

## Benue Cement Company Plc: Interim Result – Q3'08



November 17, 2008

ST:HOLD; LT: BUY

Fair Value: ~~NGN~~ 29.47

Current Price: ~~NGN~~ 31.89

### Valuation/Analyst Recommendation

Looking at the impressive performance of BCC as at Q3 we are inclined to review our forecast and valuation. In arriving at a fair value, we estimated TO, Earning Before Interest Tax Depreciation and Amortisation (EBITDA) and PAT for December 2008. We project a TO of **N13.82bn**, as we are of the opinion that it should be able to generate **N4bn** in Q4. It should be noted that the company seemed to have overcome the challenges it faced in the last two years which led to shutting down of its operations. We project EBITDA of **N6.77bn** based on EBITDA margin of **49%** and a PAT of **N4.81bn** based on a PAT margin of **34.8%**. We used **3.13bn** Ordinary Shares which we expect to be in issue as at December, 2008. The Forward Earnings Per Share (FEPS) generates **N1.54**. Applying Enterprise Value (EV)/EBITDA multiple of **16x** and a Forward P/E multiple of **18x**, we arrived at **N31.31** per share using EV/EBITDA multiple and **N27.63** per share using price earnings multiple. A simple average of the two models generates **N29.47** which is our fair value. The forward earnings yield based on our fair value generate **5.21%** while the forward dividend yield at dividend per share of **N0.61** (using **40%** dividend payout) generates **2.08%**. We therefore place a **Short Term (ST) HOLD and Long Term (LT) Buy** on BCC's Stock at the current market price of **N31.89**.

### Business Description

*BCC's principal activities are production and sale of Ordinary Portland Cement (OPC).*

Ticker	BCC
Sector	Building Materials
Date of Incorporation	July 16, 1975
Date of Listing	April 8, 1991
Year End	December
No of Ordinary Shares	3,132,421,875
Capitalisation	₦105,124,078,125
% of Market Capitalisation	1.27%
52-Week High	₦54.70
52-Week Low	₦33.56
YTD Return	(25.97)%
52-Week Avg. Trade	1,533,310
Beta Value	0.44
Current EPS	₦1.30
Current PE	25.76x

### Overcoming Challenges:

The unaudited Q3'08 result of **Benue Cement Company Plc (BCC)** for the period ended September, 2008 showed that its Turnover (TO) increase by **118.83%** to **N9.82bn**, compared with **N4.49bn** in the corresponding period of 2007. Profit Before Tax (PBT) increased by **174.05%** between 2007 and 2008 to **N4.79bn** from **N1.75bn** in the corresponding period of 2007. BCC did not make provision for tax in the result released, therefore the reported Profit After Tax (PAT) stood at **N4.79bn** as against **N1.96bn** in 2007, representing an increase of **144.63%**. BCC commissioned the first of its two kiln lines during the 1HY in addition to the full commissioning of its independent power

station giving it full independence from the national grid. The second kiln line was commissioned in early September 2008 and is now gradually being stabilized.

Looking at the company's profit margins, the costs associated with a unit sale decreased between Q3 '07 and Q3 '08 and also decreased over the position as at the end of the financial year in 2007. The PBT margin increased substantially to **48.73%** in Q3 '08 from **38.91%** as at Q3 '07, and up from **34.17%** as at the end of the financial year in December, 2007. This shows that the company's total costs as a percentage of TO stood at **51.27%** in Q3 '08, down from **61.09%** in the corresponding period of 2007. PAT margin currently stands at **48.73%**, up from **43.59%** in the corresponding period of 2007 and up from **22.88%** as at FY '07.

The result also indicates that the percentage of the TO, PBT, and PAT in the Q3 '08 to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: **179.39%**, **255.84%** and **382.12%** respectively. The Directors of the company attributed the impressive Q3 result to increased cement production and dispatch as the operations were not disrupted by fuel shortages and unstable power supply. The company now looks forward to achieving good financial performance for the rest of 2008 and to improve further in 2009.

The Audited Annual Report & Accounts of BCC in 2007 which shows a negative working capital position means that it may find it difficult meeting the current obligations as they fall due. As at 2007, the working capital stood at **(N23.33bn)**, a deteriorating position from **(N11.06bn)** in the previous year. This is also reflected in both the current ratio and quick ratio which stood at 0.12x and 0.11x respectively as at FY 07.

The company's TO declined marginally in 2007 over 2006 by 9.22% to **N5.47bn**, while the cost of sales decreased by 11.71% to **N2.71bn**. The decrease in TO in the face of a higher decrease in cost of sales led to a marginal decrease in Gross Profit (GP) by 6.64% to **N2.76bn** from **N2.96bn**, a marginal increase in the gross profit margin from 49.07% in 2006 to 50.47% in 2007. The operating profit decreased by 13.89% in 2007 to **N1.65bn** from **N1.92bn** in 2006. PAT declined significantly by 59.67% to **N1.25bn** due to the exceptional item of **N2.08bn** recorded in 2006 which brought the 2006 PBT to **N3.86bn** instead of **N1.78bn**. Its capital employed decreased in 2007 by 28.46% to **N10.13bn** from **N14.16bn** in 2006, while its shareholders' funds increased by 15% to **N9.61bn** over the previous year of **N8.35bn**. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 18.98% and 13.03% respectively in 2007. The company gave a bonus of 1 for 8 as benefit to its shareholders for the FY '07.

An analysis of the TO of BCC in 2007 shows that its TO of **N5.47bn** was derived from the sales of **Bagged Cement, Bulk Cement** and **Clinker** representing 98.32% (**N5.38bn**), 1.64% (**N89.52mn**) and 0.04% (**N2.24mn**) of TO respectively. Looking at the shareholding structure as at 31 December, 2007 **Aliko Dangote** held **8.08%**, **Dangote Industries Limited** held **65.96%** while the balance of **25.96%** of the shares were held by other shareholders.

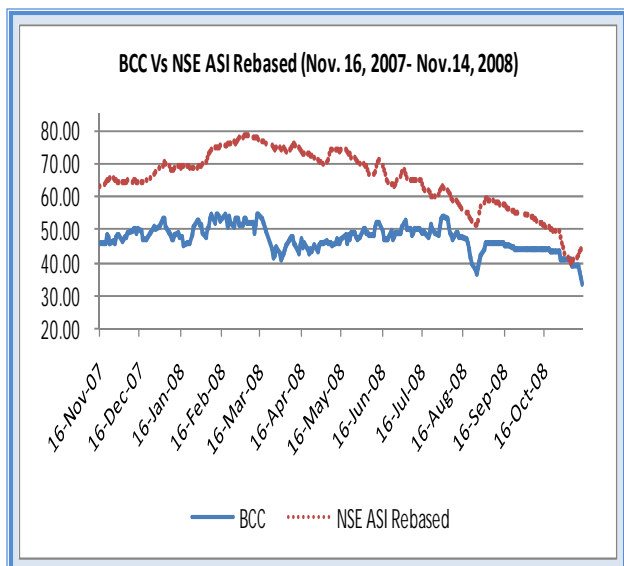
## Industry Analysis (Nmn)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Benue Cement	5,473.44	1,870.30	1,252.23	22.88	13.03	1.30	25.76
AshakaCem	16,473.00	2,514.00	1,603.00	9.73	14.95	0.81	36.62
WAPCO	38,664.8	12,536.43	10,678.65	27.62	32.55	3.62	8.01
CCNN	8,042.95	173.85	139.66	0.002	4.40	0.45	23.08

Source: Company Annual Reports as at FY '07, NSE FACTBOOK.

## Financial Performance (Nmn)

	Q3 '08	Q3 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover	9,819	4,487	118.8	5,473	6,029	(9.2)	13,820
PBT	4,785	1,746	174.1	1,870	3,860	(51.6)	6,349
PAT	4,785	1,956	144.6	1,252	3,105	(59.7)	4,810
PBT Margin (%)	48.73	38.91	9.82	34.17	64.03	(29.86)	45.94
PAT Margin (%)	48.73	43.59	5.14	22.88	51.50	(28.62)	34.80



## Directors as at December 31st, 2007

Name	Position	Holding
Alhaji Aliko Dangote	Chairman	225,128,624
Mr. George Gasper Felon	Managing Director	Nil
Mr. Olakunle Alake	Director	4,987,500
Mr. D. V. G. Edwin	Director	Nil
Mr. Olusegun Olusanya	Director	21,093
Engr. Isaac Wakombo	Director	Nil
Col. Basil Kwembah	Director	Nil
Chief David Attah	Director	Nil
Sen. John Wash Pam	Director	Nil
Chief E. K. Ashiekaa	Director	21,093

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