BUA Cement Full Year 2023 Conference Call

Speaker Key:

OP	Operator
YB	Yusuf Binji
LO	Ladipo Ogunlesi
JP	Jacques Piekarski
FA	Finn Arnoldsen

00:00:02

OP Good day, ladies and gentlemen and welcome to the BUA Cement presentation to analysts and investors for the full year 2023. All participants will be in listen-only mode and there will be an opportunity to ask questions later during the conference.

If you should need assistance on the conference call, please signal an operator by pressing star and then zero. Please also note that this event is being recorded.

I will now hand over the conference to the Managing Director/Chief Executive Officer, Mr Yusuf Binji. Please go ahead, Sir.

YB Good day, everyone, and welcome to BUA Cement's Full Year 2023 conference call for analysts and investors. My name is Yusuf Binji, the Managing Director and CEO. Presenting with me on the call is Mr Jacques Piekarski, the Chief Financial Officer and Mr Finn Arnoldsen, the Group Chief Operating Officer for the Company.

Let me apologise for our inability to hold this conference call last week due to some network glitches that affected parts of Africa. We are deeply sorry for that. But we are glad we are holding it today. So, I'll go straight into the presentation, the copies which I'm sure must have been shared much earlier with the participants.

The operating environment in 2023 was largely challenging but which still afforded us some joyous moments. As you are aware, we faced quite a few headwinds, from the currency and design policy with its impact on currency and circulation, also the devaluation of the naira.

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Obviously, we launched the maiden edition of the BUA Cement Scratch and Win promo, we cold commissioned a new 3 million metric tons per annum lines at Sokoto and Obu, we activated the 70 megawatt gas power plant at the Sokoto plant, we took delivery of additional trucks. Finally, we maintained the steady rise in market share, which resulted in continued revenue growth.

Speaking our revenue, if you would turn with me to slide 10, you will see that net revenue rose by 27.4%, ₦460 billion, from ₦361 billion in the prior year, sustained by volume and price increase. Overall, performance was muted following the devaluation of the naira and its attendant impact on prices and also inflation.

EBITDA increased by 9.6% to ₦169.3 billion from ₦154.5 billion in 2022, even though EBITDA contracted by 6 percentage points owing to the high inflationary environment.

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In view on this, together with foreign exchange losses, profit after tax declined by 31.2% to ₦69.5 billion from ₦101 billion in 2022, with earnings per share equally down by 31.2% to ₦2.05 from ₦2.98 in 2022.

During the year we sustained our drive towards the environment, the safety of our staff and our community. Furthermore, we have begun taking active steps to align our reporting with SO1 and S2 IFRS sustainability disclosure standards.

Turning to slide 11, we show the impact of the rising cost environment and our response thereon. Revenue per ton increased by 18.7% to ₦68,293 from ₦57,511 in 2022 due to price increase. It is important to highlight here that though we instituted an ex factory price cut from 1 October, ideally the price cut had a retrospective effect because we extended the gesture to customers with undelivered orders as at that time.

Following our decision to price less aggressively, considering rising cost of sales, EBITDA margin contracted by 6 percentage points to 36.8% from 42.8% in 2022.

Again, as I mentioned during the last conference call, we believe we can leverage the increased volumes from the newly conditioned plants, drive further efficiencies across our operations and improve the contribution margin. EBITDA for the period increased by 9.6% to ₦169.3 billion, up from ₦154.5 billion in the preceding year.

Turning to slide 12, you will see the evolution of EBITDA. Revenue increased by ₦99 billion to ₦460 billion due to price and volume increases. Cost of sales increased by ₦78.1 billion to ₦276 billion from ₦497.9 billion due to price pressure. Major items accounting for the increase were energy costs; operation and maintenance service charge; other repair and maintenance expenses; staff costs and depreciation charges.

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The net Selling, Distribution and Administrative expenses increased by ₦6.2 billion to ₦14.7 billion from ₦8.5 billion in 2022, due to forex losses and distribution costs resulting from higher fuelling costs and increased fleet size, depreciation of PPE, etc.

Moving to slide 13, we show the movement across the cost heads on a per ton basis. Cost of Sales per ton increased by 30% to ₦40,983 from ₦31,535 in 2022. Energy costs per ton increased by 26% to ₦18,301 from ₦14,527 as a result of price increase and devaluation of the naira. Selling, Distribution and Administrative expenses increased by 28% to ₦6,141 from ₦4,799 in 2022, due to an increase in fuel prices and costs from an enlarged fleet size, depreciation of PPE also.

On slide 14 we provide an update on our strategic intents. So far the new plants, Sokoto and Obu, were completed and full commissioned as at the end of 2023. Hot commission was expected to take place in January 2024 and, indeed, it has been achieved. The 70 megawatt gas plant at Sokoto is operational and the sales, automation and payment integration projects have been completed. We look forward to the 70 megawatt gas power plant at Obu being operational by April 2024.

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Slide 15 highlights our environment and social impacts for the year. Considering the acquisition of additional quarry on-site vehicles and increasing production, greenhouse gas emissions increased by 1%, although production increased by 9%. Increased efficiency along the production processes led to improvement in energy use while enhanced monitoring and reporting led to improvement in water management.

In addition, we achieved a 63% increase in our social impact initiatives by implementing 49 initiatives across the local communities, addressing their needs in education, health, infrastructure and empowerment. We also created employment opportunities with over 21% of jobs locally contracted and who provided specialised services to the projects.

I will now ask for the telephone lines to be opened so that we can take your questions.

OP Thank you very much, Sir. Ladies and gentlemen on the conference call, if you do wish to ask a question, please press star and then one on your touch tone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. Participants joining from the webcast, you may submit your questions in the text box below the presentation.

Ladies and gentlemen on the conference call, if you do wish to ask a question, please press star and then one now. We will pause a moment to see if we have any questions. Sir, we have no questions on the conference call at the moment and I would like to hand over to Ladipo just for the webcast questions.

00:10:15

LO Thank you, Chris. Good afternoon, everyone. My first question is from Dumebi Obiago, AFC. She has two questions and the first one reads, how sustainable is the government's recent directive to peg the price of cement and what impact will this decision to BUA have on the Company's performance? The second question goes, what percentage of foreign debt versus local debt does the Company currently have? Thank you.

YB Thank you very much, Obiago. I will answer the first question and then I will let the CFO answer the second question on the percentage of the foreign debt. Regarding the government's decision to peg the price of cement, I'm not sure that exactly was the right word to use. It wasn't pegged. The cement manufacturers were invited for a meeting by the government over concerns about increased prices of cement and we explained our position.

We also reached a conclusion with the government, that we saw no reason why the price of cement should exceed ₦8,000 per bag. In fact, it should be between ₦7,000 to ₦8,000 per bag retail in the market because considering the ex factory prices, the government actually reasoned with us.

That was why the government came up with that statement, saying that we have agreed and we will put in place monitoring devices to ensure that undue advantage of the consumers is not being taken by some middlemen with some retailers to exploit the consumers during the peak period.

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You knowJanuary is high season for cement, so I think some people exploited that. It wasn't that the government pegged the price of cement. I don't think such a thing exists because the cement manufacturers definitely have to have some margin on their investments. They need to have some returns. Mr Jacques, can you answer the second part of the question?

JP Good afternoon, ladies and gentlemen. The percentage of foreign debt versus local debt is about 90%.

YB Thank you. Ladipo, we can go to the next question.

LO Thank you, Sir. The next question is from Abeeblahi Rufai, CardinalStone Partners. He says, hi, my name is Abi Blahi from CardinalStone Partners. I would like to ask a few questions. First, I would like to know about the volumes for full-year 2023. Also, which portion of that volume was exported and how much did BUA earn from exports.

Also, there is the issue of price. There was an agreement on price with the federal government on retail factory prices again. The House of Reps invited the top players last week for questioning. How are you managing political pressure and what are the implications?

Also, what are your projections/outlook for prices this year? In addition, when are you commissioning the new 6 million metric tons plant? What is the volume expectation based on this new addition? Will you be getting additional pioneer tax on the new plant? What is your ex-factory price as of full-year 2023? Have you made any changes or increases since the price slash announcement in October last year and, if not, will there be any changes in response to the general macroeconomic environment? Thank you.

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YB Mr Rufai, you have a lot of questions, so I don't know where to start. I think Mr Jacques will give the exact figures for the full-year production for 2023. Regarding the export, let me just say there was a military intervention in Niger Republic which happens to be our major gateway for exports from our Sokoto plant. As you are aware, the export is wholly done through the land borders in Sokoto, through Niger Republic into Burkina Faso.

So, midyear there was an embargo in force on that country and the borders were closed. If I am correct, I think the borders were only recently opened, in the last few days. So, there has not been any substantial exports during that period. Just to also remind ourselves that we only carry out exports when the Nigerian market is fully satisfied with cement.

So, we export our excess capacity and before the closure of the border we were in the peak season, so the majority of our cement was for domestic consumption here in Nigeria. I think little export was done during the first half of 2023.

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Regarding prices, again, you refer to the agreement. I am sure it is good you said agreement with the competitors, an understanding. It was kind of an MoU. We know exactly what the ex-factory prices are and what should be available in the market and we informed the government, definitely the tendency for exploitation, that consumables must be checked.

And I’m very happy that after the meeting that our customers and dealers, our retailers, understood our resolve to ensure that there was no profiteering and definitely the prices now, as at today, are nowhere where they were being quoted to be about a month ago.

The price range that was an advisory by both the manufacturers and the government I think has been met and I can confidently confirm that if you go to markets, you will definitely find cement selling within this price range that was stated and, in fact, in some of the home markets, and by home markets I refer to markets that are in close proximity to our plants, you will find cement even selling below ₦7,000. So, that is it.

I have not received any summons from the House of Reps regarding anything. Once I do, definitely we will oblige. I will go an explain ourselves but, of course, I read something in the newspaper, so we’ll leave it at that. The outlook for prices during the year, you know these are determined by so many things, not least the exchange rate which has a big impact on our cost of sales.

Because even though, as has been mentioned by so many people, that our raw materials are obtained her, there are a lot of inputs that go into the cement-making process that are linked to the price of the dollar and I will use this medium to really clarify, for example, the major cost of production in a cement plant is the energy.

Now, this energy can come either in the form of gas that you use in powering our turbines or generators and also powering our Pyro process line. Therefore, in the case of our Sokoto plant, we are using LNG that is being trucked all the way from Port Harcourt.

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Now, even though we pay for these energy sources in naira, the contracts are denominated in dollar at the prevailing NAFEM or NAFEX exchange rate, the debt of invoicing, and if you have been following the trend, the NAFEX has grown by probably 300% to 400% in the last one year. So, these prices in naira that we were paying have risen also by the same proportions.

So, definitely if there is any significant downward review in the exchange rate, that will lead to also easing up on prices commensurate with the proportion of the energy contribution to our cost of sales. As at today, probably energy is accounting for between 50% to 60%, depending on the plant and the type of energy. So, that is it on the outlook for prices.

Regarding the two new lines, we have mentioned severally that we were constructing 3 million metric tons per annum plants in Sokoto and Edo States. I'm happy to announce that these two new lines have been completed. The one in Sokoto has been fully hot commissioned and has gone into commercial operation. The one in Edo, I will say it has been 95% commissioned.

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The remaining lap will come up in the next few weeks but that line has also been churning out vats of cement into the market and I believe the impact has been phenomenal and now you can find cement everywhere in the market, especially when we operate in the whole of the northern part of Nigeria and the South-South and the South-East and we have also made some incursions recently into the South-West.

So, these two new lines have each a capacity of 3 million metric tons per annum, at least when they are operating fully. By the time we ramp them up to full production, such volumes shall go into the market immediately. The ex-factory price at the end of 2023, and I say this categorically, from both our plants was ₦3,500 per bag of cement.

We made a commitment to Nigerians on 1 October that we were going to lower the prices and which we did and we sustained it for about four, five months. We were hopeful that the exchange rate would have been much more favourable but, unfortunately, it turned out the opposite way. Secondly, the price of AGO, popularly known as diesel, which we use in transporting cement to various destinations across Nigeria, also at the time we made our commitment, was ₦600 a litre and now it's almost ₦1,400. So many other things have changed.

Some of the products that we buy, the gypsum we import, the explosives we use in blasting at the quarry to bring out the limestone, we import most of these things. All the prices have gone up two or three times. So, it became really inevitable for us to sustain that price. And in addition, as we mentioned in earlier statements also, we did our own part and it was our hope that also other manufacturers would come along with us in this journey to make the price affordable for Nigerians.

Unfortunately, we didn't see that. We were left alone, being a lone player in this game of nationalism and people took advantage of our very extremely low ex-factory prices to profiteer and people were selling the cement at almost double what we were selling to them, so the benefit did not really get to the people it was intended to.

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And in view of the rising costs, we were forced to reconsider our decision for the price slash and we made adjustments that were commensurate with our cost of production and also a decent profit margin for our shareholders. Jacques, can you give us the exact production in 2023?

JP Yes. So, the sales volume for last year was 6.6 million tons and in terms of export, until the coup in Niger we exported approximately 74,000 tons and the revenues are about $7.4 million for this export and after that these exports have ceased.

YB Thank you very much, Jacques. I hope we have been able to answer Mr Rufai's questions. We can go ahead with the next set of questions, either from the webcast or from the live audience.

LO Okay, thank you, Sir. I hope everybody can hear us. The next question is from Tarek Karam from 337 Frontier Capital. His first question reads, how do you plan on taking prices in 2024 after the devaluation? His second question reads, what are your kilns running on, gas or coal? And what is the expected increase in cost of goods sold following the FX devaluation? Thank you.

00:25:39

YB Thank you very much, Mr Karam. I wouldn't like to repeat all what I've said before because I think two of these questions have been answered in my reply to Mr Rufai of CardinalStone. Regarding the fuel, we are using basically natural gas to power our turbines at our plant in Edo.

The same natural gas is also used to power our kilns while in Sokoto we are using LNG because there are no gas pipelines running up north, so LNG is being used to power our generators and we are using a combination of LNG and coal in our kilns. I hope that answers your questions, Mr Tarek.

LO Thank you, Sir. The next question is from Isaac Osaro from WSTC Financial Services. His first question reads, please, with a total capacity now 17 million metric tons per annum, what is the breakdown? The second question, what was the utilised capacity in 2023? And the third question, what was the total volume sold in 2023? Thank you.

YB The total projected 17 million tons, yes, I think also I will allow Mr Finn, he's the expert in this, he was part of the team who set up all the lines, so he can give you a breakdown of the respective capacities in each of the plants. Confidently I can say we have 17 million tons. We have talked about the prices before, so if you go to that, if it's related to market maybe Mr Finn can chip in with a few words here. Thank you. Finn, are you with us? You are muted.

FA Sorry, I was muted. Yes, I think as...

YB Finn, I think you are still muted. I can't hear you.

00:28:22

FA Now you can hear me, I hope.

YB Yes, sure.

FA Sorry, there was a mix-up here on the front page. So, good afternoon to everybody. Concerning the capacities, as the MD was also indicating, with the two lines, 3 million tons each, one is Sokoto and one in Edo, we have a capacity of 17 million tons. This is what we call the nominal capacity. So, that means the capacity we had during last year is around 11 million tons. That is reflecting, actually, the volumes we will be able to produce during 2023.

We produced roughly, as was said, pretty close to 6.8 million tons. So, that means we are on a kind of a operational efficiency which is around 70%. Our utilisation during the year is quite okay, because when you are calculating utilisation of your production, you have to take also seasonal variations into consideration.

Last year we had a relatively tough year in the first quarter. Then the rainy season came and we had an increase in volumes coming in Q3 and also in Q4 was a very great quarter for us. We were up to 90% operation efficiency, for instance, during Q4 last year. So, obviously we were running roughly on 70% and this is actually above average if you compare to other competitors in the country.

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For the capacity on each of the plants is that they have 6 million tons in Obu, in Obu cement. Two lines by 3 million in 2023. And then 5.5 million we had in 2023 in Sokoto. So, we have a slightly higher capacity in Obu.

The operation efficiency generally is better when we have fewer lines, somehow easier to handle than if you have three or four lines. So, the operational efficiency last year in Obu was slightly above Sokoto. This is roughly about the utilisation or the capacity generally.

I will also mention another thing here because what is interesting for us is to compare ourselves with others, we also look into the volumes development during the last two years. As we can recall, the volumes in 2022 was around 29, close to 30 million tons for the country as a whole.

Last year it went slightly down to around 28 million tons totally, and the main reason for this, of course, is what we indicated. There was some challenges during the first quarter. The rainy season came in relatively heavy and the last two quarters was quite good. There is more or less balance during these two years, 5% down roughly, 4% to 5% down.

Our own sales actually went up from around 5% to 6% compared to the year before, so we are pretty happy. The main increase came when other production was facilitated very well during Q3 and Q4. I think that was my input. Thank you, MD.

LO Thank you, Sir.

YB We can go to the next question.

LO The next question is from James Ola-Adisa, Chapel Hill Denham. Please can you provide guidance on your utilisation rate for the new power plant? The second question is export strategy with the additional capacity and the opening of the border. Thank you.

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YB Can you come again on the first one, Ladipo?

LO The first question, please can you provide guidance on the utilisation rate for the new power plant. And the second question, the export strategy with the additional capacity and the opening of the border. Thank you.

YB Thank you very much. The power plants are many that was why I was at a loss but let me just give you an input. At Sokoto we have two power plants operational that are entirely running on gas. We have the 50 megawatt power plant which is being fully utilised, so I am not sure what is the utilisation factor. We use the power all the time. They just are running 24/7.

Then we have the new 70 megawatt power plant but we do not really need that power. So, I think only 60 megawatt is being generated and utilised. I think the remaining ten is just surplus. We also have ten megawatts of rented capacity from Aggreko lying in the plant, just as a back-up.

When you go to Edo, we have 72 megawatt turbines that are running. We have the SGT 500s, three of them, of 16 megawatts each and the 27 megawatt SGT 700 from Siemens. They are all running.

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We also have additional 20 megawatts from Aggreko. We are in the last stages of commissioning the 70 megawatt power plant. That was the remaining 5% to 10% that I said is yet to be accomplished but we hope by April the 70MW power plant will be running also in Edo. So, I would say we are entirely dependent on internally generated captive power and we ensured we have redundant capacity. We will not have the need to look for power elsewhere. I hope that answers the questions from James Ola-Adisa.

Then our export strategy. I think Mr Finn can comment. There was a question on export strategy now that the borders have been reopened.

FA Yes, thank you, MD. Yes, our export strategy, of course, as the MD was explaining, our priority is always to fulfil our obligation towards the domestic markets. Of course, it’s also important for us, in particular with the very nice location we are having with Sokoto, just a few miles away from the Niger border, to pursue other possibilities towards using the lands, that means towards Niger and also to Burkina Faso.

So, we will, with our new capacity, for sure be able to pursue volumes into these countries, in particular to Niger, as we were doing before the unfortunate situation there. With the border open now, we still have our dealers located in Niamey there, so they are ready. We have communicated to reactivate our other business.

And we are also trying also to assess opportunities elsewhere, with other neighbours, that is Cameroon. It's a lot of volumes, not only for cement but also other commodities, moving from Borno into Chad and also into the northern part of Cameroon. So, we are trying also to pursue export into these areas.

The Republic of Benin as well is a possibility. Traditionally it has been not so easy to export volumes from Nigeria into Benin. It's been very, let's say, insolvent in order to protect their own cement industry, but we will also look into these possibilities.

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Even from Obu cement, which is pretty far away from the coast but also there, due to other facilities we already have in Port Harcourt, we will also assess the possibility to export maybe not cement but it could be clinker to, for instance, a market like Cameroon into Douala, which is not very far away.

So, we are really working hard in order to secure volumes for the export and also to assess all possibilities for the future, and this is also due to the expansion we are having. The 17 million tons capacity may not be swallowed immediately into the country. Also, so far this year we have realised nice growth but, for sure, it has also a plus for other purposes as the export. Thank you.

LO Thank you Sir. The next question is from Olayinka Adesanya, SBG Securities. Good afternoon, thank you for the presentation. Please see my questions below. One, on debt, are there any metric you use to monitor your sustainability? Two, what percentage of your cost is linked to FX? Three, for energy usage, what percentage of your fuel was gas in 2023 and what is your current usage of gas?

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Four, what do your fuels compare on cost? Can you give a comparative cost ratio for gas, coal and alternative fuel? Thank you.

YB Thank you very much. Mr Jacques, can you answer the question on the debt and percentage cost forex linked to our cost of sales and then I will take the last two.

JP On the first question, the metrics, we do not have so to say metrics. Our debt is primarily used for the expansion and the expansion of the plant includes sustainability measures. So, we have a plan about sustainability. We are also reporting some results like you see, emissions, etc., according to international standards. So, this is what we do.

On the FX components in our cost of sales, as MD mentioned before, we have a quite substantial amount of energy products and also some maintenance that are either dollar-denominated or they are dollar-based and then the supplier applies the NAFM exchange rate. So, these are quite substantial. Actually, for last year the FX component of our cost of sales was about 65%. Thank you.

YB Thank you very much, Jacques. Regarding the gas usage, gas remains quite easily the most readily available source of energy in Nigeria. Our factory in Edo utilises gas for power generation and also in the kiln, and I foresee the attainability of gas was in excess of 95%. I think a few times we didn't have gas and we had to resort to the use of heavy fuel oil. It was very minimal.

Same thing with our Sokoto plant. I think our power plant ran entirely on LNG the whole of last year. So, I would say that was 100% except for some few instances in which you have a trip and the energy switches over automatically to the back-up fuel, which is diesel but majorly I think it was almost 100% on gas.

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Then the kiln itself uses a mixture of LNG and coal but we never had sufficient LNG. In this case, there's quite a lot of energy and we never had sufficient energy, I think, to run as we will have loved. So, it was usually the case we are running on coal.

Regarding the comparative price advantages with the various fuels, like we mentioned, we have fuels whose prices are denominated in dollars and of course whenever the naira is devalued, we take a big hit and most of our processes are multi-fuel, so we do the economics all the time and we can switch over to the cheapest fuel, whether natural gas, whether LNG, whether coal or whether LPFO.

Also depending on which fuel is available. But generally those fuel prices indexed to the dollar tend to be more expensive than fuels that we pay for in naira entirely, like the coal, which is locally mined and we pay for it locally. So, it will be the cheapest source of energy. It has a comparative price advantage over the other fuels that are denominated in dollar. Thank you.

LO Thank you, Sir. The next question is from Tony Hadley. His first question reads, please could you think about applying USD to your presentation? You fundamentally run a USD business, capex, energy, etc.

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His next question is you are proposing to keep prices down versus competition, to favour increased market share. This will trigger a price war, given average plant utilisation at approximately 50%. Is the 50% driven by market or operational issues? Thank you.

YB Thank you very much. I would very much love a lot to present the results of financials in USD but, unfortunately, we cannot because it is more stable than our naira in the last one year but definitely in the laws the currency of reporting is naira. So, that's why our results are in naira. I don't know, Jacques, can you add something to this, why we can't be making any presentations in USD?

JP Yes, well, anything is possible and anybody can translate local currencies into dollars but normally if you look at all companies that are listed in Nigeria, the ones that I know, they are all reporting in naira. Naira is the local currency. It's the currency that is known by different analysts, local analysts and stock exchange and the FRC and SEC and these people, they want to think and see naira.

So, it's always possible but then I think the analysts and our financial institutions, if they like this, they can easily translate the naira into dollars. But for Nigerian companies the reporting currency, and also from a statutory point of view, is naira.

YB Thank you, Jacques. Mr Hadley, let me comment. Probably it was a wrong notion. It was never our intention to trigger a price war. We did it out of patriotism in the belief that things will get better with additional capacity coming in. So, that was why our Chairman and the Company itself and the directors made a commitment to Nigerians that, yes, definitely we'll pass some of these benefits of large-scale production to them once we commission our new lines.

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And we also saw the need in order to strategize to capture more market share in view of the significant volumes that were expected to come on stream. So, that informed our decision way back in October 2023. We reduced prices down significantly in the face of rising costs of production but, like I said, it was never our intention to trigger a price war.

We had only thought that other manufacturers will join in this patriotic intent to make cement available and affordable to Nigerian so that they could start also reaping the benefit of the 100% local production of cement. 20 years back it was a different story altogether. We were importing more than half of what we were consuming in terms of cement.

But, like I said, unfortunately also, this situation, the genuine intention and the commitment we made to lower the price, which we sustained for about five months, was not followed by other manufacturers and other people exported to their advantage, still selling the cement at a very exorbitant price to consumers.

So, unfortunately very few benefited from that good gesture and in light of the further deterioration in the value of the naira, we were forced to adjust also in order to be able to continue our business. Thank you.

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FA Could I just add a little bit of a comment? Because Tony Hadley also mentioned that there is a lot of surplus capacity. Yes, Mr Tony, on paper it looks like it's a lot of surplus capacity but when you start to analyse each operator here and the concentration of capacity, you will soon realise that with the increased number of production lines, your operation efficiency is coming down.

So, when you see the huge increase which has come the last ten years in capacity, it took around 60 million tons, which is around 30 on paper, it's only half the capacity. But one is the concentration of so much capacity which impacts everything from logistics to supply our energy and a lot of things will impact upon this.

Secondly, you also have a lot of seasonal variations here. The market is tougher, of course, during the rainy season and normally January to March Q1 and Q4 is a really good month and I can guarantee you normally all operators, even us with the new lines coming up, is almost on max capacity, which we can handle.

So, it is relatively low if you look into a normal design capacity but you should also be aware that the design capacity is not based upon 42.5 cement. The majority of the products rolled into this market is a high-quality product and that means these 3 million tons for that specific product range will come down to maybe 2.5. So, there's a lot of things surrounding these things.

In the warm season everybody is more or less on maximum practical capacity, taking into consideration the local conditions. What will happen in the future is hard to say but we should also realise that we will not talk so much about Q1 because that is for the next call but we all have seen, despite price increases, that the market is very sustainable and it really takes the volumes...

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We don't know the details of the competitors but, as we can see from our own figures and also what we get from the market, is that everybody's pushing more or less as much as they can during this first quarter, at least January, February and into half of March.

So, for sure, we could have done better generally, the country as such, but it's a lot of factors which is limiting the practical capacity. Thank you.

LO Thank you, Sir. The next question is from Ikenna Mbaewke from German Investment Corporation. Could you please confirm capacity utilisation, production and sales volume for full year 2023? Thank you.

YB This has already been answered, capacity utilisation and the volumes for 2023.

LO Thank you, Sir. I will just send out the transcripts after the call for anybody, anyway, that needs clarification. But the next question is from Isaac Osaro, WSTC Financial Services. He says long-term borrowing climbed by 158% to ₦409 billion. Do we expect the same trend in 2024? Thank you.

YB No, certainly not. Jacques, are you...?

JP Yes, this is absolutely correct. Our long-term debt was to finance this expansion. So, this was predominantly for that and after this we will not need...

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Unless there is a future expansion where we may need to borrow but for the time being, with what it is now, we are going to, of course, serve the debt as it should and then we will generate enough internal cash flow for future investments and any major ones, then of course we will have to see if we need to borrow again.

But for the time being, there is nothing like this envisaged.

LO Thank you, Sir. The next question, it's a follow-up question from Abeeblahi Rufai of CardinalStone Partners. He says, hello, it's Abeeblahi again. I have some follow-up questions. What are your FX exposures and how do you intend to manage volatility in currency this year? What are the updates on the energy mix, especially for distribution? There was a mention of investing in CNG-powered trucks. Can more light be shed on that?

Are there any other expansion plans, other than the 6 million metric tons plant to be commissioned? And what are your plans to fund such capex? Regarding interest rate surge and potential maturities of your debt instruments, what are the plans to deal with this? Are there any possibilities for deleveraging or raising capital through equity in the near future? Thank you.

YB Thank you very much. Let me just attempt to answer some of these questions and then Mr Jacques will come in on the forex exposure and the volatility. The energy mix on distribution, we have two modes of distributing our products to our customers. One is self-collection in which the customer pays and collects his product ex-factory. The other is a door-to-door service in which we use our own trucks to deliver. And certainly our trucks consume fuel, diesel, and the price has been on the rise. So, we solely transport by trucks to various destinations using diesel.

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Regarding the expansion, certainly this year we don't have any plans for putting up additional lines at existing locations. Don't forget we already have one line that is hanging somewhere and that is... Definitely construction is going to start. We do not require any funding for it because it has already been paid for.

If you remember, and if you have been watching events, you know we mentioned the plant in Adamawa about three years back. This plant is ready. It has been paid for and certainly we are going to put it at the location and that will happen this year.

So, I think probably that is the expansion that we will do but this will not require any funding and with our two new lines in operation now, we should be in a position to generate sufficient cash flow to fund any capex in the near future. Thank you. Jacques, can you talk on the forex exposure?

JP Yes. The FX exposure we have currently in terms of import finance is about $100 million and then we have the IFC loan which is partly offset by some deposits that we still have. So, as you know, the IFC loan is $300 million and at year end we had $165 million of deposit still unutilised. In terms of how we are going to manage or how we are managing it, actually, as you know, you cannot hedge out currencies in Nigeria with what just happened last year.

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No bank anywhere will be willing to do any hedging because they will not know at what price and if there was any price, it will be very, very expensive. So, that does not exist. So, the only thing you can do to help, actually, is pay out as quickly as possible your dollar bills. That's number one.

Number two, purchase dollars. So, purchase dollar today, yes, it's possible but until a few days ago, everyone knows the rates at which they were offered, so that was not very beneficial, also when everybody was saying that the naira would appreciate.

And prior to that, even if the dollar availability was scarce, it was very difficult to get any dollars. You remember the CBN stopped the allocations and then on the market here you could buy some dollars but not what is required for a manufacturing company outside. So, we are doing our best. Of course, like other companies, we were also affected, as you could have seen, about this naira depreciation, and our goal, of course, is to minimise that to the maximum possible.

Now, in terms of interest rate surge, yes, interest rates you can hedge but what we see now, the trend, in naira, yes, the rate has increased. So, this was really very recent, so what we are going to do is... Our plan is to reimburse as much as possible with our internal cash flows. The naira, in general it is a short-term debt. So, we are going to reduce that to the maximum possible.

And then on the dollar borrowing, we hope the rates will go in the other direction, so that means that the rates are going to decrease because that's the trend we start to see now, except maybe in the US. The central bank governor mentioned the other day that the inflation is still on the high side but we hope that the interest rates are going to reduce and that's what most of the financial analysts are saying. So, this will also reduce our debt servicing.

00:59:43

There was another question, sorry, about raising capital. There is no such intention yet. Actually, with the existing borrowing that we have, as I mentioned before, that was for the expansion primarily, now that we are going to have all these additional capacity, of 6 million tons, we hope that we will be able to sell everything and generate sufficient cash flows and profit so that we don't need to recapitalise the Company. So, for the time being it is as I just mentioned. Thank you.

LO Thank you, Sir. We have a final question. Olayinka Adesanya from SBG Securities. Hello, please, I have some follow-up questions. Number one, is there a policy used in the declaration of dividends? Two, can we expect the capitalisation of interest expense to end after the completion of new lines? Thank you.

YB The answer to both is yes. Yes, we have a dividend policy for the payment of dividends and also, yes, definitely, by the time the new lines we signed the takeover certificate, yes, we have to stop the capitalisation of interest. Thank you.

LO Thank you, Sir. I have no more questions. Chris, I hand over to you.

01:01:32

OP Thank you very much. So, we have no questions on the conference call, so if you would like to make some closing remarks. Mr Binji, we have no further questions on the conference call. Would you like to make some closing remarks?

YB Thank you very much, ladies and gentlemen. Thank you for spending a greater part of your day listening to our full year 2023 presentation of results and answering your questions. It has been a great delight to us and we look forward to you joining us towards the end of April or early May when we will hold the next session for the Q1 unaudited financials for 2024. So, thank you. Have a very good evening.

OP Thank you very much. Ladies and gentlemen, that then concludes today's event and you may now disconnect your lines.

01:02:51