

Conference Call transcript

4 November 2021

BUA CEMENT 9M 2021 RESULTS

Operator

Good day ladies and gentlemen and welcome to the BUA Cement 9M 2021 conference call for investors and analysts. All participants will be in listen-only mode. For the participants on the webcast, if you would like to ask a question, please type your questions in the webcast question box. For the participants that dialled in, there will be an opportunity to ask questions later during the conference. If you need assistance during the call, please signal an operator by pressing * and then 0. Please note that this call is being recorded. I would now like to turn the conference over to Yusuf Binji. Please go ahead, sir.

Yusuf Binji

Good day everyone and thank you for joining this conference call as we provide insights into our activities and explain the drivers behind our continued solid performance for the nine-month period ended September 2021. My name is Yusuf Binji. I'm the Managing Director of BUA Cement Plc. Presenting with me on this call are Jacques Piekarski, the Chief Financial Officer, and Finn Arnoldsen, the Group Chief Operating Officer. As you are all aware, economic activity globally is witnessing a recovery, although not without caution considering the disruptions to supply chains with the impact on prices and the slow access to vaccines. Domestically in Nigeria the economy also continues to recover, even though slowly, though we are all aware of the resilience and the opportunities which abound across the country. I'm sure you have all been given copies of the presentation which I'm going to talk about now. Bearing all these factors in mind I would kindly ask you to turn to slide six.

BUA Cement is the largest cement producer across three out of the six regions in Nigeria and the fourth most capitalised company on the Nigeria Exchange Group, formerly called the Nigerian Stock Exchange, with a market cap of ₦2.2 trillion as at September 2021. With operations across two states using three modern lines, BUA Cement recorded a 19.4% growth in revenue to ₦186.9 billion for the nine-month period in 2021. Furthermore, we are sustainably led by the United Nations Sustainability Development Goals and maintain investment grade ratings from Agosto & Co and DataPro. Today BUA Cement is on course to becoming the second-largest producer of cement in Nigeria with total installed capacity of 11 million metric tonnes per annum before the end of this year.

Turning to slide seven, we showcase our milestones with the recent update being the introduction of the liquefied natural gas at our Sokoto operations. I will speak more on this when I get to the strategic priority slide. Turning to slide eight, this slide shows our footprint across Nigeria with our head office in Lagos. We are operating two cement plants, one in the north-western part of Nigeria and the second one in the southern part of Nigeria. The cement plant in Sokoto has an installed capacity of 5 million metric tonnes per annum and we are adding 3 million metric tonnes per annum in the next couple of weeks. Secondly, the cement plant in the south-south in Edo State has an installed capacity of 6 million metric tonnes per annum.

If you kindly turn with me to slide ten, we provide highlights of our activities as at September 2021. Our sustained performance and positive outlook continue to be underpinned by unceasing demand for cement meant for economic and social infrastructure including the growth private sector consumption and supported by an excellent business model. The EBITDA increased by 20.4% to ₦87.4 billion from the ₦72.6 billion as at September 2020. Similarly, EBITDA margin expanded to 46.8% from 46.4%, as at the corresponding period ended September 2020. Profit after tax rose by 23.2% to ₦65.9 billion from the ₦53.5 billion, while earnings per share rose by 23.4% to 195 kobo from 158 kobo for the same period in 2020. We are making good progress on current expansion activities with work already started at Sokoto and Edo States for the new lines.

Turning to slide 11 we provide insight on our performance and the drivers. Revenue per ton increased by 12.7% to ₦46,225 per ton from ₦41,023 per ton as at September 2020, which resulted from price increase together with lifting bonus adjustments. EBITDA rose by 20.4% to ₦87.4 billion from ₦72.6 billion during the corresponding period ended September 2020, driven by revenue which increased by 19.4% to ₦186.9 billion. The revenue was ₦156.6 billion for the nine months ended 2020. In view of this event and despite the high inflationary environment, EBITDA margin expanded 0.4% to 46.8% compared with 46.4% for the nine months ended 2020.

Slide 12 focusses on EBITDA drivers. Please keep in mind my earlier reference to the top line which increased by ₦30.3 billion year on year. Cost of sales rose by 15.5% or ₦13.3 billion to ₦99.6 billion from ₦86.3 billion as at September 2020, majorly from volume and higher input materials cost, energy cost and repair and maintenance costs. Selling, distribution and administrative costs increased by 25.9% or ₦2.4 billion to ₦11.5 billion compared with ₦9.2 billion for September 2020. Some of the drivers attributed to the increase are wages, salaries and bonus, end of service gratuities, corporate social responsibility, board listing fees and security expenses. Depreciation charges increased by 1.78% or ₦0.2 billion to ₦11.7 billion from ₦11.5 billion as at September 2020 due to new fixed assets.

If you turn with me to slide 13 we show our cost profiles for the review period. Cost of sales per ton rose by 9% to ₦24,646 per ton from ₦22,612 per ton due to higher input costs, energy costs, and repair and maintenance costs. Energy cost per ton was up 13.5% to ₦10,230 per ton from ₦9,012 per ton as at September 2020 due to higher energy prices and further weakening of the Naira. Finally, selling, distribution and administrative cost per ton was up 19.1% to ₦2,902 per ton from ₦2,436 per ton as at September 2020, mostly due to increase in administrative expenses.

Slide 15 highlights our strategic pursuits outlined at the beginning of the year with one or two priorities completed or nearing completion. We have also updated the priority list having announced the signing of an agreement with Wärtsilä of Finland for the construction of a 70 MW gas power plant at Sokoto. In summary, the launch of the rebranded Sokoto BUA Cement bags has been concluded and the use of liquefied natural gas at Sokoto has also commenced in both our kilns and the generators. Regarding the other priorities, we continue to make good progress. More specifically, work on lines 3 and 4 at Edo and Sokoto have commenced.

Slide 16 you will see a picture of the third line in Sokoto which will be commissioned very soon. Slide 17 reports on our environment, health and safety activities with a focus on the environmental aspect. CO₂ emission is well below our set annual target at 450 kilogram of CO₂ per ton of cement. Dust emission also is well below the

regulatory limit and our energy efficiency is 779 Kcal per kilogram of clinker. On this note I would now kindly request that phone lines be opened so that we can attend to your questions. Thank you very much.

Operator

Thank you very much, sir. For the participants that dialled in, if you would like to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw your question, please press * then 2 to remove yourself from the list. And for the participants on the webcast, please type your questions in the webcast question box. Just another reminder, if you would like to ask a question, please press * then 1. We will pause momentarily to see if there are questions on the telephone line. The first question comes from Oluwaseun Sangosanya from Stanbic. Please go ahead.

Oluwaseun Sangosanya

Good afternoon and congratulations on your results. I just want to ask a couple of questions actually. I think the first one is to check how the demand for cement is generally. I think you said on a year on year basis the cement volume actually increased, but on a quarter on quarter basis there is a slight decrease in the volume between last quarter and this quarter. I just wanted to see if you can shed more light on why there is a decline given that you said that demand is still strong in the market as well. Also, the energy cost went up, and one of the reasons is the weakness in Naira. Just to get an idea of what the exposure in terms of energy cost to FX is. I think I would really appreciate it if you can provide more colour to that. Thank you.

Yusuf Binji

Okay. Thank you very much, Oluwaseun, and thank you for congratulating us for an impressive performance during the Q3. The cement demand has been strong for the last one year. Of course, you know you will always have ups and downs. The slight decrease you have witnessed from quarter to quarter mostly had to do with the shutdown of the plants for the annual maintenance in which our production was slightly dipped, and not because the demand was not there. We continued to witness very strong demand even during the low season traditionally from July to September.

I would also like Mr Finn to also maybe shed more light on the cement demand, and then the CFO can talk on the energy cost and our exposure. But generally, the energy cost went up because one of the biggest cost drivers in the cement manufacturing process is energy, which for our plant in Edo is supplied majorly by natural gas pipelines and the contract with the Nigerian government is denominated in Dollars. If you remember about a year back the official exchange rate was about ₦305 per Dollar. This has now moved to over ₦400. So that's more than close to 30% increase. But Jacques will say more on the exposure, but first, Mr Finn, can you say something on the demand? Thank you.

Finn Arnoldsen

Yes, Mr Yusuf. Good afternoon everybody. First, a bit generally about the demand. We have realised since 2019 a significant increase in the domestic consumption. You know we had 15% from 2019 to 2020, and that means the total demand in the country went up to around 26 million tonnes last year. And we also realised now almost a similar increase during 2021. So, if you look at the prediction for Q4 and for the total year it's about 15% compared to last year. So, this is just emphasising the market situation. As you can see, everybody who lives in

this country, there is a lot of construction going on. We see a lot of infrastructure. We see a lot of private consumers moving into the cement market.

So, the demand continues as we have seen the last one and a half years, so we are pretty optimistic. As the MD was explaining, of course you will have fluctuation during the season due to rain, due to planned maintenance and these kinds of things. And as it looks today almost all the producers – that means the three – are running more or less on maximum practical capacity. A lot of challenges, of course there are challenges here and there. But the situation is that the demand is really growing. More capacity is needed as we will add, and as Yusuf will for sure explain more about. Over the next year we are running another line in Sokoto and we also are embarking on a couple of new projects. So generally the demand is there. It's growing. So the challenges are to cope with it to be able to supply at any given time. Thank you.

Yusuf Binji

Jacques, can you talk on our exposure in terms of the increasing energy cost?

Jacques Piekarski

Yes. Good afternoon everyone. The exposure is – first sorry because there was an interference during the questions, so I hope I got the question right. The exposure for the energy in terms of FX is limited because our inputs are mostly in local currencies. We do have some elements in the power that are Dollar based, but they are invoiced in Naira. So, in general the exposure is more about the inflation than any FX. Then with now the new LNG in Sokoto this is going to offset the import of coal, so this will also reduce the FX exposure and also ease up the procurement of the coal. Other than that, costs are increasing overall and there is no difference with energy. It is the same. I hope this answers the question.

Oluwaseun Sangosanya

Yes, very well. Can you just make a quick clarification? You said that the energy costs are in Dollars, but it is being paid in Naira, so you don't have any FX exposure. You just have to pay Naira if I'm right.

Jacques Piekarski

That's partly true. I was speaking to be specific about our gas we are using in Sokoto is Dollar based but is in Naira. All the other energy costs are in Naira, except sometimes if we have to import LPFO. Then obviously it is in FX.

Oluwaseun Sangosanya

Okay. Thank you so much.

Operator

Thank you. The next question comes from Ayodeji Dawodu from Standard Bank. Please go ahead.

Ayodeji Dawodu

Hi. Good afternoon. Thank you for the call and I guess congrats on your results as well. I guess my questions are mainly on the demand side, I guess follow-up questions to the last caller, as well as the pricing environment. I just wanted to get a sense. Are we still seeing strong new demand, or is it a case of you're still meeting the

backlog in demand from previous quarters? And if it's a case of new demand, do you have any questions under sustainability? It seems like demand is really performing outside the macroeconomic environment. My second question is on the pricing environment. I guess maybe looking a bit further out with new capacity coming on from you and another one of your competitors, do you have any concerns on the pricing environment and the ability for it to be sustained going into the new year and I guess into 2023 as well? And lastly, has there been any challenges you've experienced with the switch to LNG in the Sokoto plant, or has it been a swift process? And when can we start to see the benefits of the comparative lower cost to importing coal? That will be all from me. Thank you.

Yusuf Binji

Thank you very much, Ayodeji. The demand, like we have mentioned, remains strong. So that means it is continuous demand. It is not really the backlog that we are trying to service now. Like I said, usually during the low season, the peak of the rainy season, traditionally the country has witnessed a dip in the consumption of cement. But this was not witnessed during this year as well as last year despite the pandemic and the lockdowns. So, we believe the demand is very strong and will continue to remain strong. We are not servicing the backlog. There are new orders that are coming. The growth has been increasingly sustained. Between 2019 and 2020 we saw something like 17% or 18% increase.

The consumption moved up from 21 million tonnes to 23.5 million tonnes, and last year to 26.5 million tonnes, and this year we are looking at about 30 million tonnes. So consistently you are seeing above 15% increase in the consumption of cement. We don't really know whether this is the real demand. We have to be very careful. You can only be able to adequately estimate the demand if you are able to meet up with all the requests. But as at now the cement from all the three competitors is being bought by the end users, and most probably if we had been able to produce more, maybe we would have been able to sell all of it. So, it is more appropriate to term it cement consumption, not actually the demand. We believe the demand is more than the current consumption.

The pricing environment, we believe with the coming of our new line in Sokoto – let me just use this opportunity to just mention the line 3 in Sokoto that we have been talking about will be commissioned this year. The commissioning process has reached an advanced stage. We are pretty confident that clinker production will happen in a matter of weeks, certainly before the first half of December and then the cement grinding and dispatch towards the end of January 2022. So we can say the schedule is possibly by March it is well on course.

And definitely this is going to [break in audio] in the market together with one other plant by one of the producers. But we believe that if you look at the 15% year on year increase in the consumption, this is roughly about what these two new production lines will be able to produce. So you may well see probably a narrowing of the margins or the gap between the end user and ex-factory prices. So most likely a bit of relief on the end users, but we do not believe that this is going to lead to a reduction in price from the producers.

We have also started two new lines, one in Sokoto called line 4 which will be completed in November 2023, and another new production line in Edo, line 3, that will be completed in July 2023. So with these new lines the total installed capacity of BUA Cement will be about 20 million tonnes. You know we also signed another contract for another line in Adamawa. So with this we are continuing to invest in additional capacity in order to try to meet up with the increasing demand for cement.

Coming to your last question regarding the use of LNG, I am happy to mention that this commenced in Sokoto in June 2021, and right from day one there have been no hiccups. Not a single hiccup was experienced. We have started by introducing the liquefied natural gas into our kiln number two and we have been able to right from day one substitute the imported coal portion, which represents like 30% of the energy input in the kiln, completely with LNG without any hiccups. And it has been sustained from then up till now. Also, we have started the use of LNG in some of the generating sets that were rented from a company called Aggreko supplying about 15 MW. They are designed to run on gas, and this we started in August completely.

Now going forward we have a 50 MW power plant that is right now being commissioned. We are expecting the first smoke from this 50 MW power plant by the end of this month in about three weeks' time. These generators are going to use LNG 100%. If you may recall, our previous captive power plants – we have a 16 MW and another 32 MW making a total of 48 MW – have traditionally been using liquid fuel - LPFO and AGO. So with the commissioning of this new 50 MW power plant entirely on LNG we intend to decommission those plants that are using liquid fuel in order to reduce the carbon footprint and move on to cleaner energy. The supply of LNG has so far been very good. Yes, a lot of logistical challenges bringing LNG in trucks all the way from Port Harcourt to Sokoto, over 1000 kilometres. It is not unexpected. But we believe the contracting partner has done well and will continue to provide us with fuel for future use.

In addition, when we start the clinker production line for our cement line number 3 in early December this year it will also use this LNG. So the main fuel for the kiln is going to be LNG plus coal, local coal. We have completed substituted 30% of the coal, and we will do that in the third kiln, also reducing our carbon footprint. So we have eliminated one source of huge drain on forex for the coal shipments. And like I said, it's cleaner energy. It will help in giving us a better environment. So with all of this we believe it has been a successful story just as we envisaged, and we do not really foresee any big challenges. So we are working very hard to increase our storage capacity of LNG on site in case there are any supply disruptions, because moving gas all the way, over a 1000 kilometres across the country definitely you may expect some challenges from time to time. So we are increasing our storage capacity on site so that we can hold at least seven to eight days storage of LNG. This is stored in cryogenic tanks. So I hope I've been able to answer your questions. Thank you.

Ayodeji Dawodu

Thank you very much.

Operator

Thank you. The next question comes from Khalil Woli from CardinalStone Research. Please go ahead, Khalil.

Khalil Woli

Thank you very much and congratulations. Just to round up the questions on the energy story, what is the company's current energy mix? I know that the LNG has come on board now, so at the group level what is the current energy mix, if we can get numbers for that? Moving away from the energy story, also I noticed that the Company has been capitalising some of its interest expenses which I believe is related to limestone mining. Do we still expect some of this to continue rolling into the fourth quarter of the year and also in 2022? What

portion will actually be capitalised in the short to medium term? I think those are my questions for now. Thank you.

Yusuf Binji

Okay. Thank you very much, Mr Khalil. In our cement plant in Edo we are using pipeline gas for powering our generators, we have our turbines capable of supplying 72 MW, and they are running 99.9% of the time on natural gas. Of course, we have the possibility to run them on liquid fuel, mostly diesel in case there are pipeline vandalism or whatever. So, the kilns also in Edo are running 100% on gas. So you can see our energy base in Edo is fully on gas, while in Sokoto for the kilns, like I mentioned earlier, we are now using a mixture of coal and liquefied natural gas. And for our generators now we will use LNG in the next few months. We will not use any liquid fuel for powering the generators, even though we will have liquid fuel as a backup. Regarding your second question I'm not sure if I got it. I hope Jacques was able to get it. You talked about some interest expenses that are capitalised or royalties. Mr Jacques, if you got it can you bail me out on this?

Jacques Piekarski

In terms of capitalisation we are following the IFRS standards, so as long as any construction – any loans that pertain to construction of new lines, as long as the lines are in construction and until commissioning this interest is capitalised. Then as soon as we will commission the line, so probably in Q1 next year, then the following months you need to expense the interest. I hope this answers your question.

Khalil Woli

Yes. Can I just ask one last question? I noticed that when you are talking about the expansion plans you mentioned that Sokoto line 4 should come in November 2023, the same as Edo line 3 also. You didn't make any mention of the Adamawa plant. Has work not started on that project yet?

Yusuf Binji

Yes, the work has started on Sokoto and Edo. Construction activity has started, while for the Adamawa plant we are still trying to sort out the raw material investigation. The contract has been signed, some payments have been made, but we are not yet on ground, pending when we are able to sort out the raw material issues. That's why I didn't give you a date for the completion of Adamawa.

Khalil Woli

Thank you very much.

Yusuf Binji

Okay. Thank you. We can take the next question please.

Operator

Thank you. At the moment there are no further questions on the telephone line. I'd like to hand over to Ladipo to take questions from the webcast. Thank you, Ladipo.

Ladipo Ogunlesi

Good afternoon everyone. We have a couple of questions on the webcast. The first one is from Uwa Osadiaye from FBNQuest. He is asking do you see any near-term challenges to regional or local cement demand. And then

his next question is he would like to understand the logistics around LNG delivery to Sokoto. Is the fuel trucked all the way from Bonny or picked up midway in Lokoja or Abuja or something like that?

Yusuf Binji

Okay. Thank you very much. Mr Finn, can you talk of these challenges for the regional cement?

Finn Arnoldsen

If I get that question correctly, Ladipo, you said the challenges for the supply or consumption local supply pattern.

Ladipo Ogunlesi

He wants to know if we see any near-term challenges to regional or local cement demand.

Finn Arnoldsen

What we have actually seen is rather the opposite, that still most of the consumption pattern in the country is of course going to the urban areas. But what we have realised in the last couple of years is that it is also penetrating much more into the regional areas into the rural areas. As you know in this Country for the time being we have some security challenges generally, but still we are able to penetrate into new areas which we have not really captured earlier. And we talk about both in the upper east and also further down in the south-west which we have not really been so strong earlier. So our spread in the country is improving.

And of course, it's difficult to predict in the future what will happen, but as we see it despite some of these security challenges we are able to penetrate more and more. And you can also see it because activity within the region is also increasing generally. If you look into the agriculture you can see that the GDP growth in the agriculture sector is significant despite all these challenges. And of course with these things the infrastructure will improve and also cement consumption will be driven up. So to have just one sentence reply to your question, we don't really see any major challenges in continuing to penetrate into these rural areas which need a lot of development. Thank you.

Yusuf Binji

Okay. Thank you, Mr Finn. I will answer the second one regarding the logistics of LNG delivery. Now the LNG is supplied by a company called Greenville LNG. They have a liquefaction plant in Rumuji in Port Harcourt where they liquefy natural gas that they are receiving from the gas suppliers. There are various gas suppliers supplying them. So they liquefy it in their plant. Then after liquefaction this is put into trucks. These trucks are 25 tonners just like we see these oil tankers. They are similar in shape but they are different in construction and design because they have to maintain very low temperatures so that the gas remains in liquid form. And the trucks move directly from Port Harcourt to our site in Sokoto. I'm not aware whether there is an intermediate stopover, but it is usually a straight journey.

Now, on getting to Sokoto the liquid gas called LNG now is discharged into our cold storage tanks. The storage facility is also cryogenic. That is it maintains very low temperatures so that the gas remains in liquid form until it is about to be used. When we want to take-in gas into the plant then we have a series of evaporators that do introduce some heat, and the liquid gas is converted into gaseous forms. And then through some pipes it goes to

the user department, either the kiln or the generators. So in summary this is the logistics for the supply of the gas. The company in question has hundreds and hundreds of trucks that are used for conveying this LNG to us as well as to their other customers. Thank you very much. Ladipo, we can take the next question.

Ladipo Ogunlesi

Thank you. The next question is from Janet Ogunkoya from Tellimer Capital. She wants to know if we've resumed exports or are we still just servicing local demand.

Yusuf Binji

We have resumed export on a limited scale given the huge demand pressure in the local market. So we are just doing it just to keep the channels open and to somehow pacify our customers across the border. But certainly with an increase in production capacity we will go full blast on that also. Thank you. Next question.

Ladipo Ogunlesi

Thank you. The next question is from Moses Njuguna of EFG Hermes. He wants to know about the price increase. How much was the price increase, and is there further scope for more? His next question is he wants to know the volumes for nine months 2021.

Yusuf Binji

Okay. Thank you very much. The prices have been adjusted slightly. I may not have the exact figure top of my head, but it's a very slight increase in the ex-factory price to reflect the current challenges that we are having with inflation and the increase in the diesel cost which affects our delivery prices to customers. Regarding the volumes for 2021 up to September, the combined tonnage for Sokoto and Edo is 4.043 million tonnes. This is 6% above what we did during the corresponding period last year. If you break it down as per the two plants, the Edo plants actually had an increase of 27% compared to the same period, while the Sokoto plant performed 11% less. So overall it's an average of about 6%. I hope I've answered these questions from Moses. Can we go to the next one if you have?

Ladipo Ogunlesi

Yes I do. The next question is from Investment One Financial Services. The question is you mentioned that price increase was a major driver in revenue. Can you shed more light both for the nine month period and Q3?

Yusuf Binji

Yes. Jacques, do you have the specifics on this?

Jacques Piekarski

Yes. Well, as it was mentioned before, these price increases are done because of the increase in input cost. So what we have done is we had fuel price increases to cover for the cost and maintain our margins. And also what we used not to affect the end user price is we have what we call lifting bonus which is kind of a discount based on the quantity of bags being taken. So this was reduced. By reducing this we actually maintained our margin as well, because this results into a benefit for us. So this is what we have done, a mix of pricing and lifting bonus adjustment as it was mentioned in one of the slides. And for the future it's difficult to forecast as you know in terms of pricing. Probably we will continue the same approach, but as you know pricing is really driven by the

demand and offer. So this is one key factor in that. And then we will see what happens in the future, but certainly prices will not decrease. This is one thing we can say. And also because in Nigeria cement is one of the lowest prices that you can find worldwide actually, just to give you a comparison of where we stand with other countries. Thank you.

Ladipo Ogunlesi

Thank you. So we have a final question from Investment One. The question goes please shed more light on minimum tax charge deducted from operating profit both in nine months 2021 and Q3 statement.

Yusuf Binji

Okay, I think Jacques can take that also.

Jacques Piekarski

Yes. Yes. So the minimum tax charge is a new tax that was introduced by FIRS for companies under pioneer status which do not have to pay any income taxes. That is 30% as you know. This minimum tax is 0.5% of revenues. So if you don't pay any income taxes you have to pay this minimum tax. And as you could see in our financial results, that totalled ₦310 million for the nine months.

Yusuf Binji

Do we have any more questions maybe from the audience, or we are done with questions for now?

Operator

Sir, we have no further questions on the telephone line. Can I perhaps hand back to you for closing remarks?

Yusuf Binji

Ladies and gentlemen, thank you for spending the last one hour with us in which you have listened to the highlights of our Q3 performance. So thank you very much, and I wish you a very fruitful evening.

Operator

Thank you very much, sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT