

## Benue Cement Company Plc: Interim Results – Q2, Jun., 2010



August 30, 2010

BUY

Fair Value: ~~NGN~~ 72.35

Current Price: ~~NGN~~ 63.50

### Valuation/Analyst Recommendation

In placing a value on the Ordinary Shares of **BCC**, we maintained our earlier FY 2010 forecast. We estimate Turnover of **N52.52bn**, **N70.90bn**, **N88.62bn**, **N106.35bn** and **N127.62bn** for 2010, 2011, 2012, 2013 and 2014 respectively. We estimate EBIT of **N24.19bn**, **N32.66bn**, **N40.82bn**, **N48.99bn** and **N49.13bn** for the same period respectively, based on EBIT Margin of 46.06% for 2010-2013 and 38.50% for 2014 and EBITDA of **N27.64bn**, **N36.19bn**, **N44.43bn**, **N52.66bn** and **N52.88bn** for the same period, respectively. We project a FCF of **N26.12bn**, **N35.46bn**, **N30.88bn**, **N36.51bn** and **N36.67bn**, PAT of **N21.56bn**, **N29.11bn**, **N24.87bn**, **N29.84bn** and **N30.58bn** and Dividend Payment of **N11.75bn**, **N15.86bn**, **N13.55bn**, **N16.26bn** and **N16.66bn** for 2010, 2011, 2012, 2013 and 2014 respectively, based on a dividend payout of 54% from its earnings. We applied a terminal growth rate of 7.23%. We used a beta value of 0.75x based on the 5-year historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used the marginal rate of 8.85% as our risk free rate and a market risk premium of 10.04%. Applying foregoing parameters on the Capital Asset Pricing Model (CAPM), the cost of equity generates 16.42%. We used 3.91bn shares in issue. The DFE Model generates N64.99 per share and the DCF Model generates N78.38 per share. Applying a weight of 45% to the DFE and 55% to the DCF, we arrive at a value of N72.35 per share, which is our fair value. The 2010 forward earnings yield based on our fair value generates 7.61%, while the 2010 forward Dividend Yield based on N3.00 Dividend Per Share at our fair value generates 4.15%. We therefore place a BUY on BCC shares at the current market price for both dividend payment and capital appreciation.

### 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	3,915,527,344
Capitalisation (₦)	248,635,986,344
% of Market Capitalisation	4.20
52-Week High (₦)	70.00
52-Week Low (₦)	38.00
YTD Return (%)	47.64
52-Week Avg. Trade	716,642
Beta Value	0.75
Current EPS (₦)	3.61
Current PE(x)	17.61

### Bridging Supply Gap:

The unaudited Q2, 2010 result of **Benue Cement Company Plc (BCC)** for the period ended June 30, 2010 showed that its Turnover (TO) declined marginally by 3.66% to **N18.88bn**, compared with N19.60bn in the corresponding period of 2009. In the same vein, the Profit Before Tax (PBT) decreased marginally by 1.96% between 2009 and 2010 to **N9.48bn** from N9.67bn in the corresponding period of 2009. The company made a tax provision of **N65.71mn** in Q2 2010. BCC was granted a Pioneer Status for a period of 3years with effect from January 01, 2009 and is therefore exempted from payment of income tax in respect of profits accruing from manufacturing and sale of cement during the period to December 31, 2011. The company's Profit After Tax (PAT) declined marginally to **N9.42bn** in Q2 2010 from N9.67bn in 2009, representing a marginal decrease of 2.65%. BCC has upgraded its installed production capacity to 2.8million metric tonnes per annum and plans to further increase production capacity to 3mnt per annum.

The company's profit margins increased marginally in Q2, 2010 over Q2, 2009 and over the FY December, 2009 figure. The PBT margin increased to 50.23% in Q2, 2010 from 49.36% as at Q2, 2009, and up from 41.23% as at the end of the financial year in December, 2009. This shows that the company's total costs as a percentage of TO stand at 49.77%, lower than 50.64% recorded in the corresponding period of 2009. PAT Margin currently stands at 49.88%, marginally up from 49.36% in the corresponding period of 2009, and up 41.05% as at FY 2009. The result also indicates that the percentage of TO, PBT, and PAT in the Q2, 2010 to the Full Year Audited TO, PBT and PAT for the period ended December, 2009 are: 53.93%, 65.69% and 65.52%, respectively.

A cursory look at the balance sheet position as at Q2 2010 compared with the position as at December, 2009 shows that the company's fixed assets decreased marginally during the review period. This may be linked to the sale of some fixed assets during the period. Its fixed assets decreased marginally by 4.07% to N38.81bn from N40.46bn in FY 2009. Stock increased by 62.72% to N3.27bn in Q2 2010 from N2.01bn in FY 2009. The large increase in the stock can be attributed to the effect of seasonality in the demand for cement. Cash and bank balances increased significantly from N3.88bn in FY 2009 to N9.32bn in Q2 2010. BCC's working capital improved from a negative of N15.55bn in FY 2009 to N8.38bn in Q2 2010. There was a substantial decline in trade creditors, which declined by 86.80% to N239.23mn in Q2 2010 from N1.81bn in FY 2010. The net assets increased by 22.73% to N29.71bn from N24.21bn as at FY 2009.

Nigerian economy is highly reliant on cement for the development of basic infrastructure such as roads, water supply, hospitals, schools, houses and ports. Although, the domestic demand for cement in Nigeria has been expanding rapidly, local production has continued to fall short of the demand by at least 33% due to critical production constraints, including unsustainable energy source. However most of the local producers are currently investing in capacity expansion in order to bridge the supply gap in the industry as a result of the expansion and increase output, which indicates that prices of cement may fall very soon. Operators will then need to develop alternative markets around neighbouring countries to sustain revenue. In Nigeria, over 90% of cement sold is bagged, while the rest is bulk-distributed, with roads being the primary mode of transportation. As a result of this, each cement producer has regional catchment area in Nigeria. Although, raw materials needed in cement production are abundant in Nigeria, the industry entry barriers are very high. The cost of plant construction is largely determined by the state of the local infrastructure. Each manufacturer provides its own power generation at the plant, which further pushes up the cost per tonne of output. The poor state of infrastructure continues to be the bane of the industry – high cost of power, fuel, transportation and water security incurred by manufacturers add to the cost of production and therefore push the price of cement up. The pricing system in the Nigerian market is that imported cement, bagged at the port, costs almost the same as locally produced bagged cement. The ex-factory price for a bag of cement, according to industry players, is approximately the same as that of imported cement. The demand for cement in Nigeria is estimated at about 14.85mnt and is expected to grow by about 10% yearly in the medium term. The total production by all the local producers is estimated at 10mnt, leading to a supply shortage of 4.85mnt, which is currently being met through importation. If the target of 28mnt is attained in 2011, Nigeria may be positioned to meet local demand as well as export to neighbouring countries.

The capital employed by BCC as at December 31, 2009 was such that equity, deferred taxation and gratuity & other long term employee benefits accounted for 97.19%, 2.16% and 0.65% of the capital structure respectively. Its total Assets stood at N50.87bn, while total liabilities stood at N26.66bn. The short term liabilities stood at N25.96bn, accounting for 97.37% of the total liabilities while the long-term liabilities stood at N701.15mn, accounting for 2.63% of the total liabilities. BCC had no long term interest bearing debt as at December 31, 2009. An analysis of the TO of BCC in 2009 shows that its revenue of N35.01bn was derived from the sales of bagged cement, representing 99.996% (N35.01bn) and bulk cements, representing 0.004% (N1.24mn). In 2009, Dangote Industries Limited's and Aliko Dangote transferred their total holding of 74.77% share capital to Obajana Cement Plc. No other individual held more than 5% of the issued share capital of the company as at December 31, 2009.

## Industry Analysis (Nmn)

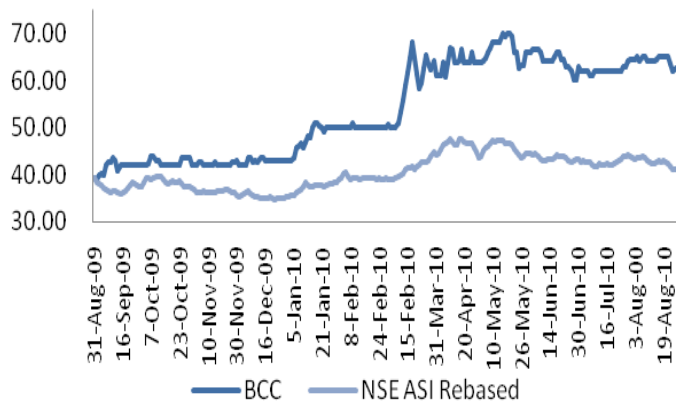
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Benue Cement	35,012	14,436	14,373	41.05	59.37	3.61	17.61
Ashakacem	17,194	2,366	944	5.49	7.18	0.71	27.40
WAPCO	45,590	9,237	5,055	11.09	11.57	1.88	20.13
CCNN	11,864	2,317	1,812	15.27	42.97	1.46	10.28

Source: Company Annual Reports as at FY '09, NSE FACTBOOK. \* Current

## Financial Performance (Nmn)

	Q2 2010	Q2 2009	%Δ	FY 2009	FY 2008	%Δ	FY 2010F
Turnover	18,881	19,598	(3.66)	35,012	16,453	112.80	52,518
PBT	9,483	9,673	(1.96)	14,436	4,733	205.00	21,636
PAT	9,417	9,673	(2.65)	14,372	4,144	246.80	21,559
PBT Margin (%)	50.23	49.36	0.87	41.23	28.77	12.46	41.20
PAT Margin (%)	49.88	49.36	0.52	41.05	25.19	15.86	41.05

BCC vs NSE ASI Rebased (Aug., 09 - Aug., 10)



## Directors As At December 31, 2009

Name	Position	Shareholding
Alhaji Aliko Dangote	Chairman	49,359,339
Mr. Shree N. Junnarkar	Vice Chairman	Nil
Mr. Olakunle Alake	Mgr. Director/CEO	6,911,171
Mr. D.V.G. Edwin	Deputy MD/COO	Nil
Mr. Olusegun Olusanya	Non Ex-Director	29,661
Engr. (Chief) Isaac Wakombo	Non Ex-Director	12,500
Col. Basil Kwembeh (Rtd)	Non Ex-Director	Nil
Chief David Attah	Non Ex-Director	Nil
Senator John Wash Pam	Non Ex-Director	Nil
Chief E.K. Ashiekaa	Non Ex-Director	29,661

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