

# Conference Call transcript

7 November 2022

## BUA CEMENT Q3 2022 RESULTS

### Operator

Good day, ladies and gentlemen, and welcome to the BUA Cement Plc results for the nine-month period ended September 2022. All participants are in listen only mode and there will be an opportunity to ask questions later during the conference. Participants on the webcast may submit their questions in the textbox provided. If you need assistance during a conference call, please signal an operator by pressing \* and then 0. Please also note that this event is being recorded. I would now like to turn the conference over to the Managing Director and CEO, Mr Yusuf Binji. Please go-ahead sir.

### Yusuf Binji

Good day, everyone, and thank you for taking out time to be part of this call. My name is Yusuf Binji. I'm the MD/CEO of BUA Cement Plc. And presenting with me today are Mr Jacques Piekarski, the Chief Financial Officer, Mr Finn Arnoldsen, the Group Chief Operating Officer, and Mr Turkur Mohammed Lawal, the Director of Health, Community Safety and Environment.

The operating environment during the third quarter of the year has been largely less supportive, characterised by continued disruption across energy markets, with its impact on pricing; longer and heavy rainfall, resulting in severe flooding, bad roads, and high inflation to mention a few. Despite the headwinds confronted with, we've continued to make gains on our strategic priorities both in terms of new market expansion and capacity addition. Furthermore, the contingency plan through the adoption of multi fuel systems keeps delivering in the wake of heightened levels of energy insecurity, ensuring sustained performance.

Against this backdrop, may I kindly ask you to turn with me to slide 10. On slide 10, we show key highlights of our nine months performance. As previously stated, we have coped relatively well amid the challenging headwinds. As a result, net revenue increased by 40.5% to ₦262.6 billion from ₦186.9 billion as at nine months ending 2021. Furthermore, aligned with our priorities outlined at the beginning of the year, we are exploring the exploitation of clinker to neighbouring West African countries. EBITDA increased to ₦115 billion from ₦87.4 billion, though EBITDA margin slowed to 43.8% from 46.8%.

Profit after tax increased to ₦74 billion from ₦65.9 billion, with earnings per share at 219 kobo, up from 195 kobo. The expansion drive at the Sokoto and Obu plants continue to proceed as planned, and we remain committed to sustainable positive impacts through the pursuit of existing activities and the identification of new change areas.

Slide 11 on the next page shows how we have tried to preserve margins amid rising costs to deliver. Revenue per ton increased by 22.6% to ₦56,468 per ton from ₦46,224 per ton, resulting from price increases during the period. EBITDA rose by 31.5% to ₦115 billion from ₦87.4 billion as at the corresponding period last year, offset

by energy costs which impacted both production and distribution activities. EBITDA margin contracted by three percentage points to 43.8%. This is compared to 46.8% for the nine months for last year, for the same reasons obviously.

If you will turn to slide 12, we show the EBITDA drivers with product appreciation at its core. Net revenue increased by 40.5% or ₦75.7 billion to ₦262.6 billion given the combination of increased price and volume activities. Cost of sales rose by 43.3% or ₦43.2 billion to ₦142.8 billion primarily driven by energy and raw material costs. Net selling, distribution and administrative cost was up by ₦5 billion to ₦4.8 billion. This was attributed to increase distribution costs, led by increases in volume and AGO prices, CSR activities, other administrative costs, and depreciation charges.

Slide 13 speaks of our cost profile amid the inflationary pressures. On a per ton basis, cost of sales increased by 24.6% to ₦30,730 per ton from ₦24,646 per ton for the same period last year, due to price changes of energy products and raw materials. In terms of energy costs, we recorded it at a 36.6% increase to ₦13,978 per ton from ₦10,230 per ton for the same period last year, resulting from market pricing of the energy sources, together with devaluation of the Naira. Selling, distribution and administrative costs per ton increased by 54.4% to ₦4,430 Naira per ton from ₦2,859 Naira per ton, led by the distribution cost, depreciation charges from the addition of new trucks, CSR expenses and other administrative expenses.

Slide 15 captures the strategic initiatives outlined at the beginning of the year. I would like to say that we are making good progress on each of the highlights, particularly the ongoing capacity expansions at Obu and Sokoto, both taking our installed capacity to 17 million metric tonnes per annum by the beginning of 2024. In closing, we highlight on slide 16 some of our positive impacts on society. We continue to electrify communities, provide access to clean water, prioritise education, as well as well-being with the donation of medicines, construction of town halls, and most especially community roads. On this note, I kindly ask for the phone lines to be opened so we can address the questions that are on queue. Thank you very much for listening.

### **Operator**

Thank you very much, sir. Ladies and gentlemen on the conference call, if you do wish to ask a question, please press \* then 1 on your telephone keypad or the keypad on your screen. You will hear a tone that you have joined the queue. If you wish to withdraw your question, please press \* and then 2 to remove yourself from the list. Participants on the webcast may submit their questions in the textbox on the bottom of the page provided. Again, if you wish to ask a question on the conference call, please press \* and then 1 now. Ladies and gentlemen, again, if you wish to ask a question, please press \* and then 1 now. On the webcast, please submit your questions in the textbox provided. Our first question on the conference call is from Mustafa Wahab of Chapel Hill Denham. Please go ahead.

### **Mustafa Wahab**

Thank you very much. Can you hear me clearly?

### **Yusuf Binji**

Yes, I can hear you, Mustafa.

### **Mustafa Wahab**

Fantastic. Good afternoon, Mr. Yusuf. So, I just want to get your thoughts on how we should think about cement demand in 2023, especially in a year that is an election year. I mean, we've seen the budgets. We've seen the capex side of things. Just your thoughts on how we should be thinking about volume forecast going forward. And I mean, it's also nice to get your thoughts on how this year we've seen a lot of price increases, even from the twilight of last year as well. I was wondering when you think this charade of higher prices would be over. If I would guess correctly, I think BUA Cement actually did around 25% price increase at the twilight of last year. I know that you've confirmed are you've done some price increases this year as well. And I'm wondering how we should be thinking about prices going forward as well. So these will be my questions for now.

### **Yusuf Binji**

Okay, thank you very much., Mr Wahab. Very interesting. This keeps coming. And after I say something, I will ask Mr Finn to really talk about the demand in 2023. Well, we know the budget for Nigeria for 2023 is quite ambitious. We're not really sure whether the government will be able to finance all of it. We have seen maybe part of it will be deficit financing. So, with a lot of capex, it's an election year, we believe there will be a lot of money going into the economy. And probably the new government would like to hit the ground running by spending a lot on infrastructure. So, we're very optimistic that the demand will be sustained in 2023.

You know, in 2023, there won't be any additional capacity coming on stream. The last volumes that came onto the market from the cement manufacturers were basically from two cement plants, the Sokoto line 4 that was commissioned in January, and the Dangote Okpella plant that was commissioned sometime this year. And I think in between, we won't have any major producer commissioning any new project till early 2024, when BUA Cement will commission two new lines, one in Sokoto of 3 million metric tonnes and one in Edo of 3 million metric tonnes per annum. So, really it will be quite interesting.

You talked about the price increases. This is really as a result of the very high increases in the prices of raw materials, especially energy. If I may just recall, not even from last year, even from beginning of this year, we have had price of diesel going from about ₦220 Naira per litre to almost ₦800 as I'm speaking today. That is more than a 400% increase. And you know diesel is what we use in our trucks and sometimes in power generation. We have had the devaluation of the Dollar and this has impacted on those contracts that are Dollar denominated, especially for the supply of energy like the LNG, and also the natural gas from Nigerian Gas Mining Company Limited. Even though some of this has been at the official rate but there has been some shift in the exchange rate compared to last year.

Then we have also witnessed quite a lot of increases in the prices of the secondary fuels, like LPFO that we were buying at ₦190 a litre at the beginning of the year. This is now over ₦500 a litre, and very scarce to get because the refineries in Nigeria are not really producing anything. So, the manufacturers have had to actually absorb some of these costs up to a certain level. But unfortunately, you know we have to pass some of this cost to the consumers, and that's why you have seen these price increases. I'm not really sure it's up to that 25% that you talked about. The prices have been hovering between ₦3,000 to ₦3,600 per bag. As of today, ex-factory we are selling from our plant in Edo at ₦3,300. From our plant in Sokoto at ₦3,470 per bag. So, these are the ex-factory prices. Mr Finn, I will appreciate if you can say more on the cement demand in 2023.

**Finn Arnoldsen**

Yes, Mr Yusuf. Thanks a lot. So, good afternoon, everybody. Yeah, I will just add some few inputs in terms of the market. First of all, I will touch on these prices, which was mentioned as the second point here. We have realised appreciation in the prices generally in the market here because of all the input costs are increasing. So as Mr Yusuf is saying, it's a kind of a balancing act between how much the consumers can absorb of the cost, and of course, how the company can move on with their business. So, it's always a kind of a balance here.

But you also have to look into the surroundings. You know, if you look into the West Africa in general, you can still see that if you look into the benchmarking with Benin, Niger, and Ghana, we are still on the lower side. But of course, it doesn't help the public because they don't get higher salaries and they come in Naira. So, of course this is somehow an argument, but we have to cope with the domestic situation. So, I think as Mr Yusuf is saying, it's a balance, but of course, when the cost rises, we also have to drive up the price. But always in a balanced way, as he was explaining.

In terms of the market, you know, despite actually a lot of fluctuating and volatile news coming in about the security, infrastructure and so on, we still see a drive in this market. As you remember, last year the total market in Nigeria was around 28 million tonnes. It looks as at Q3, we are roughly between 22 and 23. So that means if you have a reasonable Q4 for all the players, which we should touch the figure of 30 million. And that is not bad. But at the same time, if you again compare with the surroundings, Nigeria is still pretty low on the consumption per head or per capita. So, we still have a lot of room to manoeuvre in terms of driving up the market.

For 2023, an election year, yes. But it's very hard to predict what will happen. But for sure, all election years we have seen before it has been a very positive drive in terms of public projects. Nigeria today is somehow dominated by a consumption pattern that is actually in favour of more private consumers than public projects. But of course, next year, as well as in all the years during the last 14 years, is that it will be a public project drive. So that means we expect that we will continue the trend despite the uncertainties and I think all the players are pretty positive for the future, also into the election year.

Capacities are not coming, as Mr Yusuf was saying, apart from ourselves by the end of the year. We should have the Edo and Sokoto running the two new lines. But let's say during the accounting year, there is not much more capacity to be done. So, I think for us, for the group, we will be expected to do very well. The export market is opening up. We are more and more competitive in both in Burkina Faso and as well, of course, in Niger. So, we also see a good opportunity for exporting into Niger. Niger is a market dominated by many players, but our costs, the costs for Nigerian producers are very competitive and very low compared to the other guys along the coast. Can you hear me?

**Mustapha Wahab**

Yes, I can hear you clearly.

**Finn Arnoldsen**

So, I think this is just my input here. It's a relatively positive prospect, I will say as a conclusion here. You never know, but we are at least optimistic. Thank you.

**Mustafa Wahab**

So just a follow on question. I see that you mentioned Niger, Burkina Faso, and Tunisia. Are these markets the markets that you're already targeting at supplying clinker to? And what timeline should we be expecting you to hit the first market going forward?

**Finn Arnoldsen**

Yeah, for Niger it is cement. We have been exporting there for a number of years, but not really massive volumes, because we have concentrated and focused on the domestic market. That is always our priority. But of course, we are building up relatively rapid capacity in Sokoto as well. So, we have to look into the neighbouring countries. Niger, we sold a few hundred thousand tonnes and participate actively in that market, but that will be with cement.

For Burkina Faso, that is most likely a key market for our future. We have to we have some test cargoes already there. And it worked quite okay. So, when we have more capacity coming up nicely in Sokoto, we will penetrate and try to push more volumes into Burkina Faso. Burkina Faso is a market today around 3 million tonnes cement and they are importing most of the clinker. So, we are very competitive from Sokoto. So, these are the two main countries. Benin, they have a lot of capacity themselves, so we don't see many opportunities there. So, it's mainly for Niger and Burkina Faso from Sokoto. But it's good markets and good prospects in the future. Thank you.

**Mustafa Wahab**

Thank you very much. Thank you, Mr Yusuf.

**Operator**

The next question is from Chima Eze of Business Day Media. Please go ahead.

**Chima**

Hi, good afternoon, everyone. My name is Chima from Business Day. Congratulations for the release of your numbers. I just want to find out your volume for Q3. Can you just give me a sense of your volume in Q3, as well as your exports in that period. Let me just get a sense of what you exported on what your volumes are. And then just like Wahab said, going into the election year, we're going to see probably further devaluation of the Naira and the inflation will be going up. I just want to get a sense. You guys must have done your due diligence. By how much do you think the market can absorb price increase? And what are you looking at when inflation hits around 27%? What is the price target you're looking at to compensate if probably volume remains stagnant, or volumes drop further? Thank you.

**Yusuf Binji**

Okay, thank you very much. I think the volumes were in the region of around 4.65 million tonnes as at the end of September 2022. Maybe Mr Jacques can discuss on the price target and also the export volumes. Jacques, are you with us?

**Operator**

Sir, we've just re-joined Mr Piekarski. Can you just repeat your question to him?

**Yusuf Binji**

Yes. Jacques, can you confirm the export volumes are also our price target for next year?

**Jacques Piekarski**

Yes, sure. Sorry. I just lost the connection. So, I'm just back. But I heard your question very well. The exports sold for this nine month this year were approximately 62,000 tonnes of cement. And for the next year we are forecasting a higher export volume because we'll also have the full capacity of the line 4. For sure our priority will be to meet first the local demand. So, whatever is available for export we will ship.

**Chima**

Hi, thanks. Please, I was specific about Q3. Can you help me with Q3 numbers, please?

**Jacques Piekarski**

For Q3 honestly, I'm not sure if I have the volumes. Here. Q3 was 20,000 tonnes of cement.

**Operator**

Chima, is that all your questions? Do you have any further?

**Chima**

Yeah, yeah. Thank you. I also wanted to know for volumes. But if that's not available, that's fine. I also wanted to know for Q3 volumes.

**Yusuf Binji**

We will get that for you before the end of this call. The CFO will just check and come back. Thank you.

**Jacques Piekarski**

I have the volumes.

**Yusuf Binji**

Yeah. Okay. That's fine.

**Finn Arnoldsen**

I answered this question, and I was disconnected obviously. The volume for Q3 was 1.3 million tonnes.

**Chima**

Thank you. Thank you.

**Jacques Piekarski**

You're welcome.

**Operator**

Thank you very much. Gentlemen, we have no further questions in the queue. And I'd like to hand over to Ladipo for any questions that came in on the webcast.

**Ladipo Ogunlesi**

Okay. Thank you. Good afternoon, everyone. Thank you, Chris. We have a couple of questions on the webcast. There's a follow-up question to the volumes question from Samuel Banmeke from Meristem Securities. His question goes: So, was there growth in revenue solely as a result of upward review of prices? So, the two questions. What was the sales volume for the period? Also, was the growth in revenue solely as a result of upward review of prices? Thank you.

**Yusuf Binji**

The gentleman from Meristem, the growth in revenue was not solely as a result of the increase in prices. You remember, we also brought in another production line into operation in Sokoto. So that is actually a volume increase.

**Ladipo Ogunlesi**

Thank you, sir. The next question is from Olayinka Adesanya from Stanbic Securities. He says, hello. Thank you for the presentation. Please, I would like to get some colour on the difference between your revenue per ton and that of your peers? Also, are there any initiatives in the works that can take your pricing to par with peers? Thank you.

**Yusuf Binji**

Well, definitely we are presenting our results during this conference call. I do not have access to the revenue pattern for the competitors. Maybe that question will be answered by them. Jacques, do you have anything to add?

**Jacques Piekarski**

For us obviously, the revenue per ton was ₦56,500, which is substantially higher than last year, about 22%. And as we explained before, there is a mix of pricing and volume increase explaining this.

**Ladipo Ogunlesi**

Thank you, sir. The next question is from Samuel Banmeke, Meristem Securities. He says there was a jump in selling and distribution costs. The jump in distribution cost, was it as a result of the flooding activities? Also, I noted a jump in exchange loss. What is the firm doing to contain it? Thank you.

**Jacques Piekarski**

So, regarding distribution costs, yes, there was a big jump actually. As you can see, the financials were from ₦5.6 billion last year it jumped to ₦12.6 billion. So, the main reason for that, there are two. One is the as Mr Yusuf mentioned the increase of AGO from approximately ₦200 at the beginning of the year to ₦800 as we speak. And so, with this, we had also the increase of volume. That's one of the reasons. And then of course, we have additional trucks. So, in these selling and distribution costs, we have the depreciation for these extra trucks as well.

Now, with regard to the exchange losses, as you know, as a result of the devaluation, we have some FX exposure. And when we close when the exposure, there is the differential between the exchange rate that we used for the closing of the books and the exchange rate at which we have paid for this FX. So obviously, this differential during the year, actually, now also the I&E rate is at about ₦439 or ₦440. The real cost at the end when you include all the costs and fees when you get this FX from CBN is above ₦450. This is just an example as we speak. And obviously sometimes we're also procuring FX from other sources where the rate is higher. And this is the reason for the exchange losses which everybody is experiencing nowadays. Thank you.

**Ladipo Ogunlesi**

Thank you, sir. Our next question is from Segun Adams at Afrinvest. There are actually three questions. The first one goes: In light of the shift in macro-economic environment, are you still optimistic of the Q3/Q4 delivery of the two new plants of 3 million metric tonnes per annum in Edo and Sokoto? The second one goes: Considering the potential drag on demand, is price hike a sustainable strategy going forward? What other strategy is BUA putting in place to support demand. The third question. Can you give a sense of the capacity utilisation at the Sokoto line 4 plant? Thank you.

**Yusuf Binji**

Okay, thank you very much. Mr Segun. I mentioned during my presentation that the two new lines are expected to come upstream during the first quarter of 2024, both in Edo and Sokoto. The demand, that is actually coming from the end users. We are the manufacturer. Of course, maybe there some ways we can stimulate demand by encouraging the use of cement products maybe in other projects like road construction. But basically, the demand is private sector driven, mostly coming from block makers. So not really much we can do towards that. What was the third question, Ladipo?

**Ladipo Ogunlesi**

The third question, sir. He wants us to give him a sense of our capacity utilisation for Sokoto line 4.

**Yusuf Binji**

Yes. That will be at the end of the year, although the line started operating commercially in February 2022. So, once we get to the end of the year, then we will be able to give you a realistic capacity utilisation. Thank you.

**Finn Arnoldsen**

Yusuf, can I just jump in? This is Finn again here. About the strategy to drive the market further despite some uncertainty during 2023. And I think we just need to again emphasise that we have developed a pretty aggressive market strategy. We have in the last two years managed to penetrate new areas, in particular in the north-east, and we are also moving towards the southwest. So, we are gradually building up more distribution capacity around the country. And that of course, it comes with that we will have more capacity. So that is our strategy, and we will have more penetration power into new areas, building up new offices around so we can be close to all the customers. So, we will just capitalise over a long term strategy in order to sustain the increased capacity. And as we see it, it should absolutely be possible. And if some dark clouds are coming up, we will for sure then look into the export markets if that is necessary. But priority is the Nigerian market, good penetration everywhere. Thank you.



**Ladipo Ogunlesi**

Thank you, sir. The next question is from Adewale, Stanbic IBTC. His question goes: With a possible price increase due to increased energy cost and possible devaluation, how do you plan to stay competitive with exports as you capture new markets? Are there possibly new markets to be added to your product line? Thank you.

**Yusuf Binji**

Yes, thank you very much, Adewale. I think this point has been answered adequately by Mr Finn. Yes, new markets. Definitely like when we started the line 4 at Sokoto, we have had to send most of the products to the north-east, which previously was not being serviced adequately by our two plants. And also, we intend to aggressively pursue the export market, not only for cement but also for clinker, and going beyond Niger Republic up to Burkina Faso. We have done some trial tests of some few trucks of clinker. And it is very positive so we're really going to pursue that. We will really pursue pushing into new markets. Thank you.

**Ladipo Ogunlesi**

Thank you, sir. I actually have two questions here from Abdulrauf from WSTC. I believe by group he means the company. Okay. Please, I would like to ask the trend of the group's market share in 2022 thus far, especially with the additional capacity that came on board. Then his second question is on the announcement of the IFC syndicated loan to expand capacity. What is the progress with that? I would have to read it. Yes, thank you. I'll just look at the third question. Thank you, sir. Those are his two questions.

**Yusuf Binji**

Okay, the market share. Mr Finn, do you have anything on that for 2022?

**Finn Arnoldsen**

You know, roughly after Q3 and looking into the next couple of months and so on, earlier of course Dangote had around 60% market share here, and Lafarge and BUA share the others. But, of course, with new capacity, we are gradually increasing here. And Lafarge is roughly on the same level because they don't have new capacity coming up. So, we are gradually moving ahead of that one. So, it will be something between, let's say maybe 22% to 24% roughly as we see it today. And this market share will continue growing for us in order to streamline the new Sokoto operation as well. So going forward, we should try to gain some ground here. It would be on the 20% plus. 22%, 23% or 24%. Thank you.

**Yusuf Binji**

Okay. Mr Abdulrauf, I would like to mention the progress on the IFC loan. If you recall, sometime in July, we made a disclosure that we are in discussions with IFC and other syndicate partners for a facility towards the construction of our new production lines. These discussions have progressed far. We are waiting for the official closing. Once we have the official close, which could be within the next few months, we will definitely make a further disclosure. But the discussions are progressing well. Thank you.

**Ladipo Ogunlesi**

Thank you, sir. The next question is also from Abdulrauf, WSTC. His question goes: With the rise in interest rates, do you see any significant threat to demand for the private sector? Say, possibilities of slow momentum in real estate activities? What is the historical trend in a rising interest rate environment? Thank you.

**Yusuf Binji**

Mr Finn again, where do you see this?

**Finn Arnoldsen**

Yes, of course. It's a little bit complicated to predict it really, because all these issues mean on paper that the funds available for people to build, for the private consumers to develop will be less. But at the same time, it's not that easy to assess it, because at the same time, it's more the number of clients coming into the picture here. And we still have to realise that the alternative use for Naira today is pretty limited, with the forex situation, with the transfer out. If you want to put it into your bank account, the savings are pretty small, depreciation is high. So, we see this in all kinds of economies where you have a high depreciation of local currency, that people are actually turning towards estates, towards property, towards more building in order to have this as a kind of alternative investment.

Hard to tell if this will really have a direct impact on the overall consumption, but as we see it, we still see that people will invest domestically more than before. So, we expect actually that it won't have a huge impact on the on the cement demand in the first instance. In these kinds of things, you will see it maybe on other commodities. When you are starting to build houses, you have to buy blocks and so on. It's a long term process. Let's say the bad times coming to a country will always take some time before you really see it on the cement consumption. But during the next year we see the inflation going up. Yeah, it could have some impact. But at the same time, if I look at all the factors, it means that people will still use their surplus available cash to invest into something which gives more long term internal rate of return than putting it into a bank account. Thank you.

**Ladipo Ogunlesi**

Thank you, sir. The final question is from Balikis from Chapel Hill. He or she would like to know the company's projections for price increase in 2023. What is the highest we should expect in the first quarter of 2023 based on forecasts? Thank you.

**Yusuf Binji**

Thank you very much. Like we have mentioned during the course of these discussions, the prices are actually reflective of the input costs of materials, especially energy. If energy remains constant or it comes down, in fact, you may even see a downward review of the prices. So, things are very dynamic and very uncertain in Nigeria. Like I said, when you look at the energy prices as at today, nobody would have thought we would be at these levels. At the beginning of the year everything was somehow going on well. And in some instances, now we've had prices going up by 400%, especially on energy, which is one of our major cost drivers.

So, it's really difficult to say what this is going to be like in the first quarter of next year. We just hope the situation is more stable. A lot of these energy inputs are also dependent on the official exchange rate, how easy

it is for the importers of petroleum products to get the foreign exchange out of the exchange rate. So, definitely let's wait and see what happens by next year. Thank you.

**Ladipo Ogunlesi**

Thank you. I have no questions on queue here. Chris, do you have any questions on queue?

**Operator**

Sir, we have no further questions in the queue. I'd like to hand back to Mr Binji for some closing remarks.

**Ladipo Ogunlesi**

Okay, thank you.

**Yusuf Binji**

Okay, thank you very much for being part of this call. We truly appreciate, and I wish you a very nice day or evening. Thank you.

**Operator**

Thank you very much, sir. Ladies and gentlemen, that concludes today's event, and you may disconnect.

END OF TRANSCRIPT