

June 29, 2008

Long Term BUY

Fair Value: ~~NGN~~ 64.23

Current Price: ~~NGN~~ 44.95

Valuation/Analyst Recommendation

In addition to the shortage of natural gas supply, power disruption and the importation of clinker, we gathered that WAPCO's operations were affected recently by flood. In view of these unexpected developments, we are inclined to review our forecasts on WAPCO downward in the short-run. In arriving at a fair value for the company we estimated TO, Earning Before Interest Tax Depreciation and Amortisation (EBITDA) and PAT for December 2008. We project a TO of **N41.73bn**, based on a growth rate of 8% over 2007. The growth rate assumed that WAPCO would have grown its TO between 2006 and 2007 by 10% but for the shut down in 2007 during which production was closed down for 82 days as a result of inadequate gas supply. We however forecast a decline of 4% in 2008 over the assumed position in 2007. We project EBITDA of **N1458bn** based on EBITDA margin of **34.94%** and a PAT of **N8.35bn** based on a PAT margin of 20%. We used **3.0bn** Ordinary Shares which we expect to be in issue as at December, 2008. The Forward Earnings per Share (FEPS) generates **N2.78**. We estimated the Dividend per Share (DPS) of **N1.10** based on a dividend payout ratio of 40%. Applying Enterprise Value EV/EBITDA multiple of **15x** and a Forward P/E multiple of **20x**, we arrived at **N72.86** per share using EV/EBITDA multiple and **N55.61** per share using price earnings multiple. A simple average of the two models generates **N64.23** which is our fair value. We therefore place a **Long Term BUY** on WAPCO's at the current market price of **N44.95** for capital appreciation.

Business Description

WAPCO's principal activities are manufacturing and marketing of cement products.

Ticker	WAPCO
Sector	Building Materials
Date of Incorporation	February 26, 1959
Date of Listing	February 16, 1979
Year End	December
No of Ordinary Shares	3,001,600,004
Capitalisation	N 134,921,920,179.8
% of Market Capitalisation	1.29%
52-Week High	N 85.46
52-Week Low	N 42.20
YTD Return	(43.67%)
52-Week Avg. Trade	1,367,579
Beta Value	1.04
Current EPS	3.20
Current PE	14.04

Hampered by High Costs:

The unaudited Q2'08 result of Lafarge Cement WAPCO Nigeria Plc (WAPCO) for the period ended 30 June, 2008 showed that its Turnover (TO) grew by **11.4%** to **N22.16bn**, compared with N19.89bn in the corresponding period of 2007. Profit Before Tax (PBT) declined by **17.9%** between 2007 and 2008 to **N5.61bn** from N6.83bn in the corresponding period of 2007. The tax provision which decreased by 14.7% between 2007 and 2008 to N865mn from N1.01bn in 2007 brought about a Profit After Tax (PAT) of **N4.75bn** as against N5.82bn in 2007, representing a decline of **18.4%**. The sales volume achieved for the Q2 was 847,200 metric tonnes, down by 9% over the volume recorded in the corresponding period of 2007.

According to the Directors of WAPCO, the operating profit was adversely affected by increased cost of sales due to the use of imported clinker, the cost of which is significantly higher than the cost of own-manufacture. In addition, the company lost about 58 days (out of a total of 182 operating days) due to shortage of natural gas supply, which restricted the operations of the kilns during the period. This impacted on the company's profit margins. The costs associated with a unit sale increased between Q2 '07 and Q2 '08 and also increased over the position as at the end of the financial year in 2007. The PBT margin decreased to 25.33% in Q2 '08 from 34.36% as at Q2 '07, and down from 32.42% 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 **74.67%** in Q2 '08, up from **65.64%** in the corresponding period of 2007. PAT Margin currently stands at **21.42%**, down from **29.26%** in the corresponding period of 2007 and down from **27.62%** as at FY '07. The result also indicates that the percentage of the TO, PBT, and PAT in the Q2 '08 to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: 57.31%, 44.77% and 44.45% respectively, an indication that the company is currently performing lower than the previous year.

A cursory look at the audited account of WAPCO in 2007 indicated that the working capital position recorded a positive Net Current Assets (Working Capital) in 2007 of N1.43bn. Prior to 2007; WAPCO had recorded negative working capital consistently between 2003 and 2006.

The company's TO declined marginally in 2007 over 2006 by 2.2% to N38.67bn, while the cost of sales increased by 7.51% to N23.32bn. The decrease in TO in the face of an increase in cost of sales led to a decrease in Gross Profit (GP) by 13.93% to N15.34bn from N17.82bn and a decrease in the gross profit margin from 45.10% in 2006 to 39.68% in 2007. The operating profit decreased by 10.85% in 2007 to N11.58bn from N12.98bn in 2006. PAT increased marginally by 2.13% to N11.18bn due to the exceptional item of N871.14mn recorded in 2007 which brought the 2007 PBT to N12.54bn instead of N11.67bn. Its capital employed increased in 2007 by 7.70% to N34.85bn from N32.36bn in 2006, while its shareholders' funds increased by 28.42% to N32.81bn over the previous year of N25.55bn. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 35.86% and 32.54% respectively in 2007. The company gave a dividend of N1.20k as benefit to its shareholders for the FY '07.

As a result of the takeover of Blue Circle Industries Plc, UK on July 1, 2001, Lafarge SA of France became the majority shareholder in WAPCO. In February 2008, the name West African Portland Cement Plc was changed to Lafarge Cement WAPCO Nigeria PLC (Lafarge WAPCO). With the acquisition of West African Portland Cement Plc (WAPCO) and AshakaCem Plc (Ashaka), Lafarge holds a leadership position in the Nigerian cement industry with investments that have a total production capacity of about 3 million metric tons per annum. Looking at the shareholding structure as at 31 December, 2007, Lafarge SA through its subsidiaries, held **60%** of the total ordinary shares of the company, Odua Group of Companies held **10.55%** while the balance of **29.45%** was held by other shareholders.

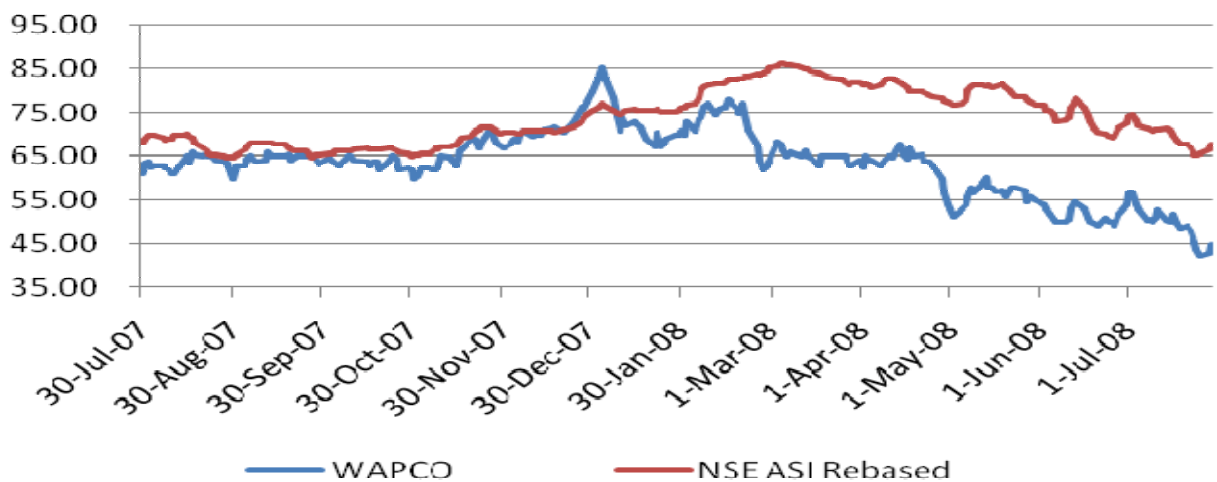
Industry Analysis (Nmn)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
WAPCO	38,664.8	12,536.43	10,678.65	27.62	32.55	3.20	14.04
BENUE CEMENT	5,473.44	1,870.30	1,252.23	27.62	32.55	0.27	186.71
CCNN	8,042.95	173.85	139.66	0.002	4.40	0.11	108.80

Source: Company Annual Reports as at FY '07, NSE FACTBOOK. Ashakacem FY '07 Audited Account was not ready at the time of this Report.

Financial Performance (Nmn)

	Q2 '08	Q2 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover	22,158	19,887	11.4	38,665	39,647	(2.16)	41,730.57
PBT	5,612	6,833	(17.9)	12,536	12,120	3.44	11,016.87
PAT	4,747	5,819	(18.4)	10,679	10,946	(2.4)	8,346.11
PBT Margin (%)	25.33	34.36	(9.03)	32.42	30.67	1.75	26.40%
26.40%	21.42	29.26	(7.84)	27.61	27.70	(0.05)	20.00%

WAPCO vs. NSE ASI Rebased (30 July, 2007 - 29 July, 2008)**Contact us at Our Offices:**

Lagos Office: UAC House (6th-8th Floors) 1/5 Odunlami Street, P.M.B 12913 Lagos. (Tel.) 234-1-2640160-9 (Fax) 234-1-2702890

Port Harcourt:

AfriBank Bank Building (2nd floor, 5 Trans Amadi Road, Port Harcourt. (Tel) 234-084-463308 (Fax) 234-084-463174

Abuja Office:

NAL Abuja Complex, Plot 990, Cadastral Zone A O, Central Business District, (behind Leventis Stores), Abuja FCT (Tel) 234-09-6700535
 (Website) www.fsdhgroup.com, www.fsdhsecurities.com
 (Email) fsdhsecurities@fsdhgroup.com

This publication is produced by FSDH Securities (FSDH Sec) a subsidiary of First Securities Discount House Limited (FSDH) solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Sec may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of FSDH or FSDH Sec. for actions taken as a result of information provided in this publication.