out on this net margin that he's talking about in 2025 and the drawdown? I think you have already answered that in the previous question.

Chike Ajaero

Yeah, on the tax we still have a pioneer status on two of our lines. The line 5 and line 3 in Obu. It is to run for three years, commencing in May 2024. Then if you are looking at the tax, income tax and deferred tax, you will see that the bulk of the tax is on deferred tax, while the actual income tax, from the exposure of about ₦25 billion, the actual income tax payable is about ₦2.3 billion compared to the ₦25.7 billion that was provided. So, we still will continue to maintain a low-income tax payment based on the pioneer that we are enjoying. Then it's equally expected that the deferred tax will not be as high as what we had in 2024.

So, if you check there was a prior year adjustment where the past computation of 2023 audited accounts was actually adjusted into 2024 by the consolidation of our capital allowances of both plans, which helped us to reduce our income tax payable for2023. So, that adjustment that is now reflected in 2024 is what actually accounted for the magnitude of the income and deferred tax liability that you saw in our audited account for 2024. I don't know if there is any aspect of the question that we missed out.

Ladipo Ogunlesi
I think everything was answered. Everything has been answered.

Ladipo Ogunlesi [?]
Thank you. The next question is from Opemipo Folorunsho, Meristem Securities. The question reads, does BUA Cement have any plans to reduce fleet costs by switching to alternative energy sources? Thank you.

Yusuf Binji
Yes, Mr Folorunsho. Certainly, we have plans to switch over to cheaper source of energy as long as they are available and readily affordable everywhere within Nigeria. Right now, our fleet of vehicles are using diesel, which you know is a deregulated product. And the price even though it has moderated sometime last year beginning of the year, we were having prices up to ₦1,700 or ₦1,800 a litre. But I think that has stabilised to around ₦1,150 a litre. But certainly, if there are other cheaper sources of energy like CNG and LNG and as long as they are available everywhere in Nigeria, definitely we are going to do some conversion of our fleet to ensure that we also benefit from this cost reduction.

Ladipo Ogunlesi [?]
Thank you, sir. I have a similar question from Adedoyin Animashaun from Stanbic IBTC Pension Managers. The question reads, please what are the alternative sources of energy the company is looking at to curtail the energy cost? Thank you.

Yusuf Binji
Well, for us as a cement plant, like we have mentioned so many times, we have designed our process in such a way that we are able to use solid, liquid or fuel energy sources. That means whenever we have availability of any of these energy sources at a cheaper price we can easily switch over. So, for example, I can tell you while in one of our plants we are using LNG to power the generators, in the other plant we are using natural gas from the pipeline, from the NNPC.

And also, in some of our furnaces we are using coal and combination of coal and LNG. Some we are using natural gas 100%. So, it all depends on the pricing. But our process is very flexible, and it can be able to accommodate any type of energy source, as long as it is economically viable. So, these are things that we do on a day-to-day basis by comparing the cost of energy and then switching over our highly flexible system to be able to run on such cheaper energy sources. So, you'll continue to see a mixture or a combination of various energy types. Thank you.

Ladipo Ogunlesi [?]

Thank you, sir. I have a last question from Moses Njuguna, Mazi Asset Management. What's your industry demand outlook for 2025? What are the drivers? Thank you.

Yusuf Binji

I think we have answered this question before regarding 2025. Thank you.

Ladipo Ogunlesi [?]

Judith, sorry, are there no questions on the webcast? Thank you.

Operator

Thank you. At this stage we have no further questions from the telephone lines and this brings us to the end of the question and answer session. I will now hand back for closing remarks.

Yusuf Binji

Thank you very much, ladies and gentlemen, for sharing a greater part of your day with us. We look forward to hosting you in the near future when we produce our subsequent results. Thank you and have a nice day.

Operator

Thank you, sir. Ladies and gentlemen, that concludes today's event. Thank you for attending and you may now disconnect your lines.

END OF TRANSCRIPT