BUA CEMENT PLC.

2021 Corporate Rating Review Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

BUA Cement Plc

A+

Outlook: Stable
Issue Date: 16 July 2021
Expiry Date: 30 June 2022
Previous Rating: A

Industry: Cement Manufacturing

Analysts:

Racheal Animashaun
rachealanimashaun@agusto.com

Isaac Babatunde
isaacbabatunde@agusto.com

Agusto & Co. Limited
UBA House (5th Floor)
57, Marina
Lagos
Nigeria

www.agusto.com

This is a company with good financial condition and strong capacity to repay obligations on a timely basis.

RATING RATIONALE

Agusto & Co. hereby upgrades the rating assigned to BUA Cement Plc (**"BCP"**, **"BUA Cement"** or **"the Company")** to **"A+"** to reflect the Company's strong and sustainable operating cash flow upheld by favourable trade terms with customers, improved leverage metrics on account of refinancing of expensive Shareholder's loan with the proceeds of the Series 1 Bond at a lower rate, sustained working capital adequacy bolstered by good funding mix as well as stable and experienced management team. In addition, the rating is enhanced by the continued rise in demand for cement in Nigeria evidenced by persistent growth in industry sales volumes over the last two years, as well as the steady increase in BUA Cement's production capacity with plans to reach 20 million metric tonnes in the medium term. Also, the assigned rating reflects BCP's leading cost-efficient energy solutions which will impact profitability positively in the near term. However, the Company's rating is tempered by rising production costs precipitated by higher inflationary pressures and foreign exchange volatilities, profitability which requires improvement and ownership concentration risk.

BUA Cement Plc is one of the leading players in the Nigerian cement industry with a total installed capacity of 8 million metric tonnes[1] (MMT) per annum as at 31 December 2020 and operating from production plants in Sokoto and Edo states. BUA Cement Plc, which is a result of the merger between Cement Company of Northern Nigeria (CCNN) and OBU Cement Plc, is well-positioned to benefit from the potential growth in the Nigerian Cement Industry in the medium term supported by a combination of plant expansion strategies, efficient route to market initiatives and energy efficient solutions.

In the financial year ended 31 December 2020 (FYE 2020), BUA Cement Plc recorded a revenue of ₦209.4 billion, a 19.3% year-on-year growth largely attributable to the increase in the sales volume to 5.1 million metric tonnes (MMT) (2019: 4.5 MMT). In the review year, BUA Cement Plc's cost of sales to revenue ratio of 54.4% (2019: 53%) was higher than the industry average of 51.5% as the Company was yet to fully commence the alternative cheaper energy solutions at its cement plants. In FYE 2020, BCP's operating expense to sales ratio stood at 7.3% (FYE 2019: 8.4%) and interest expense to revenue ratio improved to 1.8% from 3% in FYE 2019.

[1] *The third largest cement production capacity in Nigeria as at 31 December 2020*

In 2020, BCP recorded a pre-tax profit of ₦79 billion which translated to a pre-tax-pre-interest return on assets (ROA) of 11% (FYE 2019: 14.9%) which in our opinion requires improvement. However, the Company's pre-tax return on equity of 21% (FYE 2019: 19.7%) was significantly above the average yield on Federal Government of Nigeria's 364 days treasury bills rate in the same period.

In FYE 2020, BUA Cement Plc recorded an operating cash flow (OCF) of ₦133.9 billion (FYE 2019: ₦30.1 billion), which was sufficient to cover returns to providers of finance amounting to ₦63 billion, estimated mandatory capital expenditure of ₦30.3 billion and current portion of long-term borrowing of ₦13.5 billion, which we consider to be good. In the same period, BCP recorded an improvement in OCF as a percentage of sales to 64%, up from 17% in the prior year and higher than the industry average of 50%. This was supported by favourable trade terms with average trade payables of 12 days and trade receivables of 1 day in 2020. In our view, the Company's cash flow position is very strong and sustainability is premised on the advance payment and cash-based model operated in the cement manufacturing industry in Nigeria.

As at FYE 2020, BUA Cement Plc posted an overall working capital surplus of ₦89.2 billion, supported by ₦105.5 billion due to related parties. Subsequent to the year end, BCP reported an overall working capital surplus of ₦84.5 billion as at end of Q1 2021, depicting an adequate working capital position, which we expect to continue in the short term.

Due to the new commercial borrowings and the ₦115 billion Series I bond issued in December 2020, BUA Cement Plc's interest-bearing liabilities rose to ₦198.3 billion as at 31 December 2020 from ₦21.4 billion in the prior year. In FYE 2020, BCP's interest expense dropped by 28% to ₦3.8 billion, and as a percentage of sales to 1.8% (FYE 2019: 3%), on account of the low floating interest rates on commercial bank loans and the Central Bank's real sector finance facilities (RSSF)[2] enjoyed during the period. As at the same date, BUA Cement's interest coverage ratio also improved significantly to 34.9 times from 5.6 times in the prior year. The three-year (2018-2020) cumulative interest coverage ratio of 14.4 times is also better than our benchmark of 3 times. While this reflects a low leverage position, we believe BCP's leverage metrics may increase with a rise in commercial bank lending rates, albeit to an acceptable level, considering BCP's good credit history, market reputation and negotiation capabilities.

In the short term, BCP's ongoing expansion of the installed capacity in its Kalambaina plant to 5 million metric tonnes is expected to bring its total capacity to 11 MMT by the end of FYE 2021. BUA Cement Plc has also signed a contract with CBMI Construction Company, to establish three new plant lines across three states in Nigeria in the medium term. Upon completion, BCP's total production capacity will increase

[2] BCP obtained long term RSSF loans amounting to ₦35.1 billion from two commercial banks with a discounted annual interest rate of 9% payable over 10 years.

to 20 million metric tonnes[3]. We expect these projects to deepen BCP's market presence and result in sustained revenue growth in the medium term, especially with the increase in housing and construction activities in Nigeria. We also believe that the successful adoption of liquified natural gas (LNG) as alternative energy source across BCP's plants will help reduce production costs, especially energy and maintenance costs which are often impacted by high level of impurities associated with existing energy sources (coal, LPFO and black oil) and thus improve profitability going forward. Going forward, we expect BCP's overall working capital to remain adequate in the near term, as the Company continues to optimise funding mix comprising non-interest-bearing liabilities (including advance deposits from customers and funds from related parties) and long-term borrowings (bonds or concessionary funds) at competitive market rates. Furthermore, we expect BCP's leverage metrics to remain at an acceptable level in the near-term, despite the planned Series II bond issuance. In addition, we expect BCP's strong cash flow position to remain sustainable in the near-term, given its favourable trade terms with customers.

With a housing deficit estimated at 17 million housing units[4] and an infrastructural gap of $3 trillion[5], we expect demand for cement to trend upward in the near term. Industry operators have continued to expand capacities to meet rising demand while deploying innovative strategies to reduce cost and maintain reasonable profitability levels. We also note the export opportunities available to cement manufacturers in Nigeria through the ratified African Continental Free Trade Area (AfCFTA) agreement and believe this would further deepen export earnings and volume growth for players.

Based on the aforementioned, Agusto & Co. attaches a **stable** outlook to BUA Cement Plc.

[3] *BCP anticipates completion of these three plants by mid-2023*
[4] *Housing Finance Africa Yearbook 2020*
[5] *Agusto & Co. Research*

Figure 1: Strengths, Weaknesses, Opportunities & Threats

Strengths

- Continued expansion and increased capacity utilisation
- Stable, qualified and experienced management team
- Good market position and increasing market share buoyed by good brand perception
- Rising sales growth and improving profit margins
- Strong cash generating capacity
- Acceptable leverage position

Weaknesses

- Concentrated ownership
- Declining returns on assets due to increasing asset base

Opportunities

- Rising population and housing deficit in Nigeria
- Export opportunities to other African countries leveraging the African Continental Free Trade Zone Agreement (AfCFTA)
- Nigeria's huge infrastructural gap

Threats

- Currency devaluation and volatilities in global oil market
- Persistent inflationary pressures
- Rising level of insecurity

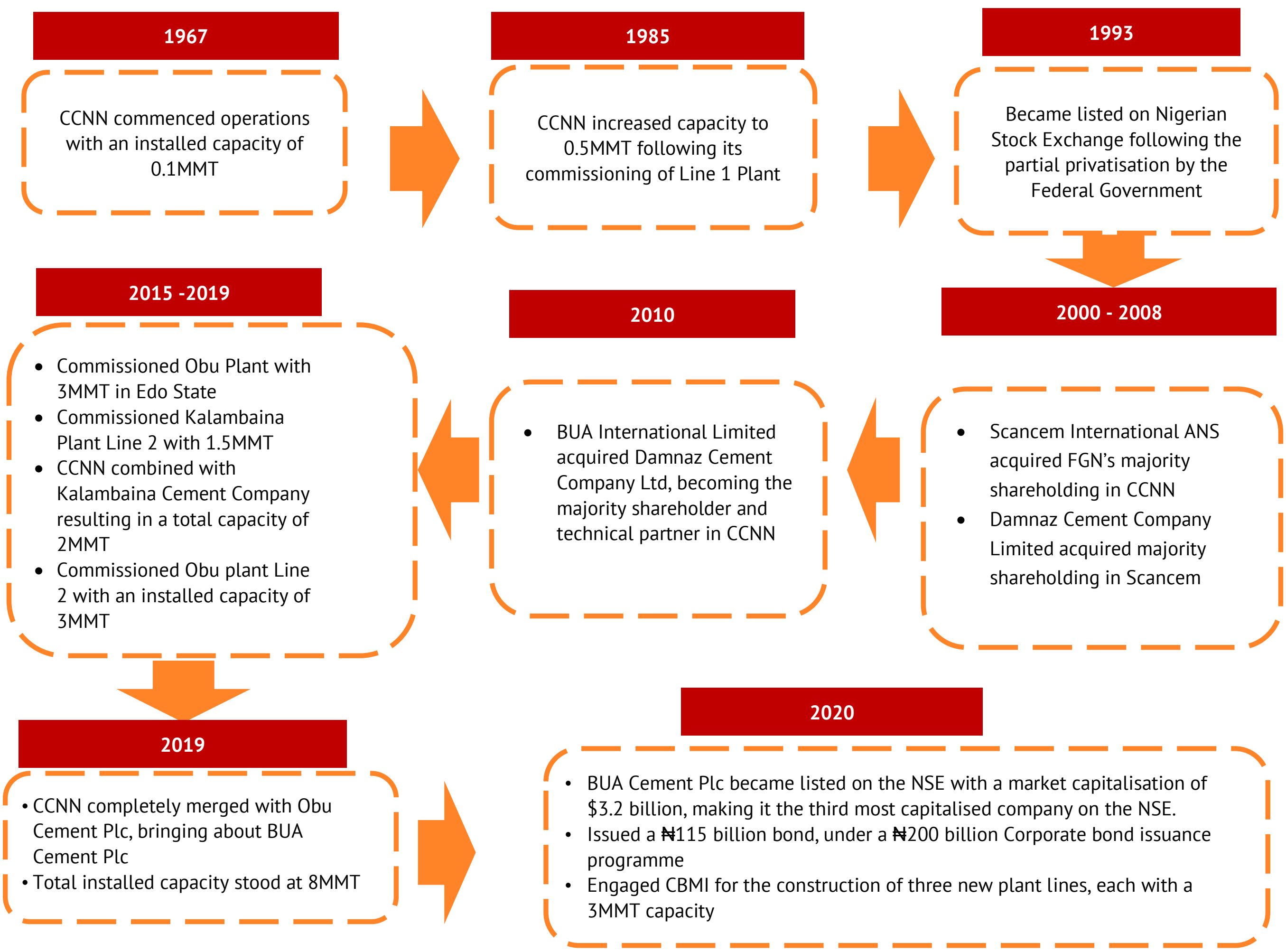
PROFILE OF BUA CEMENT PLC

Background

BUA Cement Plc ('BCP', or 'the Company') is one of the leading cement manufacturers in Nigeria. The Company was incorporated as a limited liability company on 30 May 2014 and commenced business in August 2015. The Company was converted from a private limited liability Company on 16 May 2019, as a prelude to a scheme of merger. On 23 December 2019, BUA Cement Plc merged with the defunct Cement Company of Northern Nigeria Plc (CCNN) and became listed on the Nigerian Stock Exchange on 9 January 2020. BUA Cement Plc had an installed capacity of 8 million metric tonnes per annum as at 31 December 2020. BUA Cement's finished products are largely sold through accredited distributors and directly to building and construction companies in Nigeria. BCP also exports to other African countries.

BUA Cement Plc is a fully integrated cement manufacturer in Nigeria, with its two manufacturing plants- Kalambaina in Sokoto State and Obu in Edo State. The Kalambaina plant has two lines totalling 2 million metric tonnes while the Obu plant has two lines of 3 million metric tonnes capacity each. As at 31 December 2020, the Company had a total installed production capacity of 8 million metric tonnes per annum.

Figure 2: History and Major Milestones of BUA Cement Plc.



In 2019, BUA Cement Plc commenced the construction of an additional production line in Sokoto with a 3 million metric tonnes capacity and this is expected to be completed by Q4 2021. Subsequent to the 2020 year-end, BCP commenced the use of natural gas, a more efficient and reliable energy source for the operation of cement production plants and this has helped BCP reduce the use of imported coal in its Sokoto Plant. The natural gas is transported in liquified form through gas tankers from the suppliers, received in large quantities into BCP's LNG cylinders, converted to the usable gaseous form through the evaporators and transported in pipelines to each end-user departments across the plant site. Furthermore, BCP plans to adopt the use of the LNG in its new multi-purpose 48 MW flexible engine power plant at the Kalambaina plant, which is expected to be installed by the end of 2021. This would provide BCP with a more reliable, environmentally friendly and cheaper energy source and boost overall operational efficiencies.

Ownership Structure

As at 31 December 2020. Alhaji Rabiu Abdulsamad remained BCP's largest shareholder, with a direct equity stake of 56.24% in the Company. BUA Cement Manufacturing Limited which is also largely owned by Alhaji Rabiu Abdulsamad is the Company's second largest shareholder with an equity stake of 33.93%, while Alhaji Rabiu Isiaku Jnr controls 6.12%, with the other shareholders collectively accounting for the remaining 3.71%. As at FYE 2020, Alhaji Rabiu Abdulsalam remained the ultimate owner of BUA Cement Plc.

Board Composition & Structure

As at 31 December 2020, the Board of Directors of BUA Cement Plc comprised eight members split into six Non-Executive Directors and two Executive Directors. The Board carries out oversight function on the Company's management through three committees: the Board Risk Management Committee, the Board Governance, Establishment and Remuneration Committee and the Board Finance & General-Purpose Committee. The Company also has an independent Statutory Audit Committee, consisting of three shareholders and three Directors. The Board of BCP met six times during the year under review, which were attended by all members. Alhaji Rabiu Abdusalam presided over BCP's board as the Chairman, while Engr. Yusuf Haliru Binji is the Company's Managing Director and Chief Executive Officer. During the review period, BCP appointed a new Executive Director – Mr. Jacques Pierkarski, effective 2 October 2020.

Table 1: BUA Cement Plc's Board of Directors

CURRENT DIRECTORS	DESIGNATION
Alhaji Rabiu Abdulsamad, *CON*	Chairman
Engr. Yusuf Haliru Binji	Managing Director and CEO
Alhaji Kabiru Isyaku Rabiu	Non-Executive Director
Mr Kenneth Chimaobi Madukwe	Non-Executive Director
Mr Finn Arnoldsen	Non-Executive Director
Senator Khairat Abdulrazaq Gwadabe	Independent Director
Alhaji Shehu Abubakar	Independent Director
Mr. Jacques Piekarski	Executive Director

Operating Structure

The Company's cement is produced via its two plants, which are situated close to large limestone deposits in Sokoto and Edo states in Nigeria. BUA's major raw material – Limestone, is extracted and processed through several phases alongside other inputs including clay, gypsum, sand, etc. to produce cement.

The Kalambaina Plant

BUA Cement Plc's Kalambaina plant, located in Sokoto has two production Lines I and II. The plant has an aggregate installed capacity of 2 million metric tonnes. In February 2019, BCP commenced the construction of an additional production line – Line III, with an expected installed capacity of 3 million metric tonnes. The plant is expected to be completed by the end of 2021, and this will bring the total installed capacity at the Kalambaina plant to 5 million metric tonnes. During FYE 2020, the Kalambaina plants' actual utilisation increased to 73% (FYE 2019: 69%) with 1.5MMT of cement produced representing 30.5% of BCP's total production volume for the period. The capacity utilisation is expected to remain the same in 2021, with the new Line III production commencing in Q1 2022, following its anticipated commissioning by Q4'2021. Subsequent to FYE 2020, Management disclosed the ongoing installation of a 48 Mega Watts power generating plant in the Sokoto plant Line III, which will also be fuelled by the natural gas from the Company's liquified natural gas (LNG) plant upon completion.

The Obu Plant

The Obu plant located in Edo State has two Lines I and II with an aggregate installed capacity of 6 million metric tonnes. As at 31 December 2020, the Obu plant had a 61% capacity utilisation and this is projected to increase to 67% by end of 2021.

Other Information

As at 31 December 2020, BUA Cement Plc's total assets stood at ₦776.3 billion (FYE 2019: ₦470.6 billion). The Company generated a turnover of ₦209.4 billion (FYE 2019: ₦175.5 billion) and recorded a profit after tax of ₦72.3 billion (FYE 2019: ₦60.6 billion) during the financial year ended 31 December 2020. BUA Cement Plc had an average core staff strength of 1,001 employees, (2019: 1,062 employees).

Table 2: Background Information as at 31 December 2020

Authorised Share Capital:	₦20 billion
Paid-up Capital:	₦16.9 billion
Shareholders' Fund:	₦375.9 billion
Registered Office:	32, Churchgate Street, Victoria Island
Principal Business:	Manufacturing and marketing of cement products
Auditors:	Price Waterhouse Coopers
Number of Employees	1,001

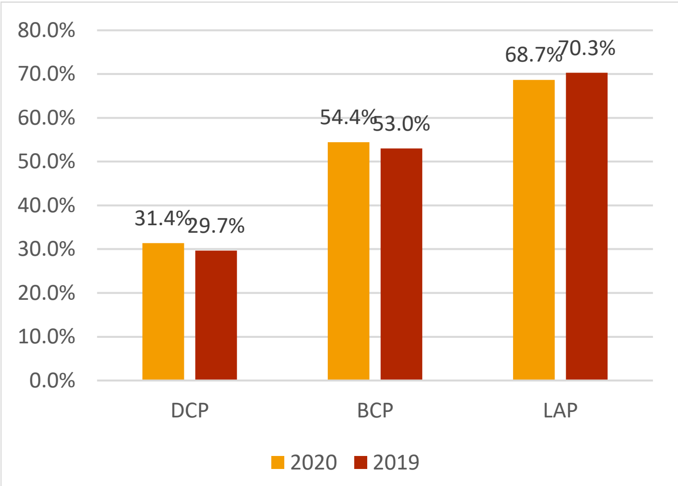
Source: BUA Cement Plc's Audited Financial Statement

FINANCIAL CONDITION

PROFITABILITY

BUA Cement Plc generates revenue from the sale of cement. The Company operates a flexible discount system and thus, revenue generated is often impacted by the various discounts and bonuses granted to qualified distributors on pre-determined basis. BCP generates revenue predominantly from local sales with export accounting for less than 1% of revenue[6]. The Company's Obu plant in Edo state contributed 69.5% to total sales in 2020 while the Kalambiana plant contributed 30.5%.

Figure 3: Cost of sales to revenue ratio



In the financial year ended 31 December 2020 (FYE 2020), BUA Cement Plc's revenue grew by 19.3% to ₦209.4 billion, driven by an increase in sales volume to 5.1MMT (FYE 2019: 4.5MMT), precipitated by a rise in the average plant capacity utilisation rate[7] across the Company's production lines to 67%[8] (FYE 2019: 61%). BCP's revenue per tonne also rose to ₦41,067, from ₦39,004 in the prior year, due to the adjustments made to bonuses granted to customers. In FYE 2020, BCP's cost of sales to sales ratio increased to 54.4% (FYE 2019: 53%) owing to higher raw material and energy cost incurred in the period, elicited by the impact of inflationary pressures and foreign exchange volatilities on plant fueling costs. It however compared favourably with Lafarge Africa Plc (LAP)'s 68.7% but higher than Dangote Cement Plc (DCP)'s 31.4%. We note positively the introduction of liquified natural gas (LNG) at the Sokoto plant[9], which is a more reliable, cleaner and cheaper energy source compared to imported coal and liquid fuel whose supply is vulnerable to global energy market volatilities and often result in higher plant maintenance and repairs costs due to the large amount of impurities associated with them. The Company also plans to increase installed capacity in Sokoto plant with the addition of a new plant line with an estimated 3 MMTA in the short term, and this is expected to result to higher sales volume and revenue growth. Therefore, we expect BCP's cost of sales to revenue ratio to improve in the medium term.

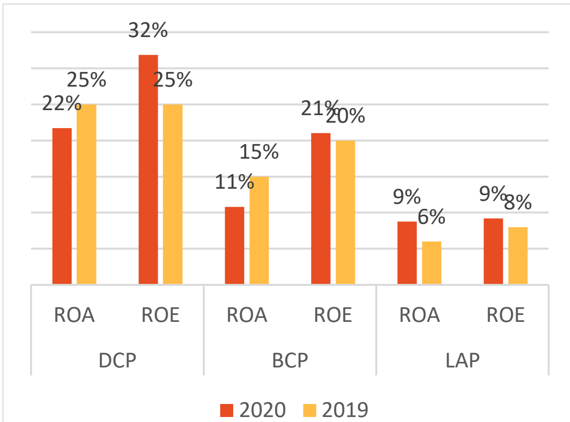
In FYE 2020, BUA Cement Plc's operating expenses[10] to revenue ratio improved to 7.3% (FYE 2019: 8.4%), on account of the Company's expanded revenue in the review year. Overall, BCP's operating profit margin

[6] BCP aims at satisfying local demand for cement in Nigeria and ultimately extend excess volumes to neighbouring African countries.
[7] Despite the advent of Covid-19 during the year, BUA Cement Plc was able to carry on production activities throughout the year due to the successful implementation of COVID-19 mitigation plans across its production sites
[8] Capacity utilization from both Obu and Sokoto plants increased to 69% and 73% in 2020 from 53% and 69% respectively in 2019.
[9] The LNG is sourced from a local gas supplier in Nigeria, transported in large quantity through gas tankers to BCP's LNG gas cylinders, converted to natural gas through BCP's evaporators and thereafter distributed in pipelines to the end-user departments at the production site
[10] Comprising administrative, distribution and selling expenses

remained stable at 38.3% (FYE 2019: 38.5%) and compares favourably with LAP's 20.6% but lower than DCP's 48.5%.
BCP's other incomes largely arising from write-back of impairment on financial assets (₦1.35 billion) declined as a percentage of sales to 1.2% in FYE 2020 (FYE 2019: 2.3%). During the same period, BUA Cement Plc's interest expense fell by 28% to ₦3.8 billion, due to the refinancing at lower rates between 11% and 13% in FYE 2020 (2019: 19%) and the capitalisation of ₦13 billion interest expense incurred on Shareholder loans[11]. As a result, the Company's interest expense as a percentage of revenue declined to 1.8% (FYE 2019: 3%), better than DCP and LAP's 4% and 4.9% respectively. In FYE 2020, BUA Cement Plc's pre-tax and post-tax profits as a percentage of sales remained relatively unchanged from the prior period at 37.7% and 34.5.% respectively.

BUA Cement Plc posted a moderate pre-tax pre-interest return on assets (ROA) of 11% (FYE 2019: 15%), due to the significant increase in the Company's asset base[12]. Nevertheless, it compared favourably with LAP's 9% but less than DCP's 22%. BCP's FYE 2020 pre-tax return on equity (ROE) which improved to 21% (FYE 2019: 18%) on account of higher profit for the period is significantly better than the 3%[13] average yield on 364 days treasury bills in the same period. Furthermore, the Company's ROE is better than LAP's 9% but less than DCP's 32%. Nonetheless, in our opinion, BCP's ROA requires improvement, which we believe would be achievable as the new plant line III commences production from Q1'2022.

Figure 4: Profitability ratios



In the three-month ended 31 March 2021 (unaudited account), BUA Cement Plc recorded a revenue of ₦61.2 billion, representing a 13% year-on-year increase from the comparable prior period, on the back of the increased sales volume to 1.4MMT (Q1'2020: 1.3MMT). Revenue per tonne also rose to ₦44,520 (Q1' 2020: ₦40,625), on account of the reduction in lifting bonuses[14] granted by BCP to encourage prompt pick up of products already paid for by customers. In Q1 2021, BCP's cost of sales to revenue ratio dropped to 52.4% from 54.6% in Q1'2020, reflecting the improvement in the Company's efficiency in energy mix and other operational costs, while operating expenses to sales ratio remained stable at 5.7%, on the back of the increased route to market initiatives and the harmonisation of the Company's sales offices. Overall, BCP's annualised ROA and ROE improved slightly to 13% (FYE 2020: 11%) and 22% (FYE 2020: 21%) respectively.

In the medium term, BCP plans to increase the total installed production capacity to 20MMTPA, with the planned construction of three additional plant lines to boost revenue growth and increase the Company's market share in the Cement Industry.

---

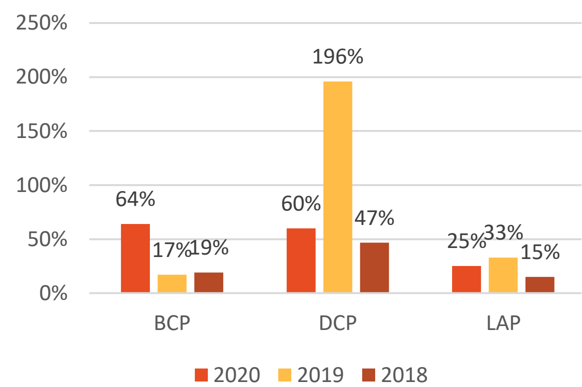
[11] The capitalisation of interest expense on the shareholder loan incurred at the construction phase of the Sokoto Plant Line III is in line with international accounting standard 23 – (Borrowing costs).
[12] BCP recorded a 63% increase in total assets in FYE 2020, driven by the addition to the Company's long-term assets (PPE) in addition to the receivables from bond issuance.
[13]The low yield on 365-day treasury bills is an anomaly occasioned by the low-interest regime implemented by the Central Bank of Nigeria (CBN) to cushion the effect of COVID-19 on the citizenry in 2020.
[14] They are usually granted to allow BCP recognise advance deposits by customers as actual revenue and are usually reduced in periods of peak demand.

In our opinion, the successful implementation of the LNG project will help to improve BUA Cement's overall profitability position in the near term, through reduced foreign exchange pressures on energy and plant maintenance costs.

CASH FLOW

BUA Cement Plc generates cash from the sale of cement to accredited distributors, construction companies, real estate developers and individuals in Nigeria and also exports some of its products to other neighbouring countries. The Company's cash flow is supported by its favourable terms of trade with customers and suppliers given that sales are mainly on advance or cash basis, in line with the practice in the Nigerian cement industry.

Figure 5: Peer Comparison – Operating cash flow to sales ratio



In FYE 2020, BCP's average trade creditor days stood at 12 days, while trade receivables days remained low at 1 day, akin to the historical trend.

During the financial year ended 31 December 2020, BUA Cement Plc's operating cash flow (OCF) grew significantly to ₦133.9 billion (FYE 2019: ₦30.1 billion), spurred by the increase in amounts due to related parties[15], advance deposit from customers as well as other creditors and accruals[16]. As a result, BCP's OCF was sufficient to cover the returns to providers of finance (RTPOF) comprising interest payments (₦3.8 billion) and dividend (₦59.2 billion). In the same vein, the net OCF (after RTPOF) was sufficient to cover the estimated mandatory capital expenditure of ₦30.3 billion and current portion of long-term borrowing of ₦13.5 billion.

As at FYE 2020, the Company's OCF as a percentage of sales rose to 64%, from 17% recorded in the prior year and compared favourably with LAP's 25% and DCP's 60%. Likewise, BUA Cement Plc's three-year (2018-2020) weighted average OCF to sales ratio of 37% is better than our benchmark of 20% for companies in the cement manufacturing industry. Furthermore, we consider BUA Cement Plc's OCF as a percentage of returns to providers of finance of 212% to be very good, laying credence to BCP's strong cash generating capacity.

The three-months ended 31 March 2021 (unaudited account) showed further improvement with the Company reporting an OCF of ₦81.5 billion, which was largely supported by the reduction in other receivables[17] and advance payments and deposits to suppliers for the period. The OCF was sufficient to cover RTPOF of ₦0.9 billion for the three-month period. Likewise, the net OCF after returns to the providers of finance was sufficient to cover the estimated mandatory capital expenditure and debt obligations due within the period. In addition,

[15] This relates to the amount owed on contracts with BUA International Limited and loans obtained from BCP's shareholders to finance the Company's plant construction

[16] Comprises statutory obligations (47%), provision for decommissioning liabilities (27%), government grant (16%), other payables and accrued expenses (10%)

[17] This relates to the receivables from bond issuance as at FYE 2020 which has been utilized during Q1 2021

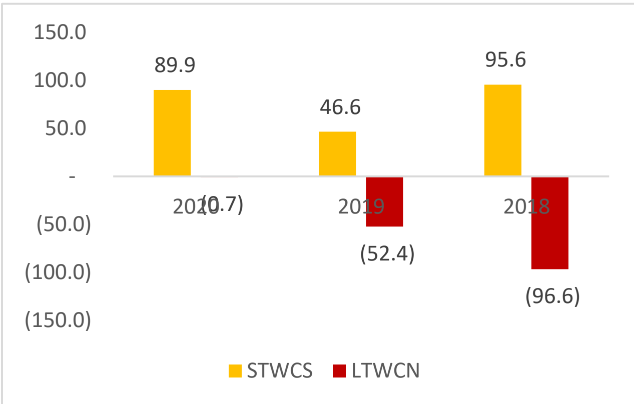
the Company's OCF as a percentage of sales improved significantly to 133% in Q1'2021 reflecting BCP's strong operating cash flow position.

In our view, BUA Cement Plc's cash flow position is very strong, and we expect this to continue in the near term due to favourable terms of trade with customers.

FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

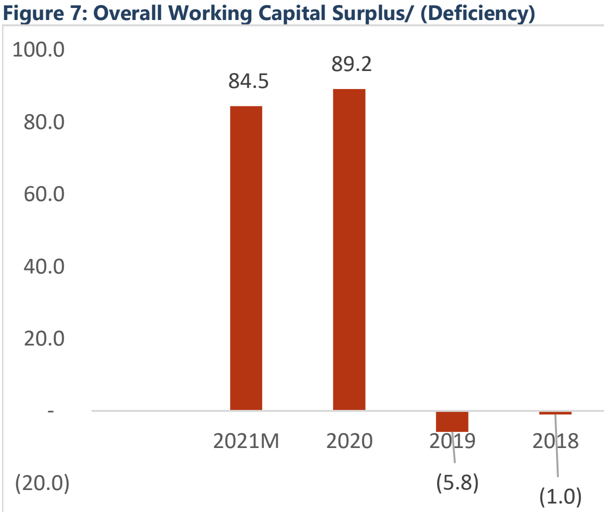
As at 31 December 2020, BCP's working assets grew significantly by 163% to ₦102 billion, largely driven by increase in other receivables[18] which constituted about 66.4% of working assets in the period. The other components of BCP's working assets as at FYE 2020 included inventory (18.4%) and advanced deposits to suppliers (14.7%), while trade debtors accounted for the remaining 0.5%.

Figure 6: Short Term and Long-Term Working Capital Position (N' Billions)



BUA Cement's spontaneous financing (non-interest-bearing liabilities) grew by 125% from the prior year to ₦192.1 billion, owing to the spike in amounts due to related parties[19], other creditors and accruals and advanced deposits from customers. As at the same date, BCP's spontaneous financing was sufficient to finance working assets, leaving a short-term financing surplus of ₦89.9 billion. Over the three-year period (2018-2020), BCP has continually posted short-term financing surpluses. This is in part supported by the "cash and carry basis" operated in the cement industry, which provides working capital to finance operations.

Figure 7: Overall Working Capital Surplus/ (Deficiency)



BUA Cement's long-term assets as at FYE 2020 totalled ₦540.3 billion, reflective of a 30% year-on-year growth owing to the expansion of the Sokoto plant and additions to spare parts inventory during the year. As at the same date, BCP's long-term funds of ₦539.6 billion comprising long term borrowings (30%) and equity (70%) was adequate to cover the long-term assets, leaving a long-term financing need of ₦0.7 billion, which was covered by the short-term working financing surplus. In all, BCP

[18] This largely comprises a ₦67 billion receivables from the bond subscribers, which was yet to be received following the closing of the Bond issuance on 30 December 2020

[19] This relates to intercompany borrowing (shareholders' loan) of ₦71 billion from BUA International Limited, for the construction of BCP's Kalambaina Cement Plant Line III in Sokoto State. This loan has now been repaid with the proceeds of the Bond issuance.

posted an overall working capital surplus of ₦89.2 billion in 2020, which represents a significant improvement from the prior year working capital deficiency of ₦5.8 billion.

Based on unaudited financial statements as at 31 March 2021, BCP recorded a short-term financing surplus of ₦73.2 billion and available working capital of ₦11.2 billion, which resulted in overall working capital surplus of ₦84.5 billion. We expect BCP to continue to meet working capital requirements in the near term, as the Company continues to optimise available short-term funds from customers and related parties as well as the available long-term funding options.

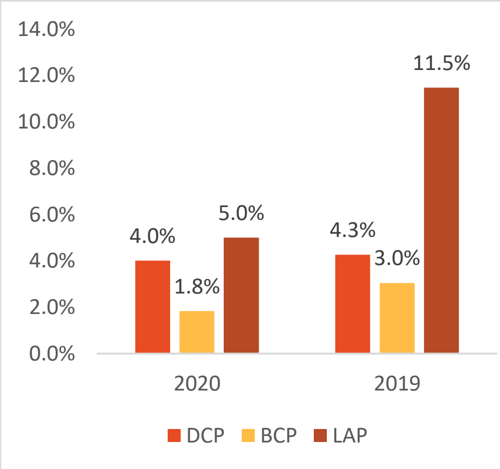
In our view, BUA Cement Plc's working capital is adequate for its current business operations.

LEVERAGE

BUA Cement Plc issued a maiden ₦115 Series I billion bond[20] in December 2020 to refinance existing shareholder loans and funding expansion of the Sokoto plant line III. The Bond which is the largest single issuance in the Nigerian debt capital market as at 31 December 2020 was obtained at 7.5% interest rate and has a tenor of 7 years with semi-annual payment of coupon and principal subject to a three-year moratorium on principal. The Company's total liabilities as at 31 December 2020 stood at ₦390.3 billion (FYE 2019: ₦106.9 billion), comprising interest bearing liabilities 51% (FYE 2019: 80%) and non-interest-bearing liabilities 49% (FYE 2019: 20%). Interest-bearing liabilities (IBL) were mainly long-term borrowings[21] (83%) and short-term borrowings[22] (17%). BCP's non-interest-bearing liabilities (NIBL) comprised amounts due to related parties (54.9%), advance deposits from customers (21.9%), other creditors and accruals (17.9%) and trade creditors and others (5.2%).

As at FYE 2020, BUA Cement Plc's total assets of ₦766.3 billion was funded by liabilities (51%) and shareholders' funds (49%), which depicts a satisfactory equity cushion. Worthy of note is that circa 50% of the Company's total liabilities as at the same date were spontaneous financing, hence attracted no finance cost. As at the same date, BCP's interest bearing debts (net of cash and equivalents) as a percentage of equity (less revaluation) rose to 20% (FYE 2019: 2%), reflective of the rise in borrowings, but remained within our benchmark of not more than 25%. Similarly, the Company's net debt[23] to total average assets increased to 43.1% from 19% in the prior year, on the back of the increase in total borrowings in the period but remained in line with our expectation of not more than 50%.

Figure 8: Interest Expense to Sales Ratio

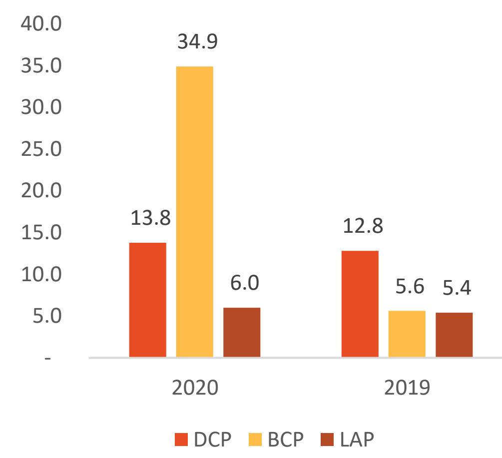


Despite increase in total borrowings in the 2020 financial year, BUA Cement Plc's interest expense declined by

[20] *Under a ₦200 billion bond programme.*
[21] *Consist of long-term commercial bank loans at 13% per annum floating interest rate repayable over 48 months, as well as real sector support facilities obtained from two commercial banks at 9% floating interest rate with 120 months repayment tenor.*
[22] *These relate to short term Import Finance Facilities (IFF) from a consortium of Nigerian banks with average maturity of 12 months as well as the portion of non-current bank borrowings repayable within the next 12 months*
[23] *Total liabilities less cash and equivalents*

28% to ₦3.8 billion, as a result of the renegotiated lower interest rates on existing commercial bank loans and the concessionary rates enjoyed on the real sector finance facilities (RSSF) in the period. We note that these loans were obtained at floating interest rates which may trend upwards with increase in market rates. We however recognise BCP's ability to renegotiate lower rates, due to its good credit history, market reputation as well as scale of business. In addition, the decline in interest expenses was supported by the capitalisation of the Company's borrowing cost on existing Shareholder loans amounting to ₦13 billion[24]. Therefore, BCP's interest expense to sales ratio moderated to 1.8% (FYE 2019: 3%), while the three-year (2018-2020) average stood at 2.7% and compares favourably with DCP's 4% and LAP's 5%. Also, BUA Cement Plc's interest coverage ratio (OCF to interest expense) of 34.9 times (FYE 2019: 5.6 times) as well as the three-year (2018-2020) coverage ratio of 14.4 times are both better than our benchmark of 3 times, underlying BCP's strong operating cash flow.

Figure 9: Interest Cover



Subsequent to 2020 financial year end, BCP repaid part of its import finance facilities and outstanding shareholder loans of ₦71 billion, from the Series 1 Bond proceeds in Q1'2021. As a result, interest expense to sales ratio for the three-month period further declined to 1.4%, while interest cover ratio improved markedly to 92.5 times.

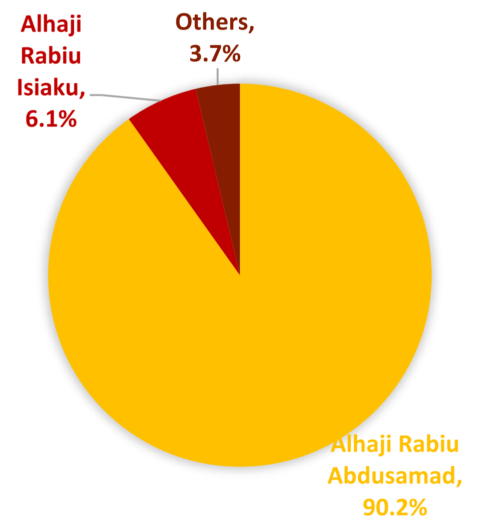
In our opinion, BUA Cement Plc's leverage position is at an acceptable level.

[24] *During the review year, BCP incurred interest expense totaling ₦13 billion on the outstanding ₦71 billion shareholder loan which was obtained to support the construction phase of its new plant line. We note that the ₦13 billion has been capitalised in accordance to IAS 23 (borrowing cost)*

OWNERSHIP, GOVERNANCE, MANAGEMENT & STAFF

As at 31 December 2020, Alhaji Rabiu Abdulsamad remained the ultimate beneficiary of BUA Cement Plc's shareholding with about 90% of the Company's equity stake. Alhaji Abdulsamad directly owns 56.24% equity in BCP and indirectly owns 33.93% through BUA Cement Manufacturing Company Limited[25]. As at the same date, Alhaji Rabiu Isiaku accounted for 6.12% of BCP's equity stake, while other shareholders controlled less than 5% of the Company's ownership as at the same date. In our opinion, the ownership of BUA Cement Plc is highly concentrated.

Figure 10: BUA Cement Plc's Ownership Structure



As at FYE 2020, the Company's Board of Directors comprised eight members with six Non-Executive Directors, two of whom are Independent Directors, and two Executive Directors, one of whom is the Managing Director. BCP's Board oversees the Management activities through three committees: the Board Risk Management Committee (a four-member committee chaired by Mr Finn Arnoldsen), the Board Governance, Establishment and Renumeration Committee (comprising four members, chaired by Senator Khairat Abdulrazaq Gwadabe) and the Finance & General-Purpose Committee comprising five members[26], chaired by Alhaji Kabiru Isyaku Rabiu. BUA Cement Plc also has a Statutory Audit Committee, which comprised three shareholders and three Non-Executive Directors, Chaired by Ajibola Ajayi, a shareholder. During the year under review, BCP appointed a new Executive Director– Mr. Jacques Piekarski, who serves as the Chief Finance Officer effective from 2 October 2020.

BUA Cement Plc's senior management team comprises seven members (including the Managing Director/CEO), with five of them reporting directly to the Managing Director/CEO, and the other[27] through the Board Committee. Most members of the BCP management team have vast experience in cement production and operations of the industry, having worked with the Cement Company of Northern Nigeria (CCNN) and other reputable cement companies in Nigeria, and have been with BUA Cement Plc or its related companies for over five years.

During the 2020 financial year, BUA Cement Plc had an average of 1,001 employees, down from 1,062 employees in the prior year. During the period under review, BCP's cost per employee increased marginally by 9% to ₦8.1 million from the prior year. In the same period, the Company's net earnings per staff (operating profit less staff cost) improved to ₦72.1 million (FY 2019: ₦56.3 million) and was sufficient to cover average staff cost 8.9 times (FY 2019: 7.6 times), better than LAP with 3.2 times, but lower than DCP with 9.9 times. We consider BCP's staff productivity level to be good.

[25] *Alhaji Rabiu owned 100% equity stake of BUA Cement Manufacturing Company Limited as at the same date.*
[26] *Including the newly appointed Chief Finance Officer*
[27] *Legal and compliance management team reports to the MD through the Board Committees*

Table 3: Staff Productivity Indicators (FYE2020)

	BCP FYE 2019	BCP FYE 2020	DCP FYE 2020	LAP FYE 2020
Average Number of Employees	1,062	1,001	13,487	1,074
Average Cost per Staff	₦7.4 million	₦8.1 million	₦3.3 million	₦17.7 million
Net Earnings per Employee	₦56.3 million	₦72.1 million	₦32.8 million	₦56.6 million
Coverage of Net Earnings per Staff Cost	7.6 times	8.9 times	9.9 times	3.2 times

Management Team

Engr. Yusuf Haliru Binji is the Managing Director and Chief Executive Officer of BUA Cement Plc. Engr. Binji holds a Bachelors' degree in Chemical Engineering from Ahmadu Bello University, Zaria and a Masters' Degree in Chemical Process Engineering from the University College of London. He is also a fellow of the Nigerian Society of Engineers and other recognised institutions in Nigeria and the United Kingdom. His expertise and core competencies centre around the business of cement manufacturing and trading, having served in diverse capacities in different cement companies in Nigeria, including the Cement Company of Northern Nigeria (CCNN), BUA International Limited and Obu Cement Company Limited.

Mr. Jacques Piekarski is the Chief Financial Officer (CFO) of BUA Cement Plc. Mr. Piekarski holds a Diploma from Ecole Superieure de Commerce in Lausanne, Switzerland and Masters in Business Administration from Robert Kennedy College Zurich Switzerland and the University of Wales, England. He has over 30 years of experience in finance, having served as Chief Financial Officer in different industries spanning FMCG, mining and cement, across Europe and Africa. He is also the President of the Swiss Nigerian Business Council in Lagos since 2017.

Table 4: Other members of the Management team

Names	Position
Mr. Aliyu Ahmed	Company Secretary
Mr. Aminu Bashar	Plant Director, Sokoto
Mr. Ahmed Abubakar Idris	Plant Director, Obu
Mr. Chikezie Ajaero Dickson	Finance Director, Obu
Mr. Izuagie Anthony Micheal	Finance Director, Sokoto
Mr. Mohammed Bello Minjibi	Director, Transport
Mr. Nasiru Ladan Bashir	Director, Sales & Marketing
Mr. Robert Sepulveda	Procurement Director
Mr. Mohammed Yusufu	Assistant Director, Maintenance & Projects
Mr. Alexander Obotu Ijiga	Assistant Plant Director, Sokoto
Mr. Garba Usman	Assistant Finance Director & Risk Manager
Mr. Abdulganiyu Olumoh Yusufu	Head, Marketing & Sales
Mr. Adedeji Taiwo Omotayo	General Manager, Human Resources
Mr. Mohammed Altine Wali	PM- Rewards & Employee Relations
Mr. Richard Gidado	General Manager, Administration
Mr. Uzodinma Chinagorom	General Manager, Technical (Packing Plant)

OUTLOOK

BUA Cement Plc has continued to be resilient in line with the rising demand for cement in Nigeria by leveraging the 2019 merger exercise to expand capacity and product offering. Notwithstanding the weak macro-economic environment, the Company has continued to grow sales volume and also remained profitable over the last three years (2018-2020). Agusto & Co. expects further improvement in BCP's profitability in the near term, buoyed by adoption of various cost optimising and operational efficiency measures along the production and supply chain. BUA Cement Plc currently operates with the mix of locally sourced and imported coal, liquid fuels (diesels) and recently natural gas. With the adoption of cleaner fuel – natural gas for plant operations, we believe BCP is well positioned to minimise waste and industrial emission, in accordance with global requirements for environmental sustainability.

Going forward, BCP plans to increase the installed capacity of its Kalambaina plant to 5 million metric tonnes by FYE 2021[28], to meet the rising demand for cement in Nigeria and potential exports to neighbouring countries. As part of its route to market strategies in the Nigerian Cement market, Management has disclosed plans to establish three new cement plant lines across the country and plans to leverage technology for customer orders and inventory management system. Also, BCP plans to improve customer experience in the near term, while harmonising and establishing sales offices across its production plants and new areas within Nigeria to bolster sales for the expected output from the new production plants. We believe that the successful actualisation of these initiatives will result in an increase in the Company's market share and bolster revenue growth in the near term. We express optimism on the sustained demand for cement in the near term, supported by the persistent housing deficit and rural-urban migration in Nigeria. We also believe that the ratified African Continental Free Trade Area (AfCFTA) agreement and the removal of land border restriction by the Nigerian government opens opportunities to increase exports and widen market presence in other African countries.

Although the rising energy costs and high inflationary pressures pose limiting challenges on BCP's overall financial performance, we expect the Company's profitability to improve in the near term especially as BCP continues to rein in production costs with alternative cheaper energy sources. Going forward, we expect BUA Cement Plc's overall working capital adequacy to be sustained in the near term, while cash flow position will continue to be upheld by the Industry's "advance payment" and cash and carry" models.

Based on the aforementioned, we hereby attach a **stable** outlook to BUA Cement Plc.

[28] *This will bring the Company's total installed capacity to 11 million metric tonnes by year end.*

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	31-Dec-20		31-Dec-19		31-Dec-18	
	₦'000		₦'000		₦'000	
ASSETS						
IDLE CASH	123,512,903	16.1%	13,978,069	3.0%	1,549,674	0.3%
MARKETABLE SECURITIES & TIME DEPOSITS	308,186	0.0%	1,608,595	0.3%	1,265,427	0.3%
CASH & EQUIVALENTS	123,821,089	16.2%	15,586,664	3.3%	2,815,101	0.6%
FX PURCHASED FOR IMPORTS						
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	15,001,360	2.0%	885,821	0.2%	1,744,346	0.4%
STOCKS	18,840,392	2.5%	19,512,579	4.1%	15,001,262	3.1%
TRADE DEBTORS	461,635	0.1%	252,525	0.1%	83,628	0.0%
DUE FROM RELATED PARTIES	-		16,753,850	3.6%	62,361,281	12.8%
OTHER DEBTORS & PREPAYMENTS	67,844,991	8.9%	1,480,589	0.3%	605,602	0.1%
TOTAL TRADING ASSETS	102,148,378	13.3%	38,885,364	8.3%	79,796,119	16.4%
INVESTMENT PROPERTIES						
OTHER NON-CURRENT INVESTMENTS			-		-	
PROPERTY, PLANT & EQUIPMENT	523,312,829	68.3%	393,406,271	83.6%	387,435,399	79.4%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	12,664,806	1.7%	7,689,001	1.6%	5,931,937	1.2%
GOODWILL, INTANGIBLES & OTHER L T ASSETS	4,355,476	0.6%	14,999,295	3.2%	11,995,735	2.5%
TOTAL LONG-TERM ASSETS	540,333,111	70.5%	416,094,567	88.4%	405,363,071	83.1%
TOTAL ASSETS	**766,302,578**	**100.0%**	**470,566,595**	**100.0%**	**487,974,291**	**100.0%**
Growth	-3.5%		-3.5%		-3.5%	0.3%
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	34,619,350	4.5%	21,423,504	4.6%	3,819,481	0.8%
CURRENT PORTION OF LONG-TERM BORROWINGS						
LONG-TERM BORROWINGS	163,644,431	21.4%			118,287	0.0%
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	198,263,781	25.9%	21,423,504	4.6%	3,937,768	0.8%
TRADE CREDITORS	3,852,292	0.5%	18,859,894	4.0%	20,854,542	4.3%
DUE TO RELATED PARTIES	105,526,923	13.8%	918,741	0.2%	124,074,794	25.4%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	42,138,330	5.5%	32,868,945	7.0%	7,936,831	1.6%
OTHER CREDITORS AND ACCRUALS	34,422,941	4.5%	21,164,298	4.5%	16,524,567	3.4%
TAXATION PAYABLE	922,428	0.1%	813,724	0.2%	2,257,725	0.5%
DIVIDEND PAYABLE	455,040	0.1%	419,432	0.1%	286,045	0.1%
DEFERRED TAXATION	1,120,222	0.1%	7,492,289	1.6%	1,288,054	0.3%
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	3,645,893	0.5%	2,908,526	0.6%	2,201,781	0.5%
MINORITY INTEREST						
REDEEMABLE PREFERENCE SHARES						
TOTAL NON-INTEREST-BEARING LIABILITIES	192,084,069	25.1%	85,445,849	18.2%	175,424,339	35.9%
TOTAL LIABILITIES	390,347,850	50.9%	106,869,353	22.7%	179,362,107	36.8%
SHARE CAPITAL	16,932,177	2.2%	16,932,177	3.6%	16,932,177	3.5%
SHARE PREMIUM						
IRREDEEMABLE DEBENTURES						
REVALUATION SURPLUS						
OTHER NON-DISTRIBUTABLE RESERVES	199,107,043	26.0%	99,931,277	42.5%	200,199,105	41.0%
REVENUE RESERVE	159,915,508	20.9%	146,833,788	31.2%	91,480,902	18.7%
SHAREHOLDERS' EQUITY	375,954,728	49.1%	363,697,242	77.3%	308,612,184	63.2%
TOTAL LIABILITIES & EQUITY	**766,302,578**	**100.0%**	**470,566,595**	**100.0%**	**487,974,291**	**100.0%**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-20		31-Dec-19		31-Dec-18	
	₦'000		₦'000		₦'000	
TURNOVER	209,443,487	100.0%	175,518,326	100.0%	119,012,572	100.0%
COST OF SALES	(113,964,695)	-54.4%	(93,075,293)	-53.0%	(59,060,016)	-49.6%
GROSS PROFIT	95,478,792	45.6%	82,443,033	47.0%	59,952,556	50.4%
OTHER OPERATING EXPENSES	(15,187,886)	-7.3%	(14,823,489)	-8.4%	(18,603,013)	-15.6%
OPERATING PROFIT	80,290,906	38.3%	67,619,544	38.5%	41,349,543	34.7%
OTHER INCOME/(EXPENSES)	2,590,727	1.2%	3,965,477	2.3%	1,567,282	1.3%
PROFIT BEFORE INTEREST & TAXATION	82,881,633	39.6%	71,585,021	40.8%	42,916,825	36.1%
INTEREST EXPENSE	(3,836,870)	-1.8%	(5,349,056)	-3.0%	(3,750,243)	-3.2%
PROFIT BEFORE TAXATION	79,044,763	37.7%	66,235,965	37.7%	39,166,582	32.9%
TAX (EXPENSE) BENEFIT	(6,700,427)	-3.2%	(5,625,678)	-3.2%	24,905,420	20.9%
PROFIT AFTER TAXATION	72,344,336	34.5%	60,610,287	34.5%	64,072,002	53.8%
NON-RECURRING ITEMS (NET OF TAX)						
MINORITY INTERESTS IN GROUP PAT						
PROFIT AFTER TAX & MINORITY INTERESTS	72,344,336	34.5%	60,610,287	34.5%	64,072,002	53.8%
DIVIDEND	(59,262,616)	-28.3%	(5,257,400)	-3.0%		
PROFIT RETAINED FOR THE YEAR	13,081,720	6.2%	55,352,887	31.5%	64,072,002	53.8%
SCRIP ISSUES						
OTHER APPROPRIATIONS/ ADJUSTMENTS					(1,910,762)	
PROFIT RETAINED B/FWD	146,833,789		91,480,902		29,319,662	
PROFIT RETAINED C/FWD	**159,915,509**		**146,833,789**		**91,480,902**	
	-		-		-	
ADDITIONAL INFORMATION	31-Dec-20		31-Dec-19		31-Dec-18	
Staff costs (₦'000)	8,099,100	-	7,868,242	-	4,189,595	
Average number of staff	1,001		1,062		911	
Staff costs per employee (₦'000)	8,091		7,409		4,599	
Staff costs/Turnover	4%		4%		4%	
Capital expenditure (₦'000)	148, 118, 838		23,489,618		225,402,471	
Depreciation expense - current year (₦'000)	15,199,012		13,601,521		6,553,440	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year end ('000)	33,864,354		33,864,354		33,864,354	
Market capitalisation (₦'000)	16,932,177		16,932,177		20,000	
Market/Book value multiple	0		0		0	
Non-operating assets at balance sheet date (₦'000)	-		-		-	
Market value of tradeable assets (₦'000)						
Revaluation date - Investment properties						
Revaluation date - Other properties						
Average age of depreciable assets (years)						
Sales at constant prices - base year 1985 (₦'000)	480,605		364,925		297,957	
Auditors	PWC		PWC		PWC	
Opinion	CLEAN		CLEAN		CLEAN	

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED	31-Dec-20	31-Dec-19	31-Dec-18
	₦'000	₦'000	₦'000
Operating cash flow (OCF)	133,895,582	30,091,914	22,199,049
Less: Returns to providers of finance	(63,063,878)	(10,473,069)	(3,464,198)
OCF after returns to providers of finance	70,831,704	19,618,845	18,734,851
Non-recurring items	-	-	-
Free cash flow	70,831,704	19,618,845	18,734,851
Investing activities	(139,437,556)	(24,333,017)	(239,886,384)
Financing activities	176,840,277	17,485,736	221,049,050
Change in cash	108,234,425	12,771,564	(102,483)
PROFITABILITY			
PBT as % of Turnover	38%	38%	33%
Return on equity	21%	18%	13%
Revenue Growth	19.3%	47.5%	36.5%
CASH FLOW			
Interest cover (times)	34.9	5.6	5.9
Principal payback (years)	4.9	12	3
WORKING CAPITAL			
Working capital need (days)	-	-	37
Working capital deficiency (days)	-	-	-
LEVERAGE			
IBD net of cash and Equiv. as a % of Equity without rev.	19.8%	1.6%	0.4%
Total debt to Equity	103.8%	29.4%	58.1%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	43.1%	19%	51%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers
A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

www.agusto.com

UBA House (5th Floor)
57 Marina Lagos
Nigeria.
P.O Box 56136 Ikoyi
+234 (1) 2707222-4
+234 (1) 2713808
Fax: 234 (1) 2643576
Email: info@agusto.com