

Conference Call transcript

4 August 2022

BUA CEMENT H1 2022 RESULTS

Operator

Good day, ladies and gentlemen, and welcome to the BUA Cement half year 2022 presentation to investors and analysts. All attendees will be in listen-only mode and there will be an opportunity for you to ask questions later during the conference. 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 Managing Director and CEO, Mr Yusuf Binji. Please go ahead.

Yusuf Binji

Good day everyone. My name is Yusuf Binji. I wish to thank you for joining this conference call as we discuss BUA Cements' financial performance along with its operations and intended operations. Co-hosting today's event with me are Mr Jacques Piekarski, the CFO, and Mr Finn Arnoldsen, the Group Chief Operating Officer. It has been a challenging start to the year given the various headwinds we have had to grapple with. Nevertheless, the performance has been gratifying as we surmounted the hurdles confronted with and positioned our operations in anticipation of probable and continued shocks to the business environment.

Against this backdrop I once again welcome you all to our half year 2022 conference call. I am sure you have all received advance copies of the presentation I'm going to make, so if you will turn with me to slide 6, please, you will see we continue to remain Nigeria's second-largest cement manufacture and indeed the largest cement manufacturer in the North-West, South-South and South-East regions with an estimated installed capacity of 11 million metric tonnes per annum.

BUA Cement operates four modern lines across two states, and we reported a 51.7% rise in net revenues to ₦188.6 billion. During the period under review, BUA Cement received an upward credit rating review by DataPro to AA, previously AA-, while having our rating by Agosto & Co affirmed at A+. BUA Cement is a sustainably led institution guided by the United Nations Sustainable Development Goals. Last year we were presented with two awards, namely the largest corporate bond listing and the single largest corporate debt issued by FMDQ.

Now, if we turn to slide 7, you see our journey map detailing our accomplishments. The most significant event was the commissioning of our line four at Sokoto which was done by the President of Nigeria on the 27th of January 2022. And that line commenced commercial production between February and March 2022. So, that has impacted on our volumes. It was a significant milestone and we have delivered on our promise to add capacity to Nigeria's cement industry.

Slide 8 is a presentation of our footprint. Our plants are located at Sokoto and Edo States, while our head office is in Lagos. The plant at Sokoto operates at present three functional lines with a total installed capacity of 5 million metric tonnes per annum. Another line, which we call line five, which is under construction, is due for

completion next year. We also have two plants of 3 million metric tonnes per annum at Edo, a total capacity of 6 million tonnes per annum, with another third line under construction which will be completed also next year.

If you will turn with me to slide 9, you will see an aerial view of our liquified natural gas facility at the Sokoto plant. If you may recall, we have mentioned that we have made a transition to the usage of low carbon intensity fuel by discontinuing the use of heavy fuel oil in our generators and also substituting up to 30% of the fuel mix in our kilns with LNG.

So, if you will turn with me to slide 10, you will see that our performance was supported by increased output capacity and a business model that aligns our product and service offerings to the needs and requirements of our customers. In view of this alignment, we continue to record sales growth with net revenues up by 51.7% to ₦187 billion from ₦124 billion as at June 2021. Equally, the EBITDA increased by 49.7% to ₦87.5 billion from ₦58.4 billion, even though the EBITDA margin contracted slightly by 0.6% points to 46.4% from 47% as at the end of June last year.

Our profit after tax rose by 41.4% to ₦61.4 billion from the ₦43.4 billion which we recorded within the first half of last year, while earnings per share also was up by 41.4% to 181 kobo from 128 kobo for the same period last year. We continue with our expansion drive at Sokoto and Edo States. This is going on as scheduled just as the impact projects outlined for 2022 under the leading through sustainability initiatives.

Slide 11 looks at our margins driven by revenue per ton, which increased by 24.2% to ₦56,454 per ton from ₦45,467 per ton as at end of June 2021 because of pricing activities during the review period. In view of this, the EBITDA rose to ₦87.5 billion from ₦58.4 billion, even though like I mentioned earlier the EBITDA margin contracted slightly by 0.6%.

On slide 12 we show a breakdown of EBITDA drivers led by net revenue resulting from pricing activities and increased volume dispatched. The increased volume came from our newly commissioned line in Sokoto. The cost of sales rose by 47.4% or ₦31.3 billion to ₦97.5 billion from ₦66.2 billion with concentration to energy a material cost. Selling, distribution and administrative cost increased by ₦3.9 billion to ₦3.6 billion due to rising distribution costs led by increased volumes of cement dispatched and the price of diesel, also the CSR expenses and the commissioning expenses for line four at Sokoto plant.

Tuning to slide 13, we show our cost profile amid rising cost pressures. Cost of sales per ton increased by 20.6% to ₦29,192 per ton from ₦24,204 per ton for the same period last year. This has been the resultant effect of energy and raw material costs, operation and maintenance and technical fees, along with other production expenses. The energy cost per ton rose by 34.8% to ₦13,048 from ₦9,683, the result of higher market pricing and the evaluation of the Naira. The selling, distribution and administrative cost increased by 44.3% to ₦4,048 per ton from ₦2,806 per ton as at last year.

If you will kindly turn to slide 15, here we highlight our strategic priorities for 2022. As mentioned, earlier, the expansion drive at Sokoto and Edo State is going on as planned. Expectedly this will serve as the springboard for BUA Cement's market expansion and product penetration strategy. Furthermore, BUA Cement will continue to drive cost and revenue synergies between both plants and maintain its continued improvement and innovative

push as we further align our business and services to the ever-changing demands from our customers, including potential and prospective customers. Going to slide 16, we show some of the projects we have embarked upon and the phases of those who recently completed their skills acquisition programme. I believe the pictures speak for themselves, and we can shed more light on our sustainability initiatives.

In conclusion I want to go back to my earlier comment on the bond issue in my introductory statement. The bond was issued in 2020 to repay a shareholder loan which formed part of the costs for the construction of the line four plant at Sokoto which has now been commissioned. Post issue, our leverage ratio continues to taper off and currently is below 45% of our shareholders' funds. We consider this a very safe level. Along the same lines and expectedly also, our asset turnover has recorded an uptick. Finally, we expect the expansion in Sokoto and Edo for the fifth and third lines respectively to lead to further growth in profits, especially foreign currency takings. On this note, may I kindly request the phone lines to be opened so that we can respond to our questions? Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. Participants on the webcast may submit their questions in the textbox at the bottom of the page. On the conference call, if you decide to withdraw the question, please press * and then 2 to remove yourself from the list. Again, if you wish to ask a question, please press * and then 1 now. Our first question is from Mustapha Wahab of Chapel Hill Denham. Please go ahead.

Mustapha Wahab

Thank you very much. Good afternoon, everybody. I just wanted to get a sense of what the size of your volume is in Q2 2022. And then I was wondering if you can also shed light regarding the size of price increase you have taken this year. And then, how do you think we should be thinking about prices going forward? That will be all for now.

Yusuf Binji

Thank you very much, Mustapha. And also thank you, I have seen the update you released on the 21st of July 2022. Thank you for that. Regarding your question, you know we have had a price increase. This price increase was to offset part of the costs that we have had. And we increased our ex-factory price from ₦3,000 to ₦3,200 during the second quarter. And then also, what was your first question, if I may ask?

Mustapha Wahab

It's regarding prices.

Yusuf Binji

Okay, and the volumes also. So, our total sales for the first half of the year was 3,340,066 tonnes. 3.34 million tonnes combined from the two plants. Thank you.

Mustapha Wahab

Sorry, Mr Binji, I was wondering if you can also add to this. It seems like your major competitors are facing some sort of gas challenges, at least in the first half of the year. I was wondering how BUA has been able to manage all

of these challenges. I don't know what's going on. What are you guys doing? Should we be worried going forward?

Yusuf Binji

Yes, definitely we have had some challenges, especially in the supply of energy, not only gas. As we know our factory in Edo runs 100% on natural gas being piped by the NNPC or the NGMC. And we have had challenges within the last four months, so it has affected the gas supply during the second quarter. At best I think we were getting between 50% and 60% of what we would normally require. So, what we did was to offset this by falling back on the backup fuel, which is LPFO. Of course, that is a bit more expensive and also very scarce.

As you know, the Nigerian refineries are not really functioning very well. We got some limited volumes from the Port Harcourt refinery and also some import of heavy fuel oil. Apart from that also our factory in Sokoto also faced a lot of challenges with the supply of LNG that we mentioned we have converted to recently, because also the supplier was not able to get enough of the feedstock natural gas has needed to be liquified before being transported. That also we had to offset by using some little quantity of diesel to run our power plant. Thank you.

Mustapha Wahab

Fantastic. Thank you very much, sir.

Operator

Thank you. The next question is from Funmi from Stanbic. Please go ahead.

Funmi

Good afternoon and thank you for taking this call. The first question is also on production. I want to know, out of those 3.3 million tonnes what portion was exported, or did you export at all in the first half of the year? And the second question is just to understand your fuel mix in Edo and Sokoto. And the third question is what proportion of your volumes do you transport yourself?

Yusuf Binji

Thank you very much. Regarding the export volumes, I will ask Mr Jacques if you have the figures for the first half of the year. And then also, I will answer the question on the fuel mix. In Edo you know we run traditionally 100% on natural gas. But like I said, due to the shortage of that gas we have had to bring in some volumes of LPFO to be used in the kiln. But for our turbines there we run entirely on gas. In Sokoto this year the generators were supposed to run on LNG 100%, but we have had to use some quantity of diesel because we didn't get enough LNG. Then for the kiln which is designed to run 70% on coal and 30% on LNG, we didn't get sufficient quantity of the LNG. We got enough coal, so we have had to use some LPFO to replace some part of the LNG that we did not get. Jacques, maybe you can answer on the export volumes.

Jacques Piekarski

Yes, Yusuf. Good afternoon, ladies and gentlemen. So, the export volume for the first six months of this year totalled 41,000 tonnes.

Yusuf Binji

Okay. Thank you, Jacques. Funmi, you asked a third question. What was it?

Funmi

Yes. My third question was what portion of your volume is transported.

Yusuf Binji

Yes. Okay. We have company trucks. And from our factory in Edo, it was roughly 50/50. That means 50% was self-collected. In Sokoto the proportion of our company delivery was much higher, about 60%. And 40% was self-collected. Thank you.

Operator

Does that answer all your questions, Funmi?

Funmi

Thank you. Yes.

Operator

Thank you. Ladies and gentlemen, a final reminder, if you wish to ask a question on the conference call, please press * and then 1. Sir, we have no further questions on the conference call. Ladipo, would you like to manage the questions from the webcast?

Ladipo Ogunlesi

Okay then. Thank you, Chris. We have a couple of questions on the webcast. I will just read them out one after the other. The first question is from Moses Njuguna from EFG Hermes. He is asking about the demand outlook for the second half of the year. Thank you.

Yusuf Binji

Okay. Mr Finn, can you help us out with that?

Finn Arnoldsen

Yes, for sure. Good afternoon, everybody. Let us deal first with the first half year. Combined all the players have supplied into the market between 15 million and 16 million tonnes. And you know we are in a rainy season now but still, during the end of Q2 and the beginning of Q3, we are expecting and also realising a slight increase in the market. So, for the second half in particular for Q4 we will expect a significant increase compared to last year. If you compare H1 2022 with 2021, we are up roughly 7% compared to 2021. This is a little bit remarkable, taking into consideration what was mentioned here earlier concerning the energy challenges which actually all the players are facing.

So, we see that the market is still relatively strong. Penetration around the country is really continuing, pushing more volumes up to the north-east, more going into the south-west. So we are still optimistic that we will see roughly a 10% increase in the total demand for the entire year. If you remember for last year, it was around 28 million tonnes total. So, we expect that we should easily pass 30 million, maybe 31 million or 32 million for the

year. This is expectation. You never know what is really happening, but that's how we see it. Pretty optimistic actually. Thank you.

Ladipo Ogunlesi

Thank you, sir. Our next question is from Bayo Adebajo from Coronation Asset Management. His question is about the plans to expand capacity to as much as 17 million metric tonnes by 2024. In discussions with the IFC are we expecting significant debt financing for that?

Yusuf Binji

Yes. Thank you very much, Mr Adebajo. You know we have a programme to expand our capacity in both Edo and Sokoto by a further 6 million tonnes due for completion towards the end of next year or early 2024. We have been partly financing the expansion expenses ourselves from our equity, but we will need to bring in some additional financing probably from multilateral institutions. So, we have started discussions with IFC and some syndicate partners. These discussions are ongoing and geared towards getting some financing especially in relation to Sokoto. We hope to conclude the discussions before the end of this year, and then we will be able to know how much we are going to be able to raise from these multilateral financial institutions.

Ladipo Ogunlesi

Thank you, sir. The next question is from Samuel Banmeke from Meristem. How has BUA been able to manage the current spike in energy prices? Thank you, sir.

Yusuf Binji

Okay. Thank you very much. We have had tremendous increases in energy prices, especially that of petroleum products. We have tried as much as we can to absorb most of the cost without passing those to the consumers. But we were forced to make some adjustments which I mentioned earlier, especially with respect to the company delivery. Our ex-factory price has not gone up substantially. So, I think the customers are at liberty to collect and then also transport the cement. You know, these costs arose from the fact that some of our contracts for the supply of LNG and natural gas with the Nigerian Gas Marketing Company are Dollar denominated, and there has been a slight shift in the official exchange rate. And this has affected us. But like I said, we tried to absorb most of that during the course of our production. But we have reflected that for the delivery of cement to the customers because we have to pay for the very high cost of diesel which was about ₦220 at the beginning of the year and now has gone up to ₦780 per litre. Thank you.

Ladipo Ogunlesi

Thank you, sir. Our next question is from Bolaji Balogun from Agosto & Co. My question is concerning the update on the upward review in royalty payable to the Federal Ministry of Mines. Is it effective now? Will there be upward reviews in prices in the near term to counter the expected increase in the company's cost profile? Thank you, sir.

Yusuf Binji

Thank you very much, Mr Balogun. The Federal Government of Nigeria through the Federal Ministry of Industries reviewed the royalty paid on all solid minerals mined in Nigeria. And the initial royalty rate was about ₦25 per ton, which was hiked up to ₦100 per ton. We came as manufacturers particularly and had a meeting

with the Minister for Solid Minerals and made our case because we didn't want this to really impact on the price of our cement. And the Federal Government actually listened to us and reduced this to about ₦75 per ton. And that has gone into effect I believe a month or two ago, and we are paying the new rate. So, we are grateful to the government for reducing their initial proposal for approval. So, it has gone into effect, and we are paying the new rate now.

Ladipo Ogunlesi

Thank you, sir. We have a follow-up question from Janet Ogunkoya from Tellimer. She wants to know if you would say that with the earlier rains we have seen, we could see a stronger Q3 demand compared to previous quarters? Also, when exactly did you increase ex-factory prices?

Yusuf Binji

Yes. Okay. Thank you very much. I think Mr Finn Arnoldsen has given a projection of the demand towards the end of this year. But regarding the ex-factory prices, we made two adjustments. If I may recall correctly, one was sometime in April and then another one in June. Thank you.

Ladipo Ogunlesi

Thank you, sir. We have a follow-up question from Bayo Adebajo from Coronation. His question is, will the company be applying for any more pioneer incentives on the commissioned plants? Thank you, sir.

Yusuf Binji

Thank you very much, Mr Adebajo. As you may be aware, the window has been closed to further pioneer status approvals by the Federal Government. The sunset was actually August 2020. We made an appeal because of the coronavirus pandemic. And Mr President graciously extended this by one year to August 2021. And during that period the cement factories were able to apply and got this pioneer status. But I believe the government has told us that that is the final extension, and no more will be granted. So, I do not really see any subsequent new line being able to enjoy this pioneer status. Of course, all our lines are covered by the pioneer status including those that are going to be completed very soon. Thank you.

Ladipo Ogunlesi

Thank you so much, sir. I will ask Chris if he has anybody on queue to ask any questions.

Operator

Thank you. We do have a question on the conference call from Olabode Williams from Stanbic. Please go ahead.

Olabode Williams

All right. Thank you for the presentation. My question, which you have partly answered, is on funding for the expansion projects. But I can also see in your presentation that you're also planning to commence work on a power plant in the two locations as well, both in Obu and in Sokoto. Can you just talk more on how you're planning to finance both this expansion and this power project?

Yusuf Binji

Yes. Thank you very much, Mr Williams. The facility we are seeking for actually covers financing for the new power plants as well as a host of other things like also increasing our fleet of transportation trucks, building new warehouses, also investing in renewable energy, as well as the main cement plant itself, that is the EPC for the cement plant in Sokoto. Thank you.

Operator

Thank you, sir. We have no further questions on the conference call.

Ladipo Ogunlesi

I have no questions here. Thank you.

Operator

Then we have no further questions on the conference call. Mr Binji, would you like to make some closing remarks?

Yusuf Binji

So, I want to thank everyone for being part of this call, and we look forward to you joining us for the third quarter results. Thank you and have a nice day. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, that then concludes today's conference, and you may now disconnect.

END OF TRANSCRIPT