Conference Call transcript

10 August 2023

BUA CEMENT H1 2023 RESULTS

Operator
Good day ladies and gentlemen, and welcome to the BUA Cement half year 2023 results. All participants are in listen only mode and there will be an opportunity for you to ask questions later during the conference. Participants on a webcast may submit their questions in the textbox at the bottom of the page at any point during the presentation. Participants on the conference call, if they should need assistance, please press * and then 0 to signal for an operator. Also note, this event is being recorded. I will now hand the conference over to Mr Yusuf Binji. Please go ahead, sir.

Yusuf Binji
Good afternoon, everyone. Thank you for participating on this call with us. My name is Yusuf Binji. I'm the Managing Director, Chief Executive Officer of BUA Cement Plc. Presenting with me is Mr Jacques Piekarski, the Chief Financial Officer, and Mr Finn Arnoldsen, the Group Chief Operating Officer. As you are all aware, the year so far has been a challenging one, given the headwinds companies have had to contend with. Despite this, we were able to recover from some of the impact of these challenges, given the resurgent performance in the second quarter in comparison to the same quarter last year, and even better when compared to the performance in the first quarter.

I'm sure you have all got copies of the presentation I'm going to go through, and I will start by looking at the major highlights from the results of the first half of 2023. Against this backdrop, if you will all kindly turn with me to slide number 10, you will see that our business performance during the first half of the year was sustained by a strong brand attribute, stable volume growth and price adjustments. In view of this, net revenue rose by 17.2% to ₦221.1 billion from ₦188.6 billion as of June 2022. EBITDA increased by 14.1% to ₦99.8 billion from ₦87.5 billion during the corresponding period in 2022, though EBITDA margin contracted by 1.3% points to 45.2% versus 46.4% for the corresponding period ended June 2022.

Profit after tax was up by 3.7% to ₦63.6 billion from ₦61.4 billion as at half year 2022. Earnings per share was equally up by 3.9% to 188 kobo from 181 kobo. On the expansion drive at Sokoto and Obu plants, we continue to attain the set-out milestones and look forward to the commercial operation of both plants during the first quarter of 2024. On sustainability, we are committed to minimizing the impact of our activities whilst implementing tangible investments into the communities. As you all know, in June this year, Nigeria joined a handful of countries to launch the IFRS Sustainability Standards. We are very proud of this feat and have begun conducting gap analysis towards addressing the additional requirements introduced in the S1 and S2 disclosure guidelines.

Now I will talk about how we managed to balance rising cost and also preserving of our margins. So, you can kindly turn to slide 11, which is a summary of our efforts aimed at balancing rising cost yet preserving margins. Revenue per ton rose by 19% to ₦67,192, and that was up from ₦56,454 in the same period last year. And this was largely due to price adjustments. EBITDA, as earlier stated, rose by 14.1% to ₦99.8 billion from ₦87.5 billion due to net revenue growth, but which was partly offset by increased raw material, energy and distribution costs. Due to the earlier highlighted factors, EBITDA margin contracted by 1.3% points to 45.2% from 46.4% as at half year 2022.

If you will kindly turn to slide 12, we show the drivers of EBITDA with revenue sustaining EBITDA growth given the price adjustments affected. Cost of sales rose by 17.9% or ₦17.4 billion to ₦114.9 billion, and this was up from ₦97.5 billion in the first half of last year, primarily due to increases in raw material costs, depreciation charges, energy costs, and repair and maintenance costs. Selling and distribution costs increased by 77.2% or ₦2.7 billion to ₦6.3 billion from ₦3.5 billion as at the end of June 2022. Factors attributed for the increase were distribution costs from an increased fleet size, depreciation charges and other administrative expenses.

We now move on to slide 13 where we present the effect of the rising cost impact on our operations. Cost of sales per ton rose by 19.7% to ₦34,936, up from ₦29,192, giving the increases recorded in raw material energy and maintenance costs as well as depreciation charges. Energy cost per ton increased by 11.6% to ₦14,561, up from ₦13,048 due to a combination of energy price increases and the fuel mix adopted during the period. Selling and distribution costs decreased by 46.2% to ₦5,830 per ton from ₦3,988 per ton as of half year 2022. Drivers of this increase include distribution costs from an increased fleet size, depreciation charges and other administrative expenses.

Now if we move to slide 15, here we showcase our strategic priorities for 2023. Currently, all the tasks relating to the payment integration project have been completed. This ensures accuracy of payment confirmation, efficiency gains in bank reconciliations, and most importantly, improvement in the customer experience journey. All other strategic intents are still being monitored and will provide regular updates together with the respective impacts as they relate to value addition.

Lastly, we talk about our sustainability footprint on slide 16, where we highlight our half-year scorecard on some key environmental disclosures, which reflect our collective consciousness in ensuring minimal impact of our activities on the environment. The reason for the increase in water use for cement production is due to the recent capture of certain operational aspects of the business which were previously not included in previous reporting. On this note, may I kindly request the phone lines to be open for us to respond to your questions. Thank you for listening.

Operator
Thank you very much sir. Ladies and gentlemen, if you wish to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation 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 at the bottom of the page. Our first question is from Daniel James of Business Day Media. Please go ahead.

Daniel James

Hi. Good afternoon. Please confirm you can hear me. Good afternoon.

Yusuf Binji

Yes, Daniel. We can hear you loud and clear.

Daniel James

Okay congratulations for the release of your half-year results. I just have a few questions that just need clarification. First of all, please, can I know your volumes for the second quarter Q2 alone? And what percentage of that is your exports, and which one is domestic sales? The second question is, what percentage of your operating costs or operating expenses is Dollar linked? And the third question is, I would love to know how you calculated or represented the impact of the FX devaluation on your books, given that the Naira weakened that much. We only saw that only ₦2 billion was recorded as effects loss on your book. I would just love to know the modalities around your calculation or computation of FX loss, how it impacted your books. Thank you.

Yusuf Binji

Okay, thank you very much, Daniel. Most of these questions will have to be answered by our Chief Financial Officer, Jacques Piekarski. I hope you are on the line. Our total volume for the half year, combined volume for the two plants was 3,290,080 tonnes. That's the total volume we sold. Jacques, can you please expatiate on the last three questions? I can remind you if you have not taken note of the questions.

Jacques Piekarski

Thank you Yusuf. Yeah, hello Daniel. On the percentage of operating expenses that are Dollar linked, they are approximately total 40% and in general they are stable. The treatment of the exchange loss, we've been very prudent in this, following this floating of the Naira mid-June. The reason you don't see a huge exchange loss as other companies have reported is that we have on our balance sheet a high amount of Dollar deposits. And these Dollar deposits, had they been revalued at the closing exchange rates, would have created a significant unrealised exchange gain. So, we've been prudent and actually that's the reason you do not see a significant amount of exchange losses. Thank you.

Operator

Does that answer your questions, Daniel?

Daniel James

Thank you very much. So, it's on the volume. So, the 3,290,080 tonnes, it's for half year. I was just trying to get for your second quarter. And what percentage of that, or if you can give me the number that is for export.

Yusuf Binji

Okay, Jacques, can you give us the figures for Q1 and Q2?

Jacques Piekarski

I have Q2 in front of me. I have Q2. So, Q2 the total volume was 1,685,000 tonnes. And the export in this were almost 34,000 tonnes. So, most of it is domestic sales.

Daniel James
Thank you.

Jacques Piekarski
You're welcome.

Operator
Thank you very much. Ladies and gentlemen, just a reminder, if you wish to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. We will pause a moment to see if we have any further questions. Sir, we have no questions on the conference call. I would like to hand back for the questions that were submitted by the webcast.

Ladipo Ogunlesi
Thank you, Chris. Good afternoon everyone. We have a couple of questions on the webcast and I will go through each of them. The first question is from Uwa Osadiaye, FBN Quest Merchant Bank. His question reads: Good afternoon. Thanks for the call. I have a few questions. Please, can you provide guidance on cement volumes growth for Nigeria-only sales for 2023? I think that has been answered. The second question is, what sort of risk to sales does the border closure imposed on Niger by Nigeria have on your business? And his third question. Looking ahead, what is the export strategy, if any, assuming the Niger situation fails to find a peaceful resolution? Thank you.

Yusuf Binji
Okay, thank you very much, Mr Osadiaye. Certainly, the border closure has affected our export to the Niger Republic and Burkina Faso. We carry out export from our Sokoto plant, which is very close to the border, about 100 kilometres. So, at the moment all our exports are by trucks going through land borders. We do not have the possibility of exporting by ship because of the landlocked nature of the factory there. So, we hope this political situation will be resolved very quickly so that we can resume our exports. Thank you.

Ladipo Ogunlesi
Thank you sir. Our next question is from James Oladisa from Chapel Hill Denham. His question reads: Good afternoon. My name is James. Please, what is the payment structure for the loan from IFC? And then his second question reads: Please can you give some colour on your energy mix? Thank you.

Yusuf Binji
Okay, I will answer the question on the energy mix and the CFO will give you also the conditions for the IFC loan in brief. The energy mix, as we have mentioned so many times during this call, we have two plants operating in Edo and Sokoto State. And for the Edo plant we are basically using pipeline gas for both our turbines and for the pyro process, while in Sokoto, we are using a mixture of LNG and coal in various proportions. So, Jacques, can you shed more light on the IFC transaction?

Jacques Piekarski

Yeah, sure. So, this IFC loan has been approved last October, and actually we got the first tranche last April. The total approved was $500 million, as it was published. The first tranche of $300 million in April, and there is a second tranche of $200 million to come. The tenure is 10 years. The interest rate is fixed 5.5% plus six months SOFR. There is a 2.5 year grace period for the loan and the loan is mostly for the Sokoto expansion. Thank you.

Yusuf Binji
Thank you.

Ladipo Ogunlesi
Thank you, sir. The next question is from Adebayo Adebanjo, CardinalStone. His question goes, congratulations on the numbers. Thank you for the opportunity. What efforts are being made to reduce distribution costs? Competitors are investing in CNG trucks. Is this something the company is considering?

Yusuf Binji
Thank you very much, Mr Adebanjo. In the recent past we have witnessed increases in the distribution cost due to the increase in the price of diesel, which at the beginning of last year was selling for a little over ₦200 per litre but went up to over ₦800 towards the end of the year. We had a little respite at the beginning of this year, but certainly I think due to the unification of the exchange rates we have seen the prices started going up, probably approaching the levels as at December last year. So, on our own part, most of our product is transported by trucks inland due to the absence of sufficient rail facilities. So, definitely we are at the mercy of these prices. But we have started making moves to invest in CNG powered trucks. A trial has been made with some few numbers and if successful, definitely we are going to scale it up. Thank you.

Ladipo Ogunlesi
Thank you, sir. The next question is from Kayode Tokede from Thisday Newspapers. His question goes: BUA Cement in H1 2023 did not declare minimum tax as against ₦513.46 million reported in H1 2022. Were there any tax waivers by the government or what is responsible for the company not declaring minimum tax in the period? It further reads, besides, the cement maker – that's BUA Cement – in Q2 2023 declared ₦277.7 million tax gain from ₦162.1 million tax expenses in Q2 2022. Kindly explain reasons behind this. Thank you.

Yusuf Binji
Thank you, Mr Tokede. I will still call on Jacques to answer these two questions.

Jacques Piekarski
Yeah, thank you. The minimum tax has been now completely offset by income taxes. So, this is the reason there is no more minimum tax. As you know, there is a minimum tax that is being charged when the company enjoys some pioneer profits and some pioneer status. And then when this pioneer status expires, then you start taxes. And the reason for that is Obu. In Obu, the first line, pioneer status expired last year in June. So, that's the reason now the minimum tax has disappeared, because according to tax regulation, once the income taxes exceed the minimum tax, companies have to pay income taxes and no more the minimum tax.

Now, on the reason why there was the ₦227 million tax gain, it is very simple. At the first quarter, we had to accrue for these minimum taxes until the income taxes started to offset the minimum tax. So, since now we are paying income taxes, this minimum tax has been reversed. The reason you see a gain. But actually, this gain is now included in the income tax. I hope that clarifies. Thank you.

Ladipo Ogunlesi
Thank you, sir. The next question is from Moses Njuguna, EFG Hermes. His question reads: Is there a tangible improvement in public demand infrastructure spending in the years so far? Thank you.

Yusuf Binji
Thank you, Moses. Probably I should ask Mr Finn Arnoldsen to respond to this. Finn, if you are there with us.

Finn Arnoldsen
I am still there with you, MD. I will give a few comments to this. You know, as we all might know, last year was quite a good year in terms of growth in the cement demand. What we have seen, the volumes last year was roughly 30 million tonnes on an annual basis. What we have seen actually so far this year is roughly the same. It’s hard to be too precise here, but we have not seen any significant drop and not any significant increase. And what we have seen as well is that we have observed a slight increase in the private consumer market. And public project is in general playing a relatively big part in Nigeria. It's a lot of public and state projects going on. Of course, it differ during the year, during the seasons and so on, but it's always playing a relatively big part.

So, we cannot see any major changes in terms of the concerns on the public side. But what indication we are observing in the rural areas, you know, where the agriculture activities are ongoing, is that the private consumers there are actually increasing. So, the number of customers as we are having is increasing. The volume is not significant, but it still is a relatively good drive in these things. And as you know, when you are looking into the GDP for the country, the agriculture part is around 25% and growing. And with agriculture, business growing, also penetration of cement is growing. So, we are somehow benefiting for this.

It's a little bit too early. Just the first six months we had the election, we had a lot of things, rainy season is going on. So, it's hard to be too clear on these things, but we are relatively optimistic what we see of public launched projects, which has been announced and also a better drive in the private consumption for the remaining part of the year. I hope this responds to some of your comments or questions. Thank you.

Ladipo Ogunlesi
Thank you, sir. The next question is again from Kayode Tokede, Thisday Newspaper. What is the management of BUA Cement doing to lessen operating expenses as pressure mounts on the price of cement? Thank you.

Yusuf Binji
Well, definitely the cement manufacturing process is energy intensive. And as long as you have the energy prices going up, this is going to drive our production costs. But what we have really done to ensure that we try to minimise this production cost is by investing in state-of-the-art pyro-processing systems, like our new line has a double-string, four-stage suspension pre-heater system. It's a low-NOx pre-calciner and a very high efficiency clinical pendulum cooler. All these are going to reduce our heat consumption. We have lower radio drop cyclones to reduce our power consumption.

We designed all our plants with state-of-the-art technology for efficient and environmentally friendly performance. We also are carrying out things like limestone drying in the quarry which ensures that we reduce cost. Also, it is a carbon saving action. So, these are some of the measures we are embarking upon. And for example, in our Sokoto plant, we are increasing the usage of natural gas which gives us a little bit more cost advantage than when we were using the traditional heavy fuel oil. So, these are in addition to reducing the clinker to cement ratio by incorporation of more limestone additive. So, we hope this will mitigate the rising production cost. Thank you.

Ladipo Ogunlesi

Thank you, sir. Chris, I have no more questions. Do you have any questions?

Operator

Sir, no, we don't have any questions on the conference call. I'd like to hand back to Mr Binji for some closing remarks.

Yusuf Binji

Thank you for spending a greater part of your time today with us to listen to our half year presentation. We look forward to presenting our next third quarter results in the next few months. Have a nice day. Thank you.

Operator

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

END OF TRANSCRIPT