Conference Call transcript

5 August 2021

BUA CEMENT H1 2021 RESULTS

Operator
Good day ladies and gentlemen and welcome to the BUA Cement half year 2021 results conference. All participants are currently in listen-only mode and there will be an opportunity to ask questions later during the conference. Participants on the webcast may publish their questions in the text box at the bottom of the page. If you need assistance on the conference call, please speak to an operator by pressing * and then 1. Please note that this event is being recorded. I would now like to turn the conference over to the Managing Director and CEO, Mr Yusuf Binji. Please go ahead sir.

Yusuf Binji
Thank you for joining us on this conference call, as we present to you key insights and drivers of our half year financial performance, coupled with activities undertaken and achievements during the period. Presenting with me on this call are Mr Jacques Piekarski, the Chief Financial Officer, and Mr Finn Arnoldsen, the Group Chief Operating Officer. If you would kindly turn with me to slide six, for participants joining us for the first time, BUA Cement is the largest cement manufacturer across the north-west, south-south and south-east regions of Nigeria and is set to become the second largest cement manufacturer in Nigeria this year with the commissioning of our 3 million ton per annum line 3 at Sokoto by the end of the year.

We recorded ₦124.3 billion in revenues, which was up 22.7% from the corresponding period in 2020. Our credit ratings remain at investment grade with Agusto & Co upgrading us from A to A+ citing the company's strong sustainable cash flow which is upheld by favourable terms of trade with customers, improved leverage metrics and working capital adequacy. These are bolstered by a good funding mix and a stable and experienced management team. Turning to slide seven, we provide our journey map which showcases the journey so far and the milestones attained since our incorporation. On slide eight we highlight our strategic positioning across Nigeria with our operations at Edo and Sokoto states.

Turning to slide ten, it is our first half of the 2021 highlights. Despite the degree of economic uncertainty, our sustained performance and positive outlook was underpinned by unceasing cement demand and supported by our excellent business model. In view of this, EBITDA increased by 23.6% to ₦58.4 billion from ₦47.3 billion as at H1 2020 with EBITDA margin also increasing to 47% from 46.7% during the first half of last year. Similarly, profit after tax rose by 24.6% to ₦43.3 billion from ₦34.8 billion as at the end of the first half of 2020. Earnings per share were up 24.3% to 128 kobo from 103 kobo during the corresponding period last year.

We continue to make good progress on our expansion strategy with the ongoing construction in Edo and Sokoto states. Just as we remain committed to ensuring our activities have minimal impact on the environment and maximum influence across individuals, communities and the economy. I will share some of our activities embarked upon in the course of this presentation.

If you will please turn with me to slide 11, we showcase our sustained performance with revenue per ton recording a 10.6% rise to ₦45,479 from ₦41,120 last year resulting from lifting bonus adjustments. EBITDA rose by 23.6% to ₦58.4 billion from ₦47.3 billion driven by top line growth and continued cost containment measures, which was reflected in the recorded decline in our operating measure which recorded a reduction to 59.4%. Notwithstanding the high inflationary environment we were able to sustain EBITDA margin at 47%.

Turning to slide 12, we showcase the drivers of EBITDA. During the review period revenue increased by 22.7% or ₦23 billion, a combination of increased sales volume and bonus discount adjustments. Cost of sales rose by 19.1% or ₦10.6 billion to ₦66.2 billion from ₦55.5 billion as at the end of the first half of last year, led by higher input costs together with increased sales volumes. Hence, distribution and administration costs net increased by 24.3% or ₦1.48 billion to ₦7.6 billion, attributable to increases in wages and salaries, construction costs for the 3.7km road in Edo State, which is a CSR initiative, the upgrading of our IT infrastructure in both plant, the bond listing fees and the provision of medicine to some primary healthcare centres.

Despite the inflationary environment, cost containment remains a focal point for us. If you turn to slide 13, we highlight some of our achievements in this regard. Cost of sales per ton rose by 7.3% to ₦24,210 per ton from ₦22,553 per ton, driven by higher input costs due to the devaluation of the Naira. Energy cost per ton decreased by 1.4% to ₦9,104 per ton from ₦9,234 per ton, the result of higher volumes. Along the same lines, selling, distribution and administrative cost per ton increased by 12% to ₦2,780 per ton from ₦2,482 per ton owing to increases earlier highlighted.

On slide 14 we showcase the progress so far on our strategic intents that we articulated at the beginning of the year. We have commenced the usage of LNG in some of our operations at Sokoto and we have also introduced the rebranded Sokoto Cement packaging bags into the market. In doing so we are further strengthening our product offering by combining the strength of the BUA name with the enduring Sokoto brand. We now look forward to the commissioning of the 3 million tonnes per annum line 3 plant in Sokoto before the end of this year.

Slide 15 showcases our scorecard from our environmental footprint together with our continued prioritisation of the environment. Activities embarked upon during the period include the provision of solar powered potable water to communities at Okpekpe and Ibie, both in Edo State, a donation of medicine to seven primary healthcare centres in Sokoto we commenced the rehabilitation of the Okpekpe road, and continued the award of scholarships to students both in Sokoto and Edo States. For us these activities reinforce our approach, values and keenness to sustainability as we remain operationally conscious, socially engaged and economically involved. I will now kindly request for the phone lines to be opened so that we can take some of your questions. Thank you very much for listening.

Operator
Thank you very much, sir. Ladies and gentlemen on the conference call, if you wish to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. Participants on the webcast may post their questions at the bottom of the page in the text box provided. Ladies and gentlemen on the conference call, again if you could please press * then 1 again just to make sure that you are in the queue. Thank you. The first question is from Ayodeji Dawodu of Standard Bank Group. Please go ahead.

Ayodeji Dawodu
Good afternoon everyone, and thanks for the call, and congrats on the half year performance. I have three questions really. First of all just to get your views on outlook for the second half of the year particularly on demand and ex-factory prices. My second question is on the LNG project. Has that kicked off, and was that responsible for the moderation we saw in energy cost? And my third question. Is there are particular reason for the delays in the commissioning of line 3? We were expecting this in the first half of the year where it appears to now be in the second half of the year. That will be all from me. Thank you.

Yusuf Binji

Thank you very much, Mr Ayodeji. I will speak briefly on the last two and then I will also ask Mr Finn Arnoldsen to assist me on the question on outlook and demand and prices for the second half of the year. Let me start with your last question, the delay in commissioning of line 3. Initially when we mentioned Q1 2021, that was before the onset of the pandemic. And this came with a lot of setbacks. We couldn't get in a lot of the power and equipment, and at some point even the work had to be scaled down. But we were very resilient and we quickly came back on stream. As I'm talking to you now the construction job is more than 90% completed and we are set to commission by the end of this year. The delays affected also the construction of our power plants, but that is also back on track. We expect to start the commissioning of the 50 MW power plant in October, and definitely once the power is there we will start the commissioning of the cement plant. But it didn't slip by that much considering the circumstances.

We have commenced the use of LNG. Now, if you may recall, the LNG liquefied natural gas that we plan to use as a strategic option is going to be in two phases. The first phase involves using this LNG to replace some portion of the coal. So this is going to help with our carbon footprint and also reduce the dependency on that portion of coal we are importing, and therefore saving the country a lot of forex. The second portion intends the use of LNG to power our generating units that supply us with electricity. Presently we have a 48 MW power plant that is running entirely on liquid fuel, either the local fuel oil called black oil, or the diesel oil.

Now, we are building another 50 MW power plant that I said we would start commissioning in October. And this is entirely going to use LNG. So the use of LNG has started successfully in our plant in Sokoto on 10th June 2021. We have replaced a significant portion of the coal in our kiln. The kiln is where you actually produce clinker which is the major intermediate product for making of cement. This has been very successful. We have achieved our intents 100% from that aspect. We have built storage facilities for storing energy in Sokoto.

We have tested the logistics all the way from Port Harcourt to Sokoto. And now for the last six weeks the logistics has been hitch-free without any major issue. Our storage tanks in Sokoto which are meant to give us a proper stock of LNG are all filled up. We are expanding on those. And I'm even happy to tell you that as early as next week we will start using the LNG on some generators that we rented from a rental company, pending the completion of our own power plant which will use LNG 100%. We will start commissioning it in October. So it has been a very successful exercise and we are very happy and excited about it.

Regarding the outlook on cement during the second half of the year, I will just mention briefly that demand has been very strong during the first half of the year. I believe all the manufacturers struggled to be able to meet the demand. I believe the consumption or demand during the first half to the year would have been much more than what it was had the companies been able to produce more cement. That has continued in July. But I will allow Mr Finn Arnoldsen to really talk about the demand and where the prices are going for the remaining part of the year. Finn, over to you

Finn Arnoldsen
Thank you so much, MD. Good afternoon ladies and gentlemen. Just some few additional comments to what we expect to happen over the next two quarters of the year. As the MD is saying, we had a very strong first half year. Surprisingly this very strong demand continued also into the rainy season. As you all know, the rainy season starts around May and continues up till something like August or September. But the demand just continued, and quite big challenges from all the producers because it's pretty challenging to cope with all the supply across the country when the rainy season has started. So what we have seen for the first two quarters or for the first half year is around 20% increase in the sales compared to the same period last year. If you look at Nigeria totally we are between 15 million to 16 million tonnes for the first two quarters, including a couple of months with rainy season.

So for us our assessment is for the forecast for Q2 and Q3, which traditionally is stronger than the Q2, we expect this trend to continue and that all the players will really have a big challenge to cope with the demand. So we will not be surprised if we see something around 30 million to 32 million tonnes total consumption during the year. And if you remember what happened last year, for the whole year it was around 26 million. Strong growth last year and a very strong growth this year. There are a lot of questions. How is this happening when we see the challenges in the economy with the depreciation of the currency, forex difficult and so on? But again it is more or less the same answer.

Cement and building activity is clearly pretty dominant because a lot of retailers and a lot of project construction companies are really having a boost because of the difficulty to transfer the foreign currency out of the country towards other projects. And you can also see that this depreciation of the currency is also playing a role in the financial markets here. So people are using if they have surplus to invest into assets and cement-related assets. So this is the main reason for this driver. We have seen lately that the demand is coming slightly down compared to a couple of months ago. So we can see a little bit downward trend in the retail prices, but not significant as we should expect.

So just to summarise for the volumes, we expect a strong Q2 and a very strong Q3. Q3 is normally the absolute best months in terms of cement demand. On the prices, as you are aware of there was a recent increase by the players on the prices in order to compensate for the cost increase and also in terms of the depreciation of the currency. But as we see it now we would not be surprised if we will see a dramatic increase in the prices for the next two quarters. Of course we can never be sure. A lot of the assumption could change. But as it looks now we hope also for the benefit of the customers that we don't need really to address the prices much more.

We are roughly on the same EBITDA margin as we had for last year, so we are balancing prices actually with the traditional results we've also presented for 2020. But it is a very unpredictable society these days, so it's hard to tell. So I think this just gives a brief update on how we see it. But basically strong demand, no expected price increase as it looks today. So I think this is from my side. Thank you.

Ayodeji Dawodu
Thank you very much. Just to follow up, would you say that the drivers of demand are still the same and it has really been the private sector and residential housing demand that has been pushing consumption?

Finn Arnoldsen
Thank you so much for that question. That is interesting. Yes, as we had mentioned earlier, traditionally Nigeria has been a relatively high ratio of public projects. But we have seen in the last couple of years that the tendency towards the private consumer market has really been driven up. And that continues. As we have seen across the country there is a lot of construction going on with roads and dams and so on, but still the main driver actually is from the retailer. So as we can see the balance between public construction and private construction is moving towards more and more private. You know agriculture situation in the country is going pretty positive. That means it is getting more access into several areas of the country, so we can penetrate more new regions. That is also part of the explanation. We can see more consumption coming up in traditionally pretty weak areas. And this is due to improvement of infrastructure mainly driven by small operators. Thank you.

Ayodeji Dawodu
Thank you.

Operator
Thank you very much. Then the next question is from Khalil Woli of CardinalStone Research. Please go ahead.

Khalil Woli
Okay. Thank you very much for the call. I just wanted to clarify what you said on the LNG projects. Is it meant to replace coal as a source of energy for the kilns?

Yusuf Binji
Thank you very much, Mr Khalil. It is meant to replace a portion of the coal for the kiln. Traditionally we have been using coal from two sources. One is the local coal and second is the imported coal. So we have replaced the imported portion of the coal with LNG for so many reasons. So we are now using a combination of LNG and local coal for firing our kiln in Sokoto.

Khalil Woli
Thank you.

Operator
Thank you. Then the next question is from Mustapha Wahab of Chapel Hill Denham. Please go ahead.

Mustapha Wahab
Thank you very much. I just want to follow up on that energy cost issue. At some point I thought BUA was building a coal mine at least to mine coal domestically. I'm wondering what level you guys are seeing on that project and any updates.

Yusuf Binji
Mr Wahab, we are not building a coal mine. We have not stated we are building a coal mine and nowhere has it appeared in our records that we have said we are building a coal mine. We don't intend to go into coal mining.

Mustapha Wahab
Okay. Thank you very much.

Operator
Thank you very much. Ladies and gentlemen on the conference call, again if you wish to ask a question, please press * and then 1 now. We have a question from Olawaseun Ogunsanya and Stanbic. Please go ahead.

Olawaseun Ogunsanya
Thanks for your results. I just want to have a couple of questions.

Operator
Sorry, Olawaseun, your line is very soft. Just one moment please.

Olawaseun Ogunsanya
Can you hear me better now?

Operator
Yes, that is better.

Olawaseun Ogunsanya
Okay. Thank you. So I just wanted a little bit of clarification on the cost containment measures. Aside from the [unclear] into the distribution because I think the distribution cost also was a bit lower. And also is there any reason why the receivables on the balance sheet dropped significantly as well?

Yusuf Binji
Okay. I think I will ask Mr Jacques, the CFO, to respond to some of this on the cost containment measures and why the receivables are a bit lower.

Jacques Piekarski
Thank you Yusuf. Good afternoon Olawaseun. Jacques speaking. On the first question on cost containment measures particularly in distribution, first there is more self-collection from our clients. And secondly, there are some cost savings due to various synergies we undertook with the merger between the two plants. So that's on the first point. Then on the second point, the reason of the receivable drop, actually the line is receivables and other receivables. The receivables are very small because we are selling cash in advance. So there are hardly any receivables. We have only a few ones that have some credit, but it's very little. The reason for the drop is in other receivables. Last year we had a huge amount for other receivables relating to the bond proceeds. If you remember well, the bond proceeds were closed just before year end, and some proceeds were in transit to our account at year end. So financially speaking they were treated as other receivables until they would reach our bank accounts. I hope this answers your questions.

Olawaseun Ogunsanya
Yes. Thank you very much.

Operator
Thank you. Sir, we have no further questions on the conference call. We do have some questions from the webcast. I will read them out to you and you can just respond to them. The first question is from Janet Ogunkoya of Tellimer Capital. Firstly, with Dangote opening a new plant in Okpella, how do you see this impacting your sales or any plans to position for this? Second, could you please speak to the expectation on prices? Can we expect any increases in cement prices? It was reported you increased cement prices in July. Third, where do you see the most pressure on FX, as it appears your energy prices were not affected given they were flat as you reported? Lastly, could you please speak to your energy mix?

Yusuf Binji
On if the coming on stream of the Okpella plant will have any effect on ourselves, let me tell you the Okpella area is not really a big market centre for cement. So the location does not really matter much because cement from Okpella is transported to all parts of the country where the big market centres are. But like we also said at the beginning of the presentation and also emphasised by Mr Finn, the market has been extremely strong and we believe that the domestic consumption would have been much higher than what it was had the manufacturers been able to produce more cement. So it is a welcome development in the sense that it will increase the availability of cement for Nigerians and probably push down prices. Regarding the price increases I think I've already touched on that.

Our energy mix in Okpella where we have our plant in Edo State, we are using pipeline gas for both our furnace and power generation 100%. Of course we have some backup of liquid fuel in case there are disruptions in gas supply. In Sokoto because there is no availability of pipeline gas we are using solid and liquid fuel. The solid fuel is coal, locally sourced coal from the state, and some portion of imported coal which we have now stopped. That has been replaced by gas. So the energy mix in Sokoto is coal and gas. We still have some generators that are using liquid fuel, but like I mentioned these are going to be phased out with generators that are using LNG in the future. I didn't get your question on forex, but I'm sure Jacques [unclear].

Jacques Piekarski
Sure, Yusuf. Actually we don't have much pressure from the FX because number one as you understood we just stopped the import of coal which we replaced by LNG. Then there is very little left in terms of raw materials

imported. The main impact will be like for anybody else on any new equipment such as machines or spare parts. Of course if you have any devaluation this will increase the price in Naira.

Operator
Thank you very much. The next question is from Moses Njuguna from EFG Hermes. First, is the demand momentum seen in H1 2021 sustainable over the next six to 12 months? What are the underlying drivers considering the macro headwinds? Then the question is a bit unclear on H1 H2 volumes. What is the effective Dollar Naira rate for Q2 2021? Has the FX sourcing eased, split between self-collection versus the delivery of cement? Sorry, sir, the questions are a bit unclear to me.

Yusuf Binji
They are a bit unclear, but I will ask Jacques to respond.

Jacques Piekarski
Sure, Yusuf. On the effective Dollar Naira rate we are actually sourcing our FX from CBN, so these rates are published. Obviously to this you need to add some cost. So apart from the devaluation the Naira Dollar cost is directly linked to the CBN rate. You know that there were some adjustments from CBN from what they had, the official rate, to the NAFEX or I&E rate. That was the major change this year, but apart from this, no other changes. Then on the FX sourcing it has not eased. It is still very difficult. Everybody is suffering. There are some periods which are better than others. But we are doing our best obviously with the size of our business and with being an old established group. We have a very good relationship with our various banks, and they are trying to do their best for us. And also we do have some exports, but very little because of the demand as you understood before. The demand is so high that it’s very difficult to cope with it. From time to time we have a little bit of export, but this is menial in terms of FX income.

Yusuf Binji
Thank you very much, Jacques. I guess the first question had to do with the demand, whether it will be sustained into the second half. We have said something of that. We believe the demand is going to remain strong even though we have seen a very slight dip in July. But it is still much more than what it has been in the traditional rainy season period. We believe the demand will far exceed the supply. Like Mr Finn mentioned, we forecast probably a total consumption of close to 32 million tonnes given the figures we have seen during the first half of the year. And that is by far higher than what we witnessed last year, 26.5 million tonnes. So the growth is very phenomenal in Nigeria. And like I said for the third time, probably the consumption would have been much higher than this if we were able to produce much more than we are doing now. Thank you.

Finn Arnoldsen
Yusuf, just to complement you a little bit there, as you say for the consumption in the country basically Nigeria has an insulated market. We are still pretty low compared consumption per capital with other countries in West Africa. If you go around 32 million or 33 million tonnes you talk about something like 140kg per capita. So just remind the audience that for instance average West Africa if you take Senegal, Ghana, Ivory Coast and so on, it’s around 230kg to 250kg per capita. So we are still a little bit behind you know. And we can see generally West Africa that the demand is also going up in these markets, partly for the same reason as we have explained earlier, more concentration on the local economies than earlier due to COVID and also the struggling generally of forex. So still we have some way to go to try to cope or [unclear] Africa in terms of the consumption. We can also mention a country like Egypt for instance. It is 550kg per capita. We talk about almost four times the consumption of Nigeria. It’s difficult to compare country by country, but I’m sure we are seeing the impact of a society who is actually gradually consuming more across the entire country into all the states. So I think this is also complementing what the MD was saying. Thank you.

Operator
Thank you sir. We do have a question on the conference call from Kemi Iyinbor of FBN Bank UK. Please go ahead.

Kemi Iyinbor
Thank you very much. Good afternoon to everyone and congratulations once again to the management of BUA Cement for your half year results. I have two questions. The first one is to reconcile a statement that was earlier made about the Sokoto plant coming on line by the end of the year and how that is expected to push BUA into second place in terms of production. However, I also noted on the slide that BUA is at 60% or so of analysed capacity utilisation. So the question there is what is preventing a higher utilisation of your plants, particularly as you have a new one coming on stream. What is stopping you from ramping higher than 60% utilisation? My second question is around exports. I apologise if this has been addressed earlier on. Observing that in the previous year I think you had about 3% of your revenues from export sales and in the last year less than 1%. Of course last year we understand the issues of closed border and all of that, but the question is, what are the plans around increasing exports particularly with the border closure issues that are abating? Thank you.

Yusuf Binji
Regarding the line 3 like I've mentioned we are slightly behind schedule but it will come to reality before the end of this year. The question on capacity utilisation is very interesting. Now, we have based our capacity utilisation on what theoretical demand output which is going to come out of each of our production lines using a particular grade of cement. Now, this will sound a bit interesting to people. Your capacity can actually vary depending on the type of cement you are producing. For example, if you are doing more of the 32.5 [unclear], that one you have a lot of incorporation of fillers, additives, so that is going to raise your maximum capacity. If you are doing like 42.5 or 52.5, which have less filler incorporation, your capacity will be lower. For us we are producing the 42.5, even though the theoretically capacities are based on if we had to do 32.5.

So I would say the availability are between 85% to 90% so we are almost running at full blast based on the quality we are producing, whilst we are being measured against the announced maximum capacity utilisation. So the 60% is a bit erroneous, but I hope it is understood this way. Definitely the volumes are going to increase by the time we bring on line 3 in Sokoto. That will make more cement available in the market. The exports like you mentioned were hindered in the past two years by the ban and the closure of the borders. Even though that is normal, our strategy is actually to supply the Nigerian market first.

And we will only export our surplus capacity. It does really make sense when there is an extraordinarily high demand in Nigeria for us to be exporting the same product to other countries. We have to satisfy our own country first. That is the policy we have adopted and that is why you have seen very low volumes. Of course when the Nigerian market is satisfied, we will export our export volumes. Our customers are there. They are waiting. We have kept the lines open not to completely starve them. But of course the situation permitting you will see a resumption of export on a much larger scale than what we are having now. Thank you.

Operator
Thank you. Do you have any further questions, Kemi?

Kemi Iyinbor
No, thank you. That addresses it quite well. Thank you very much.

Operator
Thank you very much. Sir, we have no further questions in the queue. Do you have any closing comments?

Yusuf Binji
Ladies and gentlemen, thank you for spending a greater part of your day with us on us giving our insight on our half year results for 2021. We look forward to having another conference call with you in the next few months. Thank you, and have a very nice evening. Bye-bye.

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

END OF TRANSCRIPT