Conference Call transcript

10 May 2022

BUA CEMENT Q1 2022 RESULTS

Operator
Good day, ladies and gentlemen, and welcome to BUA Cement Plc conference call for the first quarter of 2022 presentation to investors and analysts. 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 would now like to hand the conference over to the MD, Mr Yusuf Binji. Please go ahead, sir.

Yusuf Binji
Good day everyone and thank you once again for being part of this call. It has been about four weeks since we converged to discuss BUA Cements' full year 2021 results. We are pleased you can join us once again. My name is Yusuf Binji, the MD/CEO. Presenting with me are Jacques Piekarski, the Chief Finance Officer, and Mr Finn Arnoldsen, the Group Chief Operating Officer.

As always, I will provide a bit of information on who we are for the benefit of those who are still unfamiliar with the company and joining us for the first time. BUA Cement is the second-largest cement manufacturer in Nigeria and indeed the North-West, South-South and South-East regions of Nigeria. We operate using four modern lines with a total capacity of 11 million metric tonnes per annum. We recently commissioned the 3 million metric tonnes per annum line for Sokoto.

BUA Cement is a sustainably led institution guided by the United Nations Sustainable Development Goals. In the first quarter of 2022 we attained revenues of ₦97 billion coming from ₦61.2 billion from the corresponding period ended 2021. We continued to maintain an investment grade credit rating from both Agusto & Co and DataPro. In 2021 BUA Cement was awarded the largest corporate bond listing and single largest corporate debt issue following the maiden bond issue of ₦115 billion. Now if you'll kindly turn to slide seven, we show the milestones attained over the years, with the commissioning of the 3 million metric ton per annum line 4 at Sokoto being the latest achievement. Slide eight shows our geographical footprint.

If you turn to slide ten, we present the highlights for the first quarter of 2022. Our sustained performance was supported by the increase in output capacity and a business model and product offering that offers value to customers. Against this backdrop, EBITDA increased by 55.9% to ₦46.3 billion from ₦29.7 billion as at Q1 2021. In the same vein, EBITDA margin declined to 47.7% from 48.5%. Profit after tax increased by 48.2% to ₦33.1 billion from ₦22.4 billion, while earnings per share rose by 48.5% to 98 kobo from 66 kobo as at the end of the first quarter of last year.

We continued to make satisfactorily progress on the expansion activities at Sokoto and as earlier highlighted we remain committed to minimising the impact of our activities on the environment, capacity building through empowerment programmes, and making societal impact through tangible investment made in the communities.

If you would kindly turn to slide 11, we provide some colour to our performance. Revenue per ton increased by 25.6% to ₦55,904 from ₦44,520 in Q1 2021 due to pricing activities. Our EBITDA was up 55.9% to ₦46.3 billion from ₦29.7 billion, giving the 58.5% rise in net revenue. Along the same lines, EBITDA margin was at 47.7%.

Slide 12 looks at EBITDA drivers. The revenue increased by ₦35.8 billion to ₦97 billion from ₦61.2 billion due to pricing activities and increased volume disbursed, which includes volumes from the added capacity at Sokoto. Cost of sales rose by ₦16.7 billion to ₦48.8 billion from ₦32.1 billion majorly from increased energy costs, raw material cost and operation and maintenance expenses. The net selling, distribution and administration costs rose by ₦2.5 billion to ₦1.9 billion as at Q1 2022. This was driven by increases in distribution costs, commissioning of line 4 expenses, donations and public relations expenses and truck repair and maintenance expenses.

Slide 13 provides a breakdown of our cost profile on a per ton basis. Cost of sales per ton rose by 20.6% to ₦28,124 from the ₦23,324 as at first quarter of last year. This was mainly driven by energy costs, raw material cost and operation, maintenance and technical fees. The energy cost per ton rose by 35.1% to ₦12,593 from ₦9,321 in Q1, given higher market prices and the devaluation of the Naira. Selling, distribution and administration cost per ton increased by 32.2% to ₦3,352 from ₦2,535 in March 2021. The major drivers include distribution costs due to volumes and diesel cost increases, security expenses, commissioning expenses related to line 4, donations and public relations expenses, and repair and maintenance charges.

On slide 15 we show the strategic pursuits for the year 2022. This includes the expansion that is ongoing at Obu and Sokoto, the installation of gas power plants also at Obu and Sokoto with a capacity of 70 MW each, the increase in our customer portfolio and capturing new market areas and other improvement to our customer experience. Sustainable practises are the hallmark of our activities.

On slide 16 is a takeaway of some of the activities we have engaged. Some of these activities are re-occurring with some of these activities giving way to more impact projects based on the prevailing situation at that point in time. As always, we continuously seek meaningful ways to make long-lasting and far reaching impacts through their interactions with us. At this point I thank you for listening and I will now hand over the call so we can take your questions. Thank you.

Operator
Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask question, you are welcome to press * and then 1 on our touchtone phone or the keypad on our screen. For those who have joined via the webcast, you’re welcome to pose your questions in the question box provided on your screen. If you decide to withdraw your question, you are welcome to press * then 2 to exit the question queue. Just a reminder, if you would like to ask a question, you are welcome to press * and then 1. I would like at this stage to hand over for questions on the webcast.

Ladipo Ogunlesi
Hello. Thank you, Judith. The first question is from Olufunmilayo Ogunbona from Meristem Securities. The question goes: can more light be shed on the pricing activities and the sales volume that drove the firm's top line performance?

Yusuf Binji
Okay. Thank you very much. Like we have mentioned during the presentation, the increase in our revenues and performance was mainly attributed to the increase of volumes. As we announced last year that we were going to issue line 4 in Sokoto of capacity 3 metric tonnes per annum, and the hot commissioning started late last year, and the plant was fully commissioned during the first quarter of 2022. So, we have had a very big impact on the additional volumes that were brought on stream. The commissioning went smoothly. We were able to ramp up capacity very well as can be seen immediately on the volumes that we were able to actually send out into the market. I think that also partly answers the questions on volume growth from Mr Dawodu of Standard Bank. He asked about the financing cost also, so I believe our CFO, Jacques, can shed more light on these two questions.

Jacques Piekarski
Thank you, Yusuf. On the financing cost, if I understood well the full question because the line broke, you were asking about this capitalisation accounting standard on the interest of the loans. So yes, we are applying the IFRS standards. So as long as the line is in work in progress, we are capitalising all the bank loan interest. And the commissioning took place in March. In terms of financing such loans or interest will be now expensed starting from April. The rest of the question was about the huge decrease in financing cost. Actually, from a quarter last year to this year quarter actually we're not comparing apples to apples here.

In 2021 we had some expenses which we don't have in 2022. And they were mostly about exchange losses, some unwinding commissioning expenses that are booked in financing cost, and then we had some interest on the overdraft. That was already about ₦600 million. In this year first quarter we have some interest expenses, but they are also partly offset the interest income. If you look at the balance sheet you will see that we have lot of cash. And of course, we are getting some interest on some of the deposits, so that explains the financing cost. Thank you.

Ladipo Ogunlesi
Thank you very much. Our next question is from Dumebi Obiago from African Finance Corporation. She is asking on the fire incident is the report from the insurance company available. Also, what was the cost of the damage as a result of the fire incident? Was this covered by insurance or has this not been fully recovered? That's her question.

Yusuf Binji
Okay. Yes. Thank you very much. The report from the insurance company is still awaited. We notified the insurance company immediately the incident happened. And like we have mentioned in our various press releases, the impact has not been much. Only the damage from the fire was limited to the tank itself, which at that time was less than 30% full. So, from our own estimate the losses of the fuel range from about ₦1 billion on

current prices, even though we got it at much cheaper price, but we are just giving the current value. The tanks are fully insured so we will be able to recover all the cost through the insurance companies. Thank you.

Ladipo Ogunlesi
Thank you very much, sir. The next question is from Adebayo Adebanjo from Coronation Asset Management. He says congratulations on the numbers. The second quarter has begun. Are your demand expectations the same as you expected at the beginning of the year? How are you able to manage the increased cost of energy?

Yusuf Binji
Yes. Thank you very much, Adebayo. Most of us are really fully aware that there was an increased cost of energy especially with two things happening: one, the deregulation of the AGO prices, and secondly also the devaluation of the Naira. Because some of our energy costs are Dollar denominated, especially for the LNG, what we try to do is absorb most of these production costs in order to make cement affordable to all Nigerians. But also, we have been hit hard by the increase in diesel prices. And we resisted quite a long time by trying to increase our price and pass this on to the consumers. But as you are aware also, diesel at some point last year was selling at about ₦200 a litre. Now it is in the range of ₦700 a litre. That is almost a 300% increase.

And just quite recently we have had no option but to adjust our distribution costs without affecting our net cement price just to reflect this. That adjustment was made only on our company delivered cement in which we use our own trucks, so the people have to pay realistic prices for the cost of haulage to the various destinations. But we have not adjusted the cement prices so to say. [Break in audio]. Like I said, we have borne most of the brunt of the foreign exchange devaluation of the Naira since the cost of energy is Dollar denominated and because of the devaluation we are now paying much higher gas prices. But like I said, we have tried to absorb most of it. Thank you.

Ladipo Ogunlesi
Thank you, MD. Our next question is from Janet Ogunkoya from Tellimer Capital. She asks two questions. Could you shed some light on exports? Would you say some of the volume growth was due to resumed exports, especially from the new Sokoto line? Her second question is what is your export volume if you have resumed?

Yusuf Binji
Well, we recognise that cement export can be very helpful for expanding our footprint, increasing brand awareness and generating foreign currency earnings. However, because of the current level of demand in Nigeria our focus has been the Nigerian market. Our export volume was less than 1% of the total production in 2021 and I think also slightly higher during Q1. But I can say that as we increase our capacity, we will be in a position to increase existing export volumes and in the process get some of the benefits of the full implementation of the African Continental Free Trade Agreement, given the limited number of cement plants in Africa, also due to their limited limestone deposits. So, this is something we will pursue as long as we are able to satisfy the Nigerian market. With the increased volumes from Sokoto I believe we will see an increase in export volumes compared to previous years. Thank you.

Ladipo Ogunlesi

Thank you, MD. Our next question is a follow-up from Olufunmilayo Ogunbona. She wants to know what our volumes were in Q1 2022. Thank you.

Operator
Ladies and gentlemen, apologies, we seem to have lost Mr Yusuf Binji. He will be re-joining us shortly. Please remain on the line. Thank you. Ladies and gentlemen, we have been re-joined by Mr Yusuf Binji. Please go ahead, sir.

Yusuf Binji
Okay. Sorry for that. I think my network cut off. Ladipo was reading out the last question from Mr Ogunkoya from Tellimer Capital.

Ladipo Ogunlesi
The last question was from Olufunmilayo Ogunbona. She wants to know what our sales volumes were in 2022. That's Q1. Thank you.

Yusuf Binji
Okay. Thank you very much. Our combined sales volume for plants in Obu and Sokoto was 1,724,901 tonnes. When you compare this for the same period last year, we did 1,374,494 tonnes, so almost an increase of 400,000 tonnes. Thank you.

Ladipo Ogunlesi
Thank you, MD. Judith, please can you check if we have any questions on the audio line, and then we can come back to some questions on the webcast? Thank you.

Operator
Thank you very much, sir. The first question comes from Ayodeji Dawodu of Standard Bank Group. Please go ahead, sir.

Ayodeji Dawodu
Apologies for the bad network connection. I got some of the response on volumes, but I just want to double check. Were there any obstructions to production in the first quarter? It seems as though a lot of your peers were affected by gas shortages. I'm guessing from the volume numbers that wasn't the case. Can you help to explain how you mitigated that production downtime? Then also on prices, I think I remember from the last conference call at the end of full year 2021 you said you had made some price adjustments. Could you provide an update on that? I think there was a downward adjustment to prices. Has that remained? Because from what I understand it doesn't seem as though all the competitors followed on that move. Thank you.

Yusuf Binji
Okay. Thank you very much. I will try to answer your questions. Jacques will help me on the second one on the price adjustments. In the first quarter of 2022 we did not witness any disruption of operations due to energy supply. As you are very much aware, we have a process that we deliberately designed to be multi-fuel with a lot of backup. So, we are able to switch from one type of fuel to the other. And this is both for the pyro [?]

processing, that is our main production line where we have burners that are multi-fuel. They can run on solid, liquid or gas, the solid being coal, the liquid being LPFO and the gas being liquefied natural gas or LNG. So of course, sometimes we have some supply interruptions due to logistics mainly, but then we are able to switch over to a second type of fuel even though with a different cost metrics. But we didn't have any lack of fuel.

Yes, during the last conference we mentioned that we did a downward adjustment of prices by ₦350 per bag. Now, that basically remained on our ex-factory price. But like I also mentioned earlier, we did an upward adjustment on the company delivery prices to account for the increase in the price of diesel. You might notice some slight changes in prices because also we sort of removed all the discounts we gave to the dealers. Especially during the peak season, you know these discounts are seasonal depending on the market. Jacques, maybe you can also shed more light on the price adjustments, or Mr Finn?

Jacques Piekarski
On this price adjustment it's exactly what you just explained. There is nothing to add to this.

Yusuf Binji
Mr Finn, do you have anything to add on the market and prices also generally?

Finn Arnoldsen
Mr Yusuf, thank you so much. The balance between the supply and demand is always deciding the prices in the market here. And of course, as Mr Yusuf was saying, we took a discount to the clients to have a purer price build-up. But it really doesn't change much generally in the market situation because we have also seen that it has been quite a volatile growth in various areas in the country due to all these challenges as was mentioned earlier about the fuel situation etc. But what we expect on prices for the future, the level we are on now we don't see much changes as long as we will be able to keep the supply pattern as it is today.

But you know the market is pretty big. There is a lot of demand coming up. The agriculture business is developing pretty fast, so the remote areas are starting to consume more cement. So, it will be a continuous pressure for all the players. Again, it depends on the availability from the three operators. But from our side we are very much prepared, as the MD earlier mentioned, in order to meet the coming demand. But we don't see any major changes really on the prices ahead. Thank you.

Operator
Thank you. The next question comes from Khalil Woli of CardinalStone Partners.

Khalil Woli
Thank you very much for holding the call. I wanted to ask questions about the disruption of gas supply in terms of production. I think you've mostly addressed that, but can I get an idea of the fuel mix as of Q1?

Yusuf Binji
Okay, yes. Thank you very much. Like we have mentioned, we operate two plants. In our plant in Edo State in Obu basically we are using pipeline gas, natural gas that is supplied by NNPC. And this goes on to our turbines which provide electricity and also to our pyro process kiln. And this has so far been mostly reliable. The backup

fuel we have there is LPFO for the kiln and also diesel for the power plant. So [break in audio] pumped up to you. Whenever there are instances of vandalisation, our machine will automatically switch over to the other fuel, LPFO for the kiln and diesel for the power plant.

In Sokoto it is a bit of a different scenario because you don't have gas pipelines running all the way to most parts of the north. And so that is why we are using LNG. LNG is liquified natural gas, which is being trucked all the way from Port Harcourt and sent to Sokoto, a distance of over 1,000 kilometres. Obviously, we have some storage for the liquid natural gas. This buffer can take us for quite a number of days in case of any disruption in supply. So, we have a tank farm and this gas we use by passing it through some evaporators and then sending it to the power plant and to the kiln. The other fuel we have is coal, which is used for the kiln. It accounts for about 70% of the kiln fuel. That we get from Kogi State, for which we also have a strategic reserve on site. Then we also have diesel and LPFO as backup to the power plant and also for the kiln. So, we are using I will say a recipe of solid, liquid and gas, all types of fuel.

And like I said, the process has been deliberately designed so that it is multi-fuel. We understand the challenges of fuel supply in Nigeria. You wake up one day and then you see fuel queues. We don't want that to happen to our production because I've got a commitment to our customers. So, we are keen on providing a good service delivery. That is why we have invested so much in alternatives. In case one fails we can easily switch over to the other. So, at any point in time we ensure our machines are rolling. As it goes out people may not be aware of the challenges that do come with this fuel supply. But we have made the process to be very flexible and we have backup, and we are able to switch over and meet the customer demands at any point in time. So the fuel mix is solid, liquid and gaseous. Thank you.

Operator
Going on to the next question, which comes from Gbolahan Ologunro of Cordros Securities.

Gbolahan Ologunro
Good afternoon. Please confirm you can hear me.

Yusuf Binji
Yes. I can hear you loud and clear. Go ahead.

Gbolahan Ologunro
Okay. Congratulations on your impressive results. So, my question is on the source of volume expansion. I think in previous conference calls you've alluded to the fact that volume has been driven more by private sector demand. I want to gain clarity whether the same trend has played out in Q1. And have you noticed any improvement from public sector demand? Then my second question would be on pricing. So, you mentioned you are likely to hike prices from current levels. I'm trying to see how you would manage the elevated price of diesel, gas, ensuring that we don't see the impact of margins. So how do you intend to manage those cost pressures to ensure that you have a soft landing on margins?

Yusuf Binji

Yes. Thank you very much for your congratulations on an excellent performance. Now, when it comes to the volume expansion, there was an unprecedented demand for cement in 2021 and it has remained very strong now. What we can say is that the demand is local and not from any geographical region. We have experienced very strong demand in all the markets where we have a presence. The demand has been private sector driven and it accounts for between 35% to 80% of the total industry compared to the public sector.

Nevertheless, there are so many government projects that are ongoing and planned. But like I've mentioned, it is noteworthy for people to be able to know that sales are not a true reflection of the demand because we believe that if we had produced more cement than was reported, the additional stock will have been sold. So, we expect the strong demand to continue because the current consumption per capita in Nigeria is around 126 kilograms. This is still low compared to our neighbouring countries, for example, Ghana, Senegal, Ivory Coast that have a per capita consumption of between 230 kilograms and 250 kilograms. Therefore, consumption in Nigeria should continue to improve. And industry must continue the increased output to meet this extra demand.

Now, on your second question regarding the diesel and gas, I've mentioned it earlier. Because our mission is to maintain affordable to all Nigerians, yes, the gas we buy the contract is denominated in Dollar. Obviously there has been an increase because of the devaluation of the Naira roughly by about 33%. But like I said, we have resisted passing this cost to customers. But the increase we have had in the price of diesel, which has been very astronomical, almost 300% within a couple of months, led us to make some adjustments on our haulage prices.

So, we kept the same ex-factory price. If you want us to deliver to you, we have to give you haulage rates which are truly reflective of what third party trucks will charge. So, in that sense there is an increase there. We try to do all of this also to maintain our margins so that these margins are not really eroded because also we have to create value for the shareholders. So, it is balancing shareholder interest also with national demand. Thank you.

Operator
Gbolahan, does that conclude your questions?

Gbolahan Ologunro
Yes. Thank you very much.

Operator
Thank you. At this stage I will hand over back for questions from the webcast.

Ladipo Ogunlesi
Thank you, Judith. Yes, we do have some questions on the webcast. Some are follow-up questions. We have a follow-up question from Adebayo Adebanjo from Coronation Asset Management. He says thanks for the response. I apologise, but the first question was unanswered as regard demand expectations for this quarter. Thank you.

Yusuf Binji

Well, I don’t know if some of my colleagues do understand this question because you were asking about the expectation for the first quarter. And because we’re discussing the first quarter, like I’ve always said, the figures the cement industry are putting forward are not a true reflection of the demand in Nigeria for cement because everybody has been able to sell 100% of what they produced. So, for example, if we sold totally among the three producers 10 million tonnes, that does not mean that’s the demand. The demand would have been 10 million or 11 million tonnes, but there was no cement to satisfy that market. So, until we get to that point where we say that we are able to satisfy demand, we cannot really talk of the demand being equivalent. So, I don’t know. Mr Finn, maybe you understood Adebayo’s question better than I.

Finn Arnoldsen

I think he was indicating what could be the real demand here. But I think you answered very well here. And of course, as you have rightly said, cement is a very peculiar product because it’s pretty elastic. That means if you have a country like Nigeria with that vast area and many different markets, if you make a product available, it will go. It will move because it’s extremely elastic. When you are not able to supply into certain areas, it will automatically stop. That is what is actually characteristic by the private consumers. When the cement is available, they will build. If it is not available, they will slow down a little bit.

So, if you are able to drive up your production, for all the operators, you will naturally drive your volumes. That we have seen over all the years, the last ten or 15 years in Nigeria. When you have good times, the production is coming very well, no limitation, the market is growing. We have seen increases of 20% if you go back to 2017 or 2018. And this was because the supply pattern was really developed. So, when more capacity is coming in, this will go.

And as Yusuf, the MD, was explaining earlier, the good thing with aggressive expansion up in the north is that we have the export opportunities. Niger and also Burkina Faso is not too far away. These are markets who are mainly driven by imports, clinker imports from the global arena. So, if we are able to push volumes into there, that could also be a nice add-on for the business. So, from a market point of view and supply point of view it’s very much linked together. Thank you.

Ladipo Ogunlesi

Thank you, Mr Finn. The next question is from Dumebi Obiago from African Finance Corporation. She is asking what the capacity utilisation is. She actually has three questions. What is the capacity utilisation of the newly commissioned Sokoto line? Her second question is what percentage of your delivery is ex-factory versus delivered? And then I think her last question is what are the volumes sold from the newly commissioned line? What percentage does this volume contribute to the total? Thank you.

Yusuf Binji

Thank you very much. It’s a bit difficult to talk of capacity utilisation once we have not reached the end of the year. So probably that question we will be in a better position to answer. This line started commercial production sometime in Q1. What I can say is that we were very successful with the ramping up and we believe we are going to achieve its full potential within the very short term. But to give a figure on capacity utilisation, I think that would be at year end.

It has the capacity of 3 million metric tonnes per annum, so we do expect that this line is going to contribute similar to other lines. We have other lines of similar capacity in Edo and then we have one of half that capacity in Sokoto. So, we believe by the end of the year we will be able to say this is the contribution of this new production lines. But I have mentioned there have been pick-ups of the capacity and it has passed what we call the performance guarantee test. That means it has been able to achieve what it was designed for. And in terms of reliability also the run factor has been very high. But we talk of these figures in concrete terms after the year has ended. Thank you.

Ladipo Ogunlesi
Thank you, sir. I guess that's all from the webcast. Judith, do you have any questions lined up?

Operator
No, sir. There are no further questions from the lines. I would now like to hand over back to Mr Yusuf Binji for closing comments. Thank you.

Yusuf Binji
Thank you very much, ladies and gentlemen, for spending a part of your day with us as we presented our Q1 2022 results. Have a very nice day or a very nice evening. I look forward to you joining us when we present our half year report sometime in July. Thank you.

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

END OF TRANSCRIPT