

Conference Call transcript

6 April 2022

BUA CEMENT FY2021 RESULTS

Operator

Good day ladies and gentlemen and welcome to the BUA Cement audited full year 2021 conference call to analysts and investors. All participants will be in listen-only mode. For the participants on the webcast, 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 for 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 being part of BUA Cement's full year 2021 conference call for investors and analysts. My name is Yusuf Binji, the Managing Director of BUA Cement Plc. Presenting with me are Jacques Piekarski, the Chief Financial Officer, and Finn Arnoldsen, the Group Chief Operating Officer. BUA Cement is the largest cement producer in the north-west, south-east and south-south regions of Nigeria and operates from two states using three modern lines with the fourth line commissioned in January 2022. This brings the total installed capacity to 11 million metric tonnes per annum, making us the second largest cement producer in Nigeria.

In 2021 BUA Cement's reported revenue was ₦257.3 billion, up 22.9% from ₦209.4 billion in the prior year. Furthermore, the company was conferred with the largest corporate bond listing and single largest corporate debt issue awards by FMDQ in recognition of our maiden bond issue of ₦115 billion in December 2020. We are a sustainably-led institution guided by the United Nations Sustainable Development Goals and our credit ratings by Augusto & Co and DataPro remain at investment grade.

I believe you all have copies of the presentation that has been shared earlier on. If you will turn to slide seven, here we showcase our milestones over the years, with the most recent being the introduction of LNG to our fuel mix with the installation of a 50 MW gas power plant at Sokoto and the cold commissioning of line four. As you are aware, the plant is now fully operational having been commissioned in January 2022. Slide eight highlights our strategic positioning in Nigeria together with the existing lines across these locations and we have three lines at Sokoto with a total installed capacity of 5 million tonnes and two lines in Edo with a total installed capacity of 6 million tonnes.

Turning to slide ten, it's a summary of our performance and activities for the year. Our performance in 2021 was upheld by consistent market demand and supported by an excellent business model. EBITDA increased by 24.1% to ₦120.1 billion from ₦96.8 billion in 2020 with EBITDA margin at 46.7% from 46.2% in 2020. Profit after tax increased by 24.5% to ₦90.1 billion from ₦72.3 billion in the previous year, translating to an earnings per share of 266 kobo from 214 kobo. The expansion drive announced in 2020 is progressing as planned and we are

committed to minimising the impact of our activities on the environment, capacity building through empowerment programmes and making societal impacts through the tangible investments made to communities.

If you turn with me to slide 11, we provide a bit of context around the numbers. Revenue increased by 15.5% to ₦47,448 per ton from ₦41,065 per ton in 2020 due to pricing activities during the year. EBITDA rose by 24.1% to ₦120.1 billion from ₦96.8 billion, resulting from higher net revenue which was up 22.9% to ₦257.3 billion from ₦209.4 billion in 2020. The EBITDA margin was slightly up by 0.5% due to the combination of higher revenues and cost containment which resulted in gross margin expansion.

Moving to slide 12 we show the movement in EBITDA. Revenue increased to ₦257.3 billion on the back of pricing activities and increased volumes dispatched. Cost of sales rose by 19.7% to ₦136.4 billion from ₦114 billion given increased repair and maintenance expenses, energy cost and raw material costs. Selling and distribution and administrative cost increased by 24.1% to ₦16.7 billion from ₦13.5 billion due to an increase in staff cost, donations and distribution and repair expenses. Others increased by ₦1 billion on the back of impairment gain on financial asset, change in loan terms which resulted in a gain and share based expense.

Slide 13 highlights an assessment per ton. Cost of sales per ton rose by 12.6% to ₦25,151 from ₦22,345 in 2020 led by energy cost, repair, operational and maintenance cost and raw materials, though current cost trailed inflation which closed the year at 15.6%. Energy cost per ton rose by 11.9% to ₦9,448 per ton from ₦8,442 in 2020, attributed to higher market pricing and a weakening currency. Selling, distribution and administrative cost per ton was up by 16.7% to ₦3,079 from ₦2,638 resulting from increase in staff cost, distribution cost and repair and maintenance and donations.

Moving to slide 15 we cover our strategic pursuits in 2021, and I am pleased to announce the introduction of LNG to the fuel mix at Sokoto. Our power generating plants are running fully on LNG. This has reduced our dependence on high carbon intensive fuels. It is also noteworthy to mention that we have signed contracts for additional 70 MW gas fired generators in each of our two plants. Parallel to this is the construction of additional cement production lines of 3 million tonnes per annum in both locations. All these projects will be delivered before the end of 2023.

In 2021 we engaged in impactful activities in the communities where we operate. Some of these activities can be found on slide 16. Every year we award scholarships to 150 new students, and in 2021 we continued with this tradition for both undergraduate and postgraduate students in various disciplines, particularly across the sciences. We empowered the community through skills acquisition programmes. In particular was the graduation of 70 women in diverse fields of specialisation for which we also provided start-up kits. We carried out the renovations of schools, provided solar and electrical water boreholes, electrified communities by providing and installing transformers, donated patrol vehicles in support of the security architecture of the community, and we are presently involved with some road projects.

Finally, we are all aware of a fire incident to one of the fuel tanks in Sokoto during a task carried out by a contractor. We would like to reiterate that the plants were in no way majorly affected and operations have resumed. The fire was extinguished, and the cordoned area assessed as safe. Again, we express our condolence

to the families of those affected. In line with IAS 10 this has been disclosed as a post reporting event in the audited accounts and the impact classified as not expected to be of material significance. On this note I kindly ask for the phone lines to be opened so that we can provide responses to your questions. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question and you have dialled in, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * then 2 to remove yourself from the list. Again, if you would like to ask a question, please press * then 1. And just a reminder of the participants on the webcast, if you would like to ask a question, please type your questions in the webcast question box. We will pause to see if there are any questions. The first question comes from Ayodeji Dawodu from Standard Bank. Please go ahead.

Ayodeji Dawodu

Good afternoon. Congrats on the results and thanks for the call. I just want to find out, in terms of competition with the new capacity coming on stream from yourself and another competitor, how do you see that shaping up this year compared to last year? And also how do you see the detailed pricing environment given this increase in supply that's coming into the market? Thank you.

Yusuf Binji

Thank you very much, Mr Dawodu. You are aware we have increased our capacity by 3 million metric tonnes per annum from Sokoto. And definitely this is about 10% of the local demand in the Nigerian market, and certainly it is a big volume. Immediately we brought down the price of our cement per bag by ₦350 both in Sokoto and Edo. This has impacted in the market. If you may recall, towards the end of last year the end user prices were almost in the region of ₦5,000 per bag, in some places ₦4,500. But I believe now if you go to most places you will see prices below ₦4,000 per bag. In fact, in the immediate vicinity of where our plants operate, like for example in Sokoto, retail prices for a bag of cement are ₦3,400. So I believe the Nigerian public has actually benefitted from this additional capacity that we have brought on stream. And we hope also the competitors will do likewise so that cement will be readily affordable to all Nigerians. Maybe Mr Finn can also chip in some few words on this.

Finn Arnoldsen

Yes, Mr Yusuf. As you are saying, we have brought another line, another production line into the market here. But that is actually not sufficient because if you are looking into the figures into the market development, like during 2021 we saw an increase of roughly 8% or 9%, and it could even be higher because of some market limitation during the year. And we also see a tendency of accelerating demand, and at the same time not much capacity is coming on. We commissioned our lines. Dangote is having this Okpella line. But still it will be pretty high pressure in the market here. We can already see it on the prices that the demand is surplus the practical capacity.

Nigeria has a lot of capacity theoretically, but when you look into the realistic dispatch figures from the operators then we actually need more capacity. And as Yusuf indicated, it is coming up capacity in 2022 from our own activities but we don't realise any other real capacities coming up here, so this will be a pretty tough market situation where we all have to do our most to produce optimum dispatch from each line. We are only

three operators in this country, so all of us have to do our most to avoid the prices that the market can really facilitate the availability of capacities. Thank you.

Ayodeji Dawodu

Sorry, just a follow-up question. I guess on margins where do you see potential for uptick in margins? It seems as though last year there were significant pressures there. Could we see improvements there maybe on the cost side or on the revenue per ton side?

Yusuf Binji

I will allow Mr Jacques, if he is with us, the Chief Financial Officer, to respond to this.

Jacques Piekarski

Good afternoon ladies and gentlemen. Yes, obviously with the volume increase our margins will de facto increase or at least remain the same depending on the cost side, because when you increase the volume your revenues increase and all the fixed costs actually remain the same, therefore the margin is improving. On the cost side as well, when you have more lines you have a lot of synergies in terms of, for example, when you purchase various spare parts or various fuel and other energy driven components. So with the volume we will be able to at least maintain hopefully the current prices, or if it's imported, at least to negotiate better prices. So I think the margins will continue to improve in line with revenues, and depending of course on the inflation and any devaluation which directly impacts on the imported items, which are very few in general. Thank you.

Operator

Ayodeji, do you have any further questions?

Ayodeji Dawodu

No that's all. Thank you.

Operator

Thank you very much. The next question comes from Uwa Osadiaye from FBNQuest Merchant. Please go ahead.

Uwa Osadiaye

Hello. Good afternoon. Please confirm if you can hear me.

Yusuf Binji

Yes, confirmed. We can hear you.

Uwa Osadiaye

Okay. Thank you for your call and congrats on your results. Two questions really. I think one has been answered in part, but I would appreciate more clarity on it. The first one is on capacity expansion. I'm trying to see the rationale behind the new expansion we have been seeing in the industry given that capacity utilisation is just around 50% or thereabouts for the industry. I know you mentioned earlier about practical capacity, so I want to know what goes into that and how we can really estimate practical capacity. The next question would be on pricing of cement. We know that last year the inflationary environment forced a revision in cement prices. I

would like to know what your expectations are for prices going into 2022 given that inflation is still very much around. I think in a bid to preserve margins would you see a situation whereby we would see another upward review of cement prices? That's my question.

Yusuf Binji

Okay. Thank you very much, Mr Osadiaye. Regarding the practical capacity of cement plants, it is a function of so many things like the age of the plants, availability of spare parts, the plant maintenance and the unplanned maintenance that inevitably will occur. You will find out that in most situations cement plants have a number of issues and they are not able to operate fully depending on these factors that I've mentioned. These invariably will have an effect on the capacity, and most importantly also the type of cement that one actually produces.

For example, if you decide to go for a very high-quality cement, that limits the amount of additives you can add into the cement like limestone. And that will practically lower your capacity. It does not really mean that the machines are not doing well. But all the same, we believe Nigeria is very dynamic. The cement demand is going up. Year by year we have seen it. So that is a practical justification for us to continue building new plants. And we will do that until such a time that the supply actually catches up with the demand. That is what any rational investor would do.

The prices of cement, like I mentioned earlier, we opened up the year ~~₦350~~ per bag lower because we do actually believe that some of the benefits of the cost savings we have made through various innovations shall be passed on to the consumer, and that is what we did. Unfortunately, it has not fully reflected in the margin because of the very strong demand. And you know the retail prices are a function of supply and demand. So while the market continues to remain undersupplied, other retailers down the line will make very high profits, thereby driving up the end user prices. But like I said also, we have seen a reduction compared to last year across all market segments and also from all the producers. This is as a result of increased availability. We believe the current prices will be sustained throughout 2022.

Of course also the cement plants are facing an increased cost, especially cost of energy when you look at the price of diesel. I don't have to mention how much it is selling now, but I think it has almost gone two to threefold within the past few months. And this is what we use to fuel our trucks that we distribute cement products across the country since we don't have a rail network that can convey large consignments of goods. We also know the Naira continues to depreciate against the Dollar and we have to buy a lot of spare parts. All this is having a very big impact on our costs. But so far we are absorbing and we believe we will maintain these prices, except if the inflation becomes unaffordable. Then we will have to see what we can do in terms of price realignment. That's all I have to say on this. Thank you.

Operator

Uwa, do you have any further questions? Unfortunately we are not getting a response from his line. Ladipo, at this time we do not have any further questions on the phone lines, so I would like to hand over to you for questions on the webcast. Thank you.

Ladipo Ogunlesi

Thank you, Claudia. We have a couple of questions on the webcast, and I will just take them one by one. The first question is from Oluwafunmilayo Ogunbona from Meristem Securities. She is asking can the company shed light on its total sales volume in comparison to the previous year. Also, is there any information on alternative fuel sources given the increase in gas prices? That's her question.

Yusuf Binji

Okay. Jacques, you have the numbers. The sales volumes for 2021.

Jacques Piekarski

So for 2021 we sold 5.4 million tonnes of cement and the previous year 5.1 million. So there was an increase of about 300,000 tonnes or roughly 6.3% compared to last year.

Yusuf Binji

Okay. Thank you very much, Jacques. Regarding the energy sources, definitely as a responsible manufacturer we are looking at various forms of alternative energy and what we can do. As you are aware, we have just recently diversified because our major priority first is the environment. That is why we reduced the use of high carbon intensive fuels like LPFO and diesel and switched on to LNG. This year we will try to consolidate on the use of LNG, even though like you have pointed out the gas prices are actually going up. And we are looking into also the use of solar on a limited scale, up to about 10 MW, probably by next year. Thank you.

Ladipo Ogunlesi

Thank you sir. The next question is from Salam Yomi. He says congratulations on the outstanding performance. What was your production volume in FY2021? I think we've answered that. He is also asking what you are doing in terms of exports. Have there been any improvements in your export?

Yusuf Binji

Thank you very much, Mr Yomi. Definitely when it comes to export this year we have started. It is just three months into the year, but the volumes are far more than those of last year. And certainly, we will export whatever we have of excess capacity. Like we have said, our priority is to satisfy the Nigeria market first, and whatever we have of export we are going to send it out to our customers in Niger Republic and Burkina Faso. Thank you.

Ladipo Ogunlesi

Okay. Thank you. The next question is from Oluwaseun Sangosanya, Stanbic IBTC. He is asking for the timeframe for the construction of the plant and have we started construction on the two plants we've mentioned. He also has a follow-up question wanting to know the impact of energy cost on the potential for margin expansion.

Yusuf Binji

Okay. Thank you very much, Oluwaseun. The construction for the two new lines located in Sokoto and Edo started last year. We are still in the civil stages. The timeframe for completion is sometime within Q3 and Q4 of 2023. So far the two projects are on course. We do not foresee that there will be a slippage. Like I mentioned in my earlier speech, we hope to deliver these two projects before the end of 2023. They are on course. Jacques, can you shed light on his second question?

Jacques Piekarski

Yes. The impact of the energy cost on the expansion. Roughly energy costs are 35% or 37% of our total operational cost, so of course this is the largest cost item in our P&L. It depends on different factors. If we exclude the devaluation on some items that we import and if the inflation is maintained at current levels, actually with the synergies that we have and replacement also of expensive imports of some energy items, then we should be able to maintain the energy cost. But roughly in general what we consider is something which is in line with inflation. And we all know the inflation in Nigeria is not going to reduce drastically. Probably it may come down a little bit depending on this current situation in Ukraine that has also an impact on various costs. So it's difficult to predict, but somehow there will be no large difference compared to what we see today.

Ladipo Ogunlesi

Thank you, CFO. The last question is from at Segun Adams, Afrinvest. He says congratulations on your full year 2021 performance. Could you provide information on your energy mix and what is your outlook for the year in terms of the demand for cement given the view that electioneering activities and related uncertainties could negatively influence capex decisions of economic agents?

Yusuf Binji

Okay. Thank you very much. On the energy mix this is something we have discussed extensively, but just to give you an insight, like Jacques mentioned, energy is one of the biggest costs that we have, between 35% and 37%. So when it comes to energy we are basically using pipeline natural gas in our plant in Edo state. And then we are using a mixture of coal and LNG for our factories in Sokoto to power the generators and also the furnace, that we call the kiln. Going on to your second question regarding the cement demand going forward, like we have mentioned we believe that the market is going to remain very strong. We know we are going into an election year. I do not really think the electioneering will affect the genuine demand by people engaged in building or infrastructure. So, on the contrary we really expect the demand to remain very strong and we should be able to sell all that we are producing. We are going to run flat out. Thank you.

Finn Arnoldsen

Yusuf, maybe I can just chip in a comment there about the general consumption here, because that is what we talk about. As we say, all the producers are actually on their maximum output in practical terms. And Of course as we have seen last year, almost 10% up. There is no reason why it should not continue like this. We also know GDP growth last year was 3.8%. Probably it will even increase during 2022 and probably 2023. We see in the marketplaces a lot of private consumers entering the market – that is new customers – more agricultural activity driving up the consumption in the rural areas, so there is absolutely no reason to see that we have a kind of reaction negatively in these markets.

Yusuf, the MD, mentioned also the export. What we also know is that in general Africa and particularly West Africa the consumption is going up. People are spending more money locally – a complication with the forex. That means they are investing and spending capex within their countries. So for us as a producer also the export opportunities will also arise. But as also mentioned earlier, of course the priority has to be the domestic market with any surplus going for export. But it looks pretty bright in terms of the predictions. So the key is to keep the production floating in order to satisfy the market demand. Thank you.

Ladipo Ogunlesi

Thank you. Please, one more question that just came in from Chiamaka Abuka, Greenwich Merchant Bank. She says congratulations on being the single largest corporate debt issuer in 2021. Are we expecting any major issuances via commercial papers or bonds from the company this year?

Yusuf Binji

Yes. Thank you very much. As soon as we have any decision towards that from our shareholders then we will definitely let the whole market know. You know we have done series 1 of the ₦200 billion bond last year. And the series 1 was ₦115 billion, so we still have another ₦85 billion. The decision has not yet been taken whether to go for series 2. It all depends on our needs. But like I said, as soon as that decision is taken, definitely we will have to come out with that information. Thank you.

Ladipo Ogunlesi

That will be all.

Operator

Thank you very much. Ladies and gentlemen, just one final reminder, if you would like to ask a question please press * then 1. If you would like to ask a question, please press * then 1. The next question is a follow-up question from Uwa Osadiaye. Please go ahead, sir.

Uwa Osadiaye

Okay. Thank you for taking my follow-up question. Just a follow-up on the question I asked previously. So I hear you when you talk about the cost pressures and all of that. And we can only hope that these cost pressures is not beyond your comfortable threshold where we will now see an increase in the price of cement. Speaking to capacity still, first could you just give us an update on your Adamawa project? Secondly, could you give us a number that we could work with in terms of practical capacity given all the factors that you've mentioned, the age of the plants, the grade of cement you produce and all of that? Could you give us a number we could work with as effective capacity or practical capacity?

Yusuf Binji

Okay. Thank you very much, Mr Osadiaye. It's good you asked the question on Adamawa. You probably have a very good memory on that. You know that in December 2020 we signed contracts for three cement plants, one in Adamawa, one in Sokoto and one in Edo. And in my speech I made reference to the ongoing construction in both Sokoto and Obu which are due for completion in 2023. The project in Adamawa is still on. We have signed a contract but we have not started construction activities. We are still trying to do some clarifications on the raw material availability in that particular area. Once we are done with that, that will give us the go-ahead whether to start construction or move to another site elsewhere.

Regarding the practical capacities, you know it's very difficult to tell you this is how it's going to be because cement is not something you produce and keep if the market really goes down. But we are operating at a very high operating coefficient and we do give forecasts for the next quarter. You will notice about two or three weeks ago we have actually given a forecast of what we are going to produce and sell during Q2. I think this is

the best we can do for the time being with the quarterly forecast in line with the law. So you will see our figures in that forecast. Thank you.

Operator

Uwa, may I just confirm, do you have any further questions?

Uwa Osadiaye

No I don't. Thank you very much.

Operator

Thank you very much. Ladipo, I would also like to check with you before we conclude. Do we have any further question on the webcast?

Ladipo Ogunlesi

No, we don't. We're okay.

Operator

We don't. Thank you very much, sir. Mr Binji, since we do not have any further questions, can I hand back to you for closing remarks?

Yusuf Binji

Thank you very much. On behalf of BUA Cement Plc I wish to thank all those that have joined us and spent the last 40 minutes on our presentation to investors and analysts on our 2021 annual accounts. Thank you very much and have a very nice day.

Operator

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

END OF TRANSCRIPT