



**Stock Type:** Value Stock  
**NSE Ticker:** Ashakacem  
**Sector:** Building Materials  
**Auditor:** Akintola Williams Deloitte  
& Pannell Kerr Forster  
**Registrar:** City Securities Limited  
17A, Tinubu Street, Lagos, Nigeria.  
**Year-end:** December 31

## Executive Summary

- Ashaka Cement Company is largely owned by Lafarge Group, a French company, with a total holding of 50.16% held through its subsidiaries-BCI (50%) and Lafarge (Nigeria) Limited (0.16%).The Nigerian public accounts for the remaining 49.84%.
- The company recorded a marginal growth of 0.27% in output (in tonnes) between 2005 and 2006 from 731,000 MT to 733,000 MT. The company's margins declined considerably in 2006 as a result of the surge in operational costs and external factors which saw gross margin decline from 55.62% in 2005 to 47.57% and net margin dip to 29.52% from 41.22% in 2005. Similarly return on equity nose-dived from 53.8% in 2005 to 28.1% in 2006.
- The company has since commenced strategic turnaround in the beginning of 2007, having identified the need to respond to compelling external challenges, ranging from infrastructure, regulation and competition. However, we do not expect spectacular performance in FY 2007 because the on-going turnaround is still at the early stage. This is evidenced by the company's Q2-2007 results which revealed a decline in turnover by 1.1%, while after-tax profit dropped by 25%. Net margin reported was 20.2% against 26.7% in the same quarter of prior year.
- The most prominent of the risks attached to our valuation is government regulation and escalating energy costs as the industry fortune is heavily prone to changes in these two factors. Hence, a successful search for alternative energy source will be a major breakthrough for cement manufacturers in Nigeria. Similarly, the proposed outright ban on importation of cement, which should take effect from January 2008, is a sine-qua-non for success.
- Our forecast puts earnings at N3.09billion, translating to earnings per share of N1.81 for the year ending 2007, having adjusted for 1 for 6 scrip issue in 2006.
- Our valuation for Ashaka shows the stock is trading at a slight discount of 6.6% to fair value.

## Financial and Technical Highlights

Profitability	
Gross margin	47.60%
Operating Margin	23.90%
PAT Margin	20.00%
Management Effectiveness	
Return on Average Asset	4.90%
Return on Average Equity	32.90%
Inventory Turnover (Times)	2.10
Receivable Days/Payable Days	36/26
Income Statement	
Turnover (Nbn)	16.77
Turnover per share (Ngn)	11.45
Operating profit (Nbn)	4.95
PAT (Nbn)	3.38
Quarterly turnover growth (yoy)-Q2-07	-1.10%
Quarterly Net Income growth (yoy)-Q2-07	-25.00%
Balance Sheet	
Shareholders fund (Nbn)	11.62
Total Assets (Nbn)	18.47
Total debt/Equity	5.90%
Book Value Per Share (Ngn)	7.94
Earnings, Dividend and Bonus History	
Last Paid Dividend Per Share (Ngn)	1.50
Dividend Yield	2.94%
Trailing Earnings Per Share (Ngn)	2.31
Earnings Yield	4.53%
Last Script Issue (22/06/2007)	1:6
Payout ratio	64.94%
Last Dividend date	June, 2007
Valuation Metrics	
Market Cap. (N'bn)	87.01
Trailing P/E	31.34
Forward EPS (fye 31-Dec-07) (Ngn)	1.81
Trailing Price/Sales	5.22
Price/Book Value	6.42
Stock Price History	
Beta (β)	0.7464
52-Week change	17.82%
52-Week High/Low (Ngn)	84.89/46.00
Share Statistics	
Average traded volume (1 month)	1,127,999
Average traded volume (1 week)	609,399
Shares Outstanding (billion)	1.706
Float	49.7%

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## GLOBAL CEMENT INDUSTRY

### Outlook and Forecasts

Global cement demand grew to an estimated 2.5 billion metric ton in 2006. This was driven by an international boom in the construction industry and above average real economic growth in some developing countries. China continued to be the world's largest producer followed by India and the United States. The developed economies of Europe and the United States witnessed relatively stable rates of growth in cement demand as the significant increases in global demand were recorded in the developing countries of Asia, Africa and Latin America. These countries have annual growth rates averaging 6% and the expansion of their economies has resulted in increasing number of capital projects and infrastructural investment. It is generally expected that continuous economic growth and the dearth of infrastructure will continue to boost demand in these regions. Global demand for cement is forecast to grow 4.7 percent annually to 2.8 billion metric tons in 2010. China, the acclaimed world largest market for cement in the world, will register the biggest gains in terms of the total amount of cement sold. Other developing parts of the Asia/Pacific region and Eastern Europe, as well as a number of nations in the Africa/Mid-East and Latin America regions, will also witness above-average cement market gains, fueled by a robust construction outlook. Vietnam, Thailand, the Ukraine, Turkey and Indonesia will record some of the strongest increases in percentage terms.

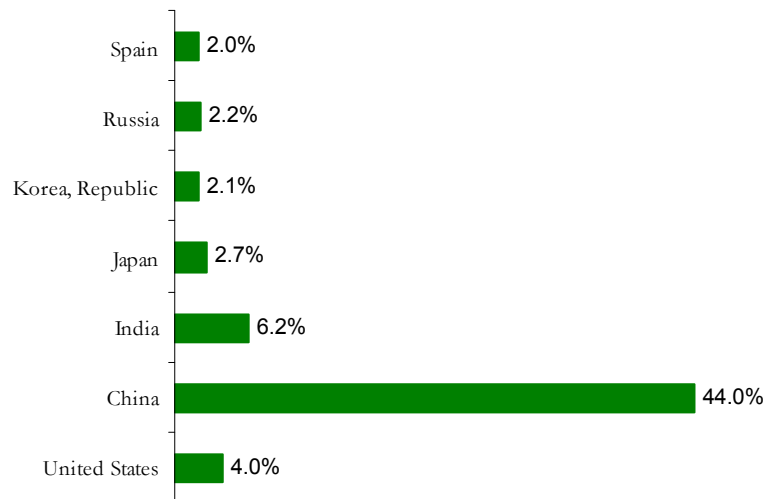
### Leading Players

The international cement industry is spearheaded by a chain of multinational companies. Industry leaders are **Lafarge, Holcim, Cemex, and Heidelberg**. These companies control an estimated 25% of the world cement output and have operations covering every continent. The domination of the industry by these companies is made easy by the highly capital intensive nature of cement manufacture. This has allowed western companies with large capital outlays and economies of scale to continuously acquire interests all across the world. Globalisation has thus become a key factor in cement trade.

### World Production Cement 2006

COUNTRY	OUTPUT (Mt)
United States	101,000,000
Brazil	37,000,000
China	1,100,000,000
Egypt	29,000,000
France	21,000,000
Germany	30,000,000
India	155,000,000
Indonesia	40,000,000
Iran	33,000,000
Italy	46,000,000
Japan	68,000,000
Korea, Republic	52,000,000
Mexico	40,000,000
Russia	54,000,000
Saudi Arabia	26,000,000
Spain	50,000,000
Thailand	40,000,000
Turkey	45,000,000
Vietnam	33,000,000
Other Countries	500,000,000
<b>World Total</b>	<b>2,500,000,000</b>

### % Production of Global Cement Output



### Major Global Cement Companies

COMPANY	COUNTRY OF ORIGIN	REVENUES (€'m)	COUNTRIES OPERATING	EMPLOYEES
Lafarge	France	17,000	70	71,000
Holcim	Switzerland	14,550	70	88,783
Cemex	Mexico	13,603	32	25,000
Heidelberg	Germany	9,234	50	45,958
Italcementi	Italy	5,855	19	22,850
Taiheiyo	Japan	5,555	12	2,061
BuzziUnicem	Italy	3,205	10	12,000

## NIGERIAN CEMENT INDUSTRY

Nigerian cement industry consists of 4 key players. These are: Ashaka Cement (Ashaka), West African Portland Cement Company (Wapco), Benue Cement Company (BCC) (owned by Dangote Group) and Cement Company of Northern Nigeria (CCNN). These companies are also the only cement manufacturers quoted on the Nigerian Stock Exchange (NSE). Other cement companies (largely cement baggers) are Nigeria Cement Company Ltd, Atlas Cement Company, Obajana Cement Company, Bendel Cement, Allied Cement Company, Eastern Bulkcem Ltd, Ibeto Cement Company, Nigeria Spanish Cement Company and Flour Mills Nigeria Ltd.

The industry is however dominated by two major players (**WAPCO & Ashaka**), both of whom control over 80% of output (from 2002 – 2006). Increasing competition from other players, most especially BCC, has reduced market share of WAPCO & Ashaka slightly. This was due to change of ownership and subsequent strategic restructuring ushered in recently by a new core investor in BCC, Dangote Group Plc - Nigeria's largest importer of bulk cement with four bagging plants in the country, with a combined production of 3 million MT per annum.

In spite of the high market concentration in the cement industry, there are regional preferences for cement products. For instance, CCNN's brand of Sokoto cement is popular in north central states of Nigeria, BCC is common in the middle belt region while WAPCO is a staple of the South Western states. Some industry analysts have commented that this scenario is not a case of market segmentation but poor network of distribution channels. The market of each company tends to revolve around its immediate production vicinity. Cement products differentiation is not on a large scale as a ready market exists for products and as such manufacturers do not need to advertise or greatly differentiate their products to gain market share. However, consumers are willing to pay a premium on products based on quality and durability.

Aggregate investment in the industry has increased drastically both in terms of total assets and equity. The total investment in the industry as measured by total asset has increased by an average annual rate (compounded) of 18.7%, with net investment (owner's equity) increasing at an average rate of 17.6% from 2002 to 2005. Most significant growth in terms of investment is observed between 2004 to 2005 which saw total investment and equity increase by 31% and 193% respectively. Total assets and Equity of the industry stand at N86 billion (US\$688 million) and N24 billion (US\$190 million) respectively in 2005. Current worth of the industry (Market Capitalisation) stands at about N500 billion or approximately US\$3.9 billion.

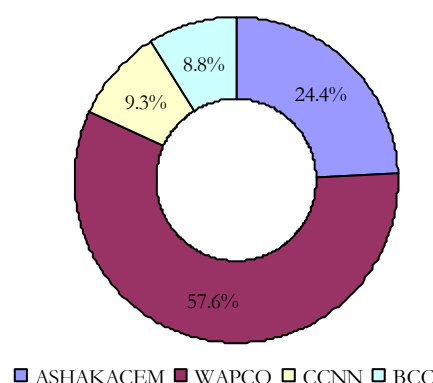
### Market Share Statistics (%)

	2001	2002	2003	2004	2005	2006
WAPCO	56.5	54.1	49.7	55.0	50.8	57.6
ASHAKACEM	36.4	35.7	36.9%	31.3	30.2	24.4
CCNN	2.4	7.8	12.0	13.8	11.3	9.3
BCC	4.7	2.4	1.4	0.0	7.6	8.8
INDUSTRY	100	100	100	100	100	100

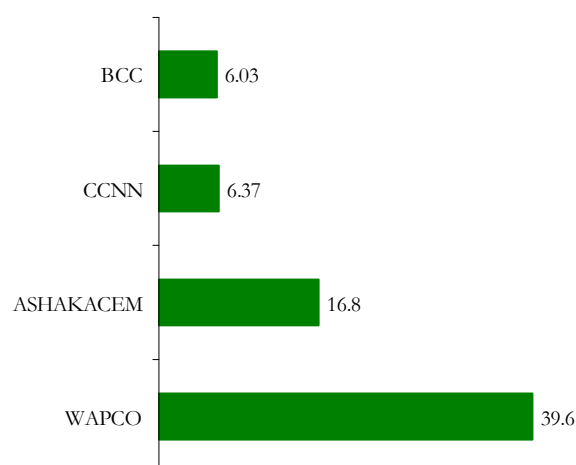
### Turnover (N 'bn) & Annual Growth Rate (%)

	2002	2003	2004	2005	2006	AVG/CAGR
WAPCO	13.3	13.7 3.50%	22.1 60.90%	26.6 20.50%	39.6 48.90%	23.06 31%
ASHAKACEM	8.7 1.10%	10.2 16.70%	12.6 23.20%	15.8 25.90%	16.8 6.10%	12.82 17.69%
CCNN	1.9 233.40%	3.3 72.70%	5.5 67.30%	5.9 6.90%	6.37 7.74%	4.59 35.09%
BCC	0.58 -51.70%	0.39 -27.30%	- 0.00%	4 100.00%	6.03 50.50%	2.74 82.80%

### Distribution of Market share (2006 FY)



### 2006 FY Turnover Figures (N' bn)



# ASHAKA CEMENT PLC

## BUSINESS SUMMARY

### Company Background

Ashakacem Plc was incorporated on August 7, 1974 as a private limited liability company with primary activities as manufacturing and marketing of cement products. It was later converted to a public company and its shares were subsequently quoted on the Nigerian Stock Exchange (NSE) in July 1990. Ashaka was fully integrated into the Lafarge Group in July 2002 after the acquisition of Blue Circle Industry Plc of the United Kingdom (BCI, UK) by Lafarge SA, France. As at date, Lafarge Group remains the key shareholders in Ashaka with 50% ownership via BCI and 0.16% via Lafarge (Nigeria) limited. This puts the total shareholdings of Lafarge Group in the company at 50.16 per cent while the remaining percentage is held by Nigerians-private individuals and institutions.

### Market Share

Ashakacem enjoys the technical support and modern business solution tools of its parent company, Lafarge Group. The company has always leveraged on this to maintain a competitive edge amongst others in the market place and optimise returns to stakeholders. However, the company has remained docile to industry impetus in term of supply gap. In past years, no frantic strategic efforts can be traced to Ashaka as a response to the stimulus. As a result, the company has continued to experience decline in market share. WAPCO now stands as the industry leader (in terms of output), lately with an output of 1.98m tonnes delivered in FY 06, a 35 per cent increase in output relative to the prior year. The low tonnage delivered by Ashakacem is attributable to its relatively low capacity. By virtue of low capacity and output, Ashakacem has witnessed decline in its market share since 2003, while WAPCO has been able to raise its market share over same period.

However, Ashakacem together with WAPCO controls over 80 per cent of the market from 2002 till date.

### Strategic Response to Challenges

Margins are declining as energy costs trend up and also competition is growing tougher due strategic expansion activities on the part of other key manufactures and concerted efforts being made by new entrants. Ashaka has finally responded to these challenges by embarking on large scale operational improvements and projects to improve and increase capacity. It is currently installing 12MW generating capacity to cater for overall power needs and enhance optimum capacity utilisation of its cement plants. Not only this, Ashaka has also commenced upgrade of its Kiln with a view to increasing capacity and enhancing quality. All these are expected to increase market share in the years ahead.

In an attempt to control production costs as a prominent variable, the company has committed huge funds into refurbishment of its roller press. This is expected to yield cost advantage by substantial reduction in power consumption on cement grinding and increase the efficiency of the cement mills. Similarly, it has also embarked on water and coal projects at Maiganga aimed at substituting the use of Low Pour Fuel Oil (LPFO) for kiln firing.

### Risks Profile

Prominent among risks attached to our analysis is Government policy. This is reinforced by the reopening of Ibeto Cement Company which was hitherto closed down by the past administration for solely importing cement. This reversal of government policy is expected to impact negatively on local firms in pricing and output/market share. Similarly, the expected outright ban on cement importation which was scheduled to take effect from January 2008 is also in doubt given the recent events.

Macroeconomic risk is also pertinent. The strong positive correlation between the construction industry and corporate earnings of cement companies suggests a key risk. However, this seems low in the face of the current activity level as well as expected boom in the construction industry which portends brighter fortunes for cement firms.

Ashaka also faces stiff competition from existing firms and new local entrants as Nigeria is striving hard to becoming a producer and exporter nation in Portland cement. The domestic market may soon become saturated with local production. Therefore, aggressive marketing drives and competitive pricing are key strategies to win consumer loyalty. Ashaka's management has already identified these ingredients and devised plans towards employing them.

# ASHAKA CEMENT PLC

## ANALYSIS OF FINANCIALS

### Capacity and Output

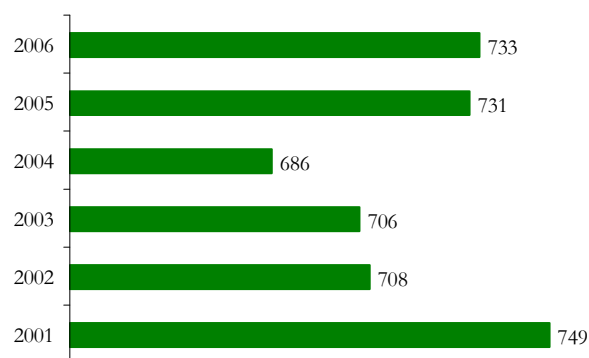
Capacity and Output remain some of the key drivers in the cement production business. Ashakacem delivered 733,000 tonnes of cement in FY 06, a 6.13 per cent increase in output relative to prior year. Over the 5 years reviewed, output growth for Ashakacem averaged 0.87 per cent. With a quite irregular output pattern, the company recorded an average output of 712,000 tonnes. Ashakacem's closest rival in the industry- WAPCO which is the industry leader (in terms of output) delivered 1,980,000 tonnes in FY 06, a 35 per cent increase in output relative to the prior year. The low tonnage delivery of Ashakacem is attributable to its relatively low capacity. By virtue of low capacity and output, Ashakacem has lost market share from 2003, from 36.9 per cent (FY 03) to 24.4 per cent (FY 06) while WAPCO increased market share from 49.7 per cent to 57.6 per cent over the same period, though, Ashakacem together with WAPCO controls over 80 per cent of the market from 2002 till date.

### Growth and Profitability

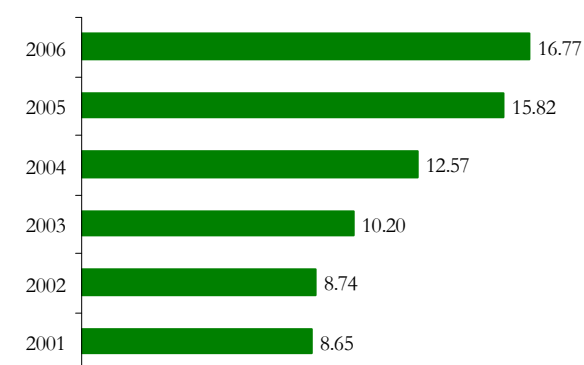
Ashakacem has grown its turnover by 17.69 per cent (CAGR) from N8.74 bn in 2002 to N16.77 bn in 2006. Much of this growth was accounted for by increase in price per tonnage rather than output growth. WAPCO over the same period recorded a turnover growth of 33 per cent (CAGR). Until FY 06 when Ashakacem recorded a growth rate of 6.1 per cent in revenue, it has recorded increasing revenue growth rate y-o-y. It recorded revenue growth rate of 17 per cent, 23 per cent and 26 per cent in 2003, 2004 and 2005 respectively. In terms of contribution to sales, Ashakacem recorded an average 5-year gross margin of 47.9 per cent with the gross margin for FY 06 declining from 55.6 per cent in the preceding year to 47.6 per cent. Ashakacem has the highest gross margin in the industry both on the basis of 5-year average and the most recent year figures. WAPCO, BCC and CCNN have a 5-year average gross margin of 34.06 per cent, 39.63 per cent and 39.48 per cent respectively. The superior gross margin of Ashakacem indicates that Ashakacem is more efficient than its peers in the management of its production costs.

Operating Profit, Operating Profit Margin, After Tax Profit, Return on Total Assets and Return on Equity of the company had a smooth upward trend from 2002 to 2005. FY 06 was a challenge for the company as its gross margin, operating profit and all other profit indices declined due to the effect of increase in fuel prices on the company's cost structure. Except for WAPCO, all other players in the industry recorded decline in performance in FY 06.

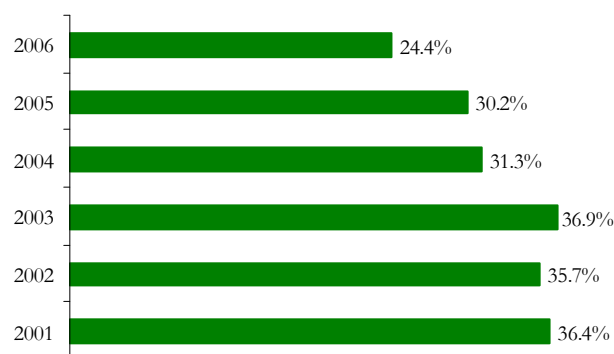
### Ashakacem: Trends in Output (tonnage '000)



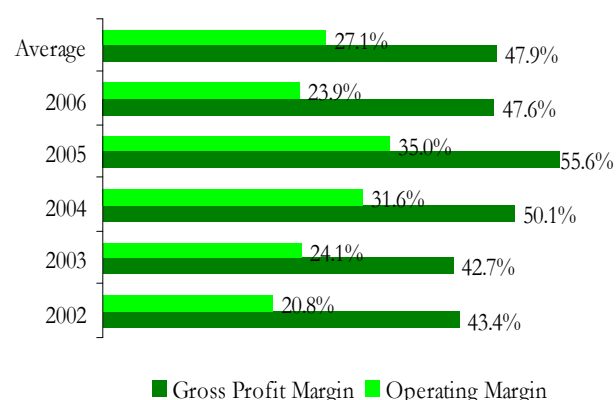
### Ashakacem: Trends in Turnover (N' bn)



### Ashakacem: Trends in Market Share (N' bn)



### Ashakacem: Trends in Profit Margins



## ANALYSIS OF FINANCIALS (CONT'D)

### Liquidity, Efficiency and Financial Stability

AshakaCem has maintained a comfortable liquidity level over the years as measured by various liquidity indicators – Quick ratio, Current ratio, Operating Cash flow/Net Income and Cash Interval measure. However, like the profit trend, the liquidity of AshakaCem dwindled in FY 06 compared to FY 05, with the Quick ratio, Operating Cash flow/Net Income, Cash Interval measure and Free Cash flow recording a decline. Quick ratio dropped from 1.15 to 0.93, Operating Cash flow/Net Income dropped from 1.22 to 0.85 and Cash Interval measure declined from 355 days to 124 days. Similarly, AshakaCem recorded a negative Free Cash flow of N0.778 bn from a positive figure of N4.4 bn in the previous year.

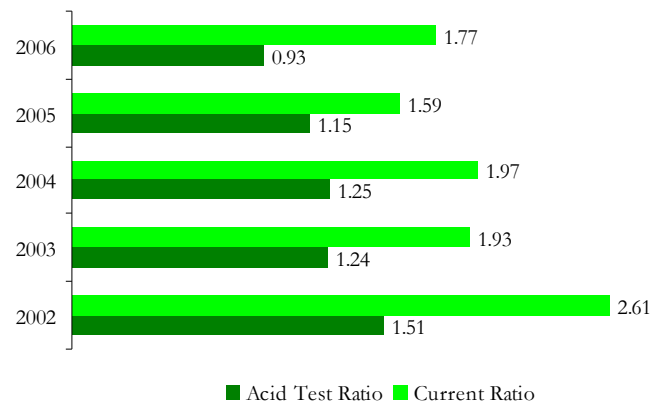
The same profit and liquidity trend is replicated in the company's efficiency ratios. Asset turnover ratio and other efficiency indicators plunged in 2006. Therefore, aside high costs, AshakaCem has been less efficient in the use of its assets in FY 06, resulting in lower profitability and worsened liquidity.

AshakaCem does not employ interest bearing, long term debt making it very stable financially. The ratio of Total Debt to Total Assets stands at 37 per cent (FY 06) as against 52 per Cent in FY 05. Also, the ratio of Total Debt to Equity stands at 59 per cent (FY 06), down from 110 per cent (FY 05). Given the profitability and the asset cover of the company, it can employ fixed interest capital comfortably to expand its capacity/output, profit level and ultimately, return on equity.

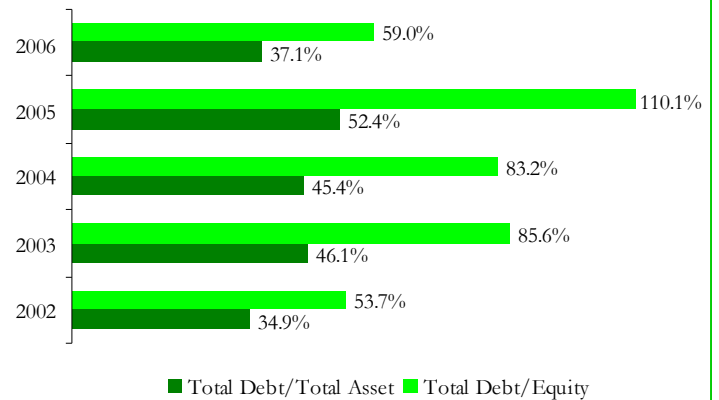
### Returns to Investors

Ashakacem has paid dividend to its investors consistently for the past 5 years. This record is unbeaten in the industry. The company has a 5-year average earnings yield of 10 per cent, though with a drop from 8.9 per cent (FY 05) to 4.2 per cent (FY 06). The company's average dividend payout stands at 64.3 per cent. AshakaCem declared a 2 for 3 bonus in the financial year ended 2004 and 1 for 6 bonus for the financial year ended 2006. This is meant to assure investors of possible future prospects of the company, regardless of the dwindled performance of the company in FY 06.

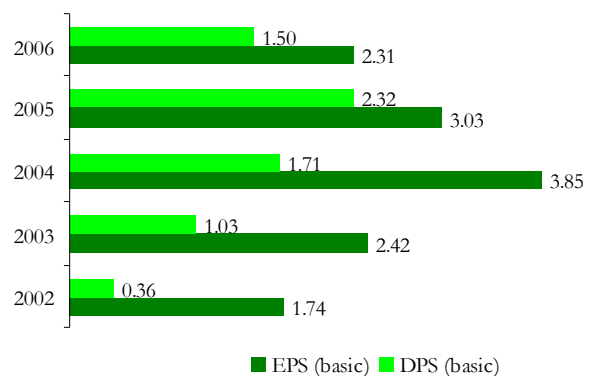
### Ashakacem: Trends in Liquidity



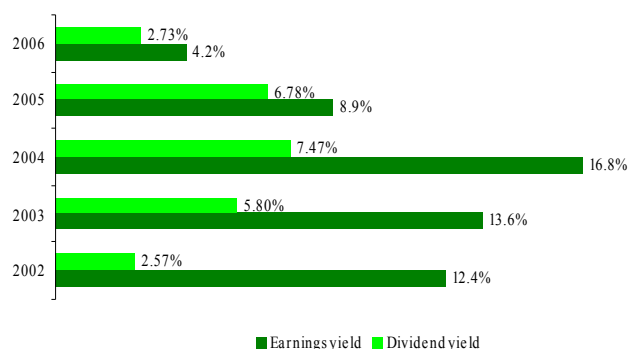
### Ashakacem: Trends in Stability



### Ashakacem: Trends in Basic EPS and DPS (Ngn)



### Ashakacem: Trends in Yields

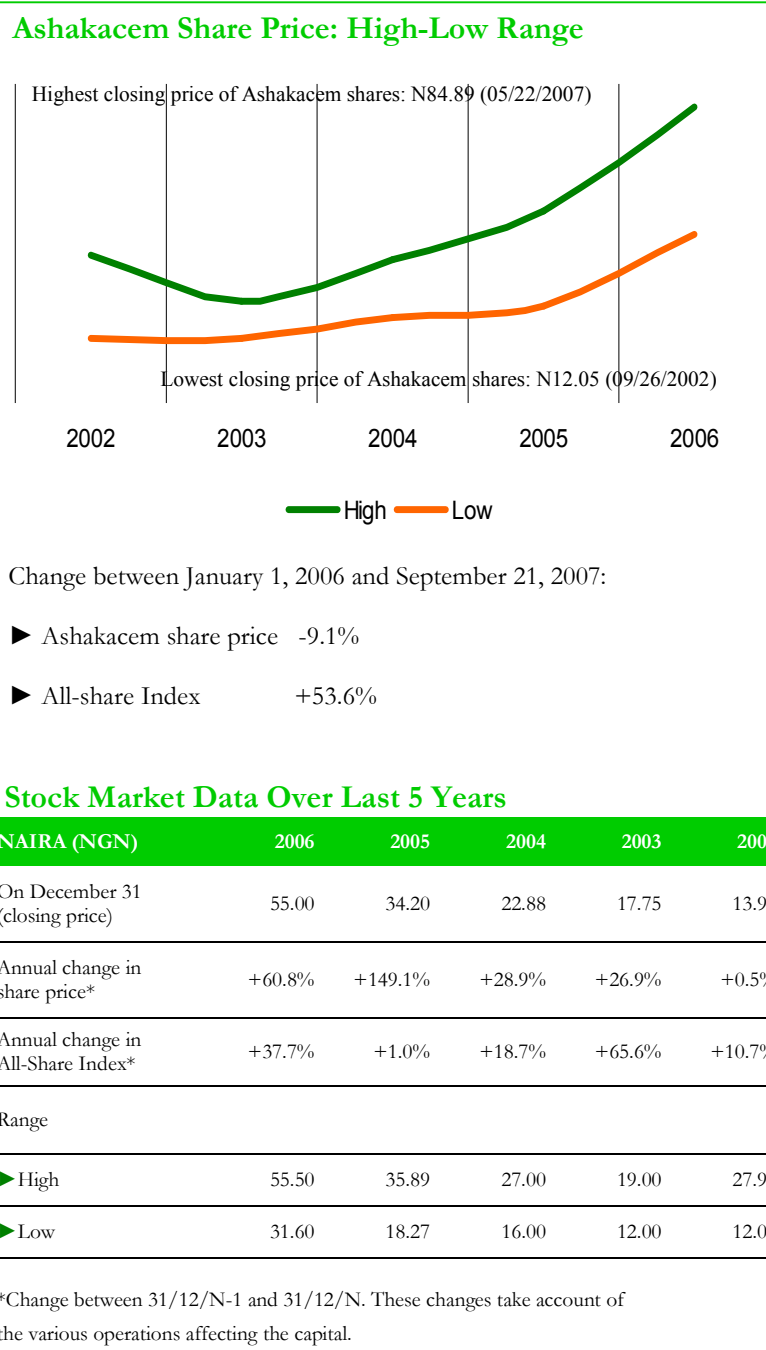


## ASHAKA CEMENT PLC AND THE NIGERIAN STOCK MARKET

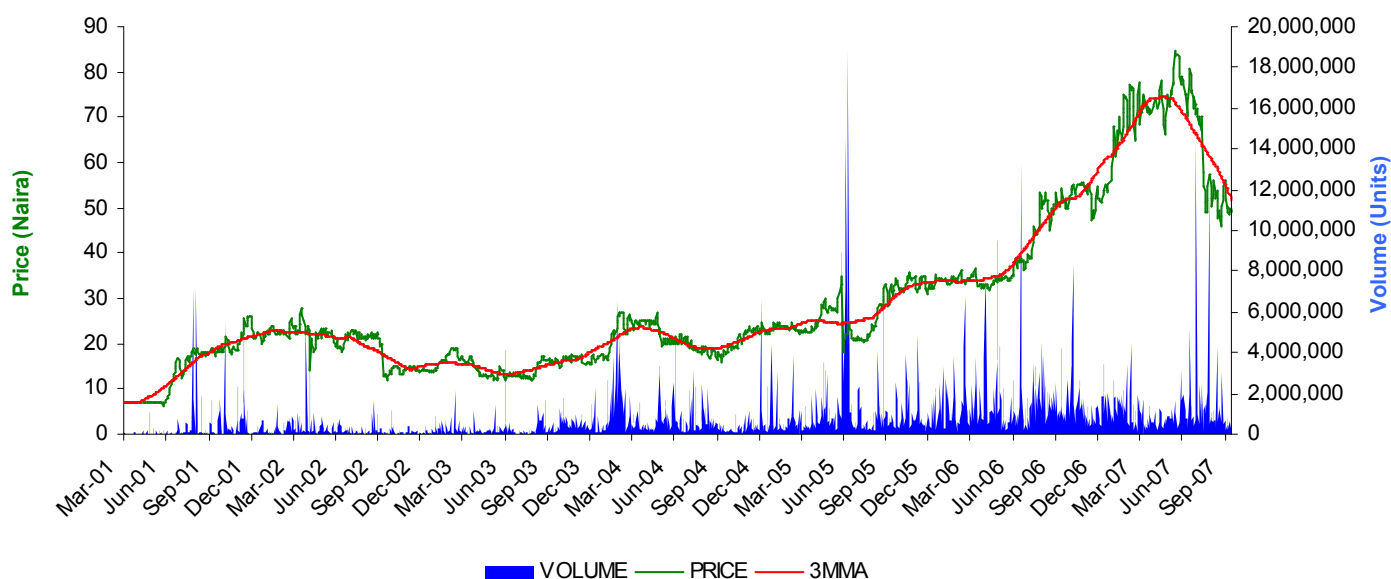
Ashaka cement, until recently, has always been a favoured stock on the Nigerian Stock Exchange. Thus, upward trends were observed in its price in the last five years.

In the earlier part of this year, the share price of Ashakacem rallied significantly on expectations of good corporate benefits (dividend and bonus) in respect of the financial year ended December 31, 2006. Investors' expectations were so high that the stock reached an all-time high of N84.89 in May. However, shortly after the bullish trend, the stock price began a downward trend. This was primarily caused by the decline in the company's performance as shown by its results for the second quarter, 2007, in which decline of 1.1% and 25.0% in turnover and after-tax profit respectively were reported. The already-initiated downward trend was further strengthened by aggravated investors' pessimism about the company's prospects that arose as a result of the reversal of government policy on cement importation, which paved way for the re-emergence of Ibeto Cement Company, a relevant competitor in the Nigerian cement industry.

The momentum of decline in Ashakacem's share price, reinforced by the current trend in the Nigerian Stock Market, remains strong as the stock now trades below its three-month moving average.



### Ashakacem Price-Volume Chart



## VALUATION OF ASHAKA CEMENT COMPANY PLC

We used two different methods in arriving at a fair value for Ashaka Cement Company Plc. The first method was based on trading multiples relative to prices of other cement companies in the industry. The second valuation method was based on the Present Value of Ashaka Cement's future cash flows, measured by discounting the company's free cash flow projections into the future.

### Cement Sector Trading Multiples

Sector Comparables	ASHAKA	BCC	CCNN	WAPCO
Turnover (N' bn)	16.67	6.03	6.37	39.65
Net Assets (N' bn)	11.62	n/a	1.54	25.02
Earnings/Loss (N' bn)	3.38	3.11	-0.034	10.68
EPS (N)	1.98	1.12	-0.03	3.56
NAPS (N)	6.81		1.44	8.34
Sales per share (N)	9.77	2.17	5.96	13.21
P/E	25.75	41.18		17.76
P/B	7.49		12.14	7.58
Price to Sales	5.22	21.24	2.93	4.78
No. of shares outstanding (bn)	1.706	2.784	1.069	3.002

### Valuation Metrics

P/E Valuation	
Average sector P/E	28.23
EPS	1.81
Valuation	51.10

P/B Valuation	
Average sector P/B	9.07
NAPS	7.37
Valuation	66.84

P/Sales Valuation	
Average sector P/Sales	8.54
Sales per share	10.43
Valuation	89.12

Valuation Summary- Per share basis	
Price to Earnings	51.1
Price to Book value	66.84
Price to Sales	89.12
DCF Valuation*	11.26
<b>Average</b>	<b>54.58</b>

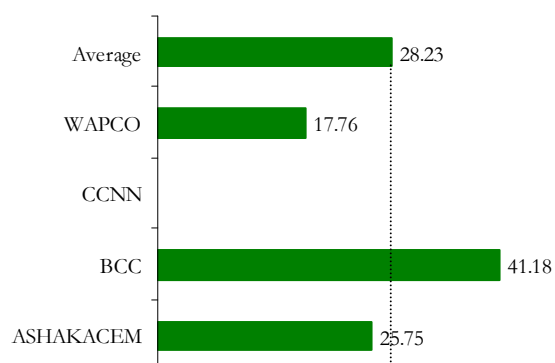
\*The Discounted Cash flow (DCF) valuation is based on a WACC of 15.23% and a terminal growth rate of 10%. Our proxy for risk free rate is 5-yr FG treasury bond rate of 10.25%, while risk premium is set at 6.0%.

### Valuation Summary

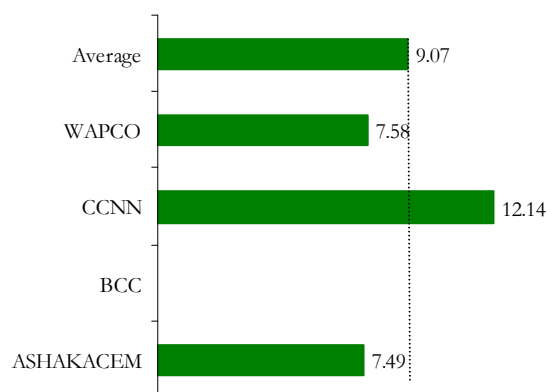
Our valuation reveals N54.58 as the fair price of Ashakacem, which implies that the stock is currently trading at a discount of 6.6%.

Risks attached to our valuation are government regulation and escalating energy costs as the industry fortune is heavily prone to changes in these two factors.

### Sector Average - Price to Earnings x (times)



### Sector Average - Price to Book value x (times)



### Sector Average - Price to Sales x (times)

