



**Stock Type:** Growth stock

**NSE Ticker:** WAPCO

**Auditor:** Akintola William & Deloitte  
(Chartered Accountants)

**Registrar:** City Securities Limited (CSL)  
17A, Tinubu Street, Lagos Nigeria.

**Year-end:** December 31

## INVESTMENT RATIONALE & RISK ANALYSIS:

- We maintain a strong **BUY** recommendation on the stock both for short –term traders and long-term investors. This is based on our analysis as WAPCO’s strong balance sheet, expected future cash flows, current market leadership, and our estimation of the company’s intrinsic value based on the discounted cash flow (DCF) valuation metric.
- The company’s recent restructuring exercise brought about a significant reduction in interest expenses of N1.7 billion in 2005. The injection of funds through rights issues by the shareholders further reduced the debt burden of the company thereby giving it much needed capital to operate. This therefore has a positive effect on the previously ever increasing gearing ratio.
- Continuous reduction in the degree of total leverage as measured by its financial and operating leverage ratios remains a good opportunity for the firm. However, one of the key risks to our opinion is the impending competition by new entrants into the market and any deviation from the current policy thrust on the part of the government may portend a threat to WAPCO’s market share, which is already expected to decline as new investors penetrate the market. It is therefore expected that WAPCO might likely lose some of its current market share.
- The company is highly liquid with an average volume of over 400,000 being traded daily. The shareholding structure is highly skewed towards a few investors who hold a significant portion of its shares while the Nigerian public only holds about 29%.
- The financial leverage index of 1.34 in 2005 signifies the benefit of leverage to equity shareholders and optimal maximization of debt during the year.
- WAPCO historical beta ( $\beta$ ) of 1.54 is relatively high compared to the industry average. This means that the company is more sensitive to shocks in itself than the market in terms of returns. Put differently, WAPCO is a cyclical stock that outperforms market return in a bullish market and vice versa. Other risks associated with the company are its dependence on government policies such as fiscal policies on construction activities, fuel and oil prices, exchange rates, and high duty rates and increase in electricity tariff, which can easily affect local manufacturers to the exclusion of the importers. As at date, the government policy on infrastructural development is very positive and most of these potential risks are currently at abeyance.
- Given the relative stability in the exchange rate against US dollar and reduction in dependency of its input on importation, the company currently seems to be operating at a vantage position.

## WAPCO PLC

PRIMARY STOCK STATISTICS	2005
Market Cap.(N)	N129.068b (US\$1.021b)
Dividend Yield (%)	0.63%
Return On Equity(ROE)	19.27%
Return On Total Assets(ROTA)	14.39%
Operating Margin (%)	12.00%
Net Profit Margin (%)	10.38%
Price as at Date - 04/08/06	N47.46
Trailing P/E Ratio	18.68
Forward P/E Ratio	10.93
5-Yr average P/Sales Ratio	N4.01
52-Week Price range(High-Low)	N58.00 -N 10.35
5-Yr Average Annual Growth in Turn-over	24.00%
Shares Outstanding	3,001,600,004
No of Shareholders	57,357
Beta( $\beta$ ) - 5year	3.002
Share Float	28.23%
Trailing EPS (as at Q2 June 2006)	N2.54
Estimated EPS(N)	N3.57
5-Yr average Pay-out ratio	55.93%

### WAPCO 12-MONTH PRICE/VOLUME CHART



## WORLD CEMENT INDUSTRY FORECASTS TO 2010:

Global demand for cement is expected to grow by 4.7 percent annually to 2.8 billion metric tons in 2010. China, which is the 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/Middle-East and Latin America regions, will also record 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. Market advances will be less robust in the developed areas of the US, Japan and Western Europe, with maintenance and repair construction accounting for much of the growth in cement demand through 2010. However, a pickup in construction spending in Germany and Japan following an extended period of decline will help bolster overall developed world market growth.

## OVERVIEW OF THE NIGERIAN CEMENT INDUSTRY:

In 2004, domestic consumption of cement was estimated to be between 10 million metric tons per year (Mt/yr) and 12 Mt/yr while Nigeria's installed cement production capacity was about Six (6) Mt/yr. Domestic production was supplemented by imported bulk cement, which was bagged primarily at terminals in or near Lagos and Port Harcourt. In 2005, The Central Bank of Nigeria reported a lull in domestic cement production in 2004 because a number of cement companies had suspended or terminated operations. Increased fuel costs affected the remaining companies, most of which were powered by fuel oil (Holcim Ltd., 2005, p.40; U.S. Securities and Exchange Commission, 2005§).

Unlike the metals sector, privatization attempts and the rejuvenation of the cement sector by the infusion of funds after the privatization of the state-owned cement companies has been generally successful. The Lafarge Group of France obtained the formerly state-owned 900,000-t/yr-capacity Ashakacem Plc in Gombe State and the two privatized facilities of West African Portland Cement Co. Plc (WAPCO) in Ogun State when it acquired Blue Circle Industries Ltd. in 2001. In 2003, WAPCO commissioned a new 1-Mt/yr capacity plant at Ewekoro to replace the 40-year-old 600,000-t/yr plant and at year end 2004, WAPCO's Ewekoro and Shagamu plants had a combined capacity of 2.1 Mt/yr (U.S. Securities and Exchange Commission, 2005§). Dangote Industries Ltd. of Nigeria, which bagged imported bulk cement in Lagos and Port Harcourt, acquired local manufacturing capacity in 2001 when it became the core investor in the Benue Cement Co. Plc. Rehabilitation of the 900,000-t/yr Benue plant at Gboko was completed in 2004. Dangote also proceeded with a proposed 4.7-Mt/yr-capacity cement plant at Obajana in Kogi State, a 2.3-Mt/yr cement plant at Ibese in Ogun State, and a 2.3-Mt/yr cement plant in Odupani near Calabar in Cross River State. In 2004, the Cement Co. of Northern Nigeria (CCNN), in which Scancem International ANS (Norway) had acquired

51% interest in 2000, finished the rehabilitation of the 500,000-t/yr-capacity plant at Sokoto, and Edo Cement Co. Ltd., which also was a subsidiary of Scancem, continued the rehabilitation of the cement plant formerly operated by the Bendel Cement Co.(BCC) Ltd. at Okpella. Edo had acquired the majority interest in Bendel in 2003 and, in 2004, began bagging imported cement at the facility. Employees of the coal-burning Nigercem Plc. reportedly had not been paid since June 2000. In October 2002, the idle operation was privatized; **Eastern Bulkcem Co. Ltd. (EBC)** acquired 60% interest. EBC, which bagged imported bulk cement near Port Harcourt, had proposed to rehabilitate the Nigercem facility, but there was no apparent activity in 2004. In 2003, investors joined with the Akwa Ibom State government to form Quality Cement Co. Ltd. (**Quacem**) and proposed to build a facility at Ikot Abasi. Quacem initially was to bag imported cement and eventually would manufacture cement. At year-end, the scheduled October 2004 bagging startup date had slipped to mid-2005.

In summary, the Nigerian Cement industry today comprises four (4) major cement plants with other new players emerging with strong strategic moves to capture the market. The Industry was dominated by **West African Portland Cement (WAPCO) and AshakaCem Plc** with a combined market share of about 87% of local production in 1999 and lost grip to 75% in 2005 as a result of new entrants into the market. Notwithstanding, WAPCO currently leads the market with a market share of about 56% of the aggregate local production (measured in terms of turnover of all players at the end of December 2005). Competition is often restricted to regions and as such, producers' marketing efforts tend to be regionalized. Similarly, as a result of relatively high transportation cost involved in moving cement to the company's regional area of dominance, cheap imports will continue to pose a threats until the company can significantly reduce production cost.

However, the existing profit-taking in the industry has attracted some major industrial players which may pose a threat to **WAPCO and Ashakacem** in the long run. By the year-end 2005, BCC increased its stake to 8% of the overall market share through its pricing strategy. It is expected therefore that though the industry is capital intensive, the increasing availability of venture capital by financial institutions and the abnormal profits enjoyed in the industry would be a major attraction for a profit seeking aggressive entrepreneur to penetrate this market. This is already being witnessed with the establishment of **Obajana Cement** and take-over of controlling interest in **Benue Cement Company (BCC)** by **Dangote Industries Limited (DIL)**.

## Outlook of the Nigeria Cement Industry:

Prior to 2004/2005, the Nigeria cement industry's potential had been constrained by a host of macro-economic factors such as: high cost of borrowing and interest expenses, increasing energy costs and overheads, uncompetitive pricing differential with imported cement, volatility in exchange rates to mention a few. However, the sub-sector witnessed an appreciable growth in level of demand in the year 2005 as the total national output soared by 10% to approximately 9.1 million metric tones in 2005.

Meanwhile, a large proportion of this demand was attributable to imports as Nigeria sourced 74 per cent of its cement through imports as existing local production could only cater for 26 per cent of demand. However, the import-driven demand is expected to dwindle in the years ahead as the existing production capacity of 3.0 million is expected to rise by over 400 percent to about 15 million metric tones in 2007. Invariably, the level of competition in the sector is expected to increase as Nigeria is transiting from an import-oriented nation to producer-exporter nation.

Undoubtedly, this improvement will subsequently reduce pressure on the naira and boost stability in the foreign exchange (forex) market. It is expected that Nigeria will make some savings in forex annually as from next year. This will be largely attributable to the increase in capacity of the existing factories and the commencement of operations of the Obajana factory, which is the largest single factory in Africa.

With the completion of WAPCO's flagship's Plant at Ewekoro in August 2005 as well as its third - phase programme for the refurbishment of its Shagamu Plant in 2006, the company is strategically positioned to maintain its the market presence. Meanwhile, with the coming on board of the Dangote group, through BCC and Obajana, it is expected that Lafarge SA through WAPCO and ASHAKA will loose its market leadership in local production in the coming years.

stands at N129.068 billion (US\$1.026b)

## SHAREHOLDING STRUCTURE:

The components of the company's shareholdings are presented in the tables

<b>SHAREHOLDING STRUCTURE</b>	
<b>O'dua Group of Companies</b>	<b>11.765%</b>
<b>Foreign Investors</b>	<b>60.002%</b>
<b>Nigerian Public</b>	<b>28.233%</b>
<b>TOTAL</b>	<b>100%</b>

<b>FOREIGN INVESTORS'HOLDING( Lafarge, SA France)</b>	
<b>AIC UK</b>	<b>36.481%</b>
<b>AIC Nigeria</b>	<b>23.041%</b>
<b>Lafarge Nigeria Ltd</b>	<b>0.480%</b>
<b>TOTAL</b>	<b>60.002%</b>

## MANAGEMENT/ BOARD OF DIRECTORS

The Company's Board consists of seasoned and experienced directors who have excelled in their various fields of endeavor. The management team is also under the leadership of Mr. George Lourandous (Greek) who was formerly the Deputy Managing Director and Chief Operating Officer of AshakaCem Plc. He is highly experienced in the industry. The quality and skill of management remains the motivating premise behind the company's recent turnaround in operations and profitability.

## DIRECTORS' INTEREST IN SHAREHOLDINGS

	<b>at Dec. 31 2005</b>	<b>at Dec 31, 2004</b>
High Chief Bayo Akinnola*** (Chairman)	nil	nil
Theophilus O. Shokunbi (Resigned 31/8/05)	161,012	92,007
John Oluwole Adeleke	426,037	43,450
Chief Olusegun O. Osukeye	1,131,809	41,214
Asiwaju Akintunde Asalu	615,911	303,411
Dele A. Daada (Joined 25/10/05)	173,573	14,988
Chief Ademola I. Awosanya ***	nil	nil
Engr Joseph O. Makoju ,mni, OON	400,879	229,074
Hon Ademola A. Ogundeji	1,500	1,500
Anthony R. Hadley (British)	407,910	4,520
George Lourandos (Greek)	300,000	Nil
Mobolaji O. Balogun	3,103,302	40,802
Dr. Joseph O. Sanusi	12,224	4,890

\*\*\* Both acquired 25,000 shares & 10,500 shares respectively after December 31, 2005.

## BUSINESS SUMMARY

**W**APCO PLC was established in 1959 with its first factory in Ewekoro, Ogun State in 1960. The second factory in Shagamu, Ogun State was established in 1978. The company commenced production with an initial capacity of 200,000 tonnes per annum, but this later grew with demand to about 1.5 million metrics tones per annum in the 80's. From the late 90's, the company began to witness reduction in output due to the age of the inaugural plant in Ewekoro. However, to cope with future challenges necessitating increased productivity, improved efficiency and cost effectiveness, a modern, state-of-the-art plant was commissioned in Ewekoro in August 2003 to replace the obsolete plant. The new plant with capacity for 1.32 million metrics tones per annum has since commenced production with attendant result of increased output by the Company.

As a result of its take over of Blue Circle Industries Plc U.K on July 1, 2001, Lafarge SA of France became the majority shareholder in WAPCO. Lafarge is the largest cement producer in the world and the world leader in building materials. With the acquisition, WAPCO is integrating into the Lafarge culture, implementing process reengineering and imbibing Lafarge best practices. WAPCO has two subsidiaries namely *Portland Electrical Repairs Limited*, which is wholly owned and *Nigeria Kraft Bags Ltd in which it has 56.2%*.

## STOCK EXCHANGE QUOTATION:

WAPCO was listed on the Nigerian Stock Exchange (NSE) on 16 February 1959 and belongs to the Building Materials sub-sector by the NSE classification. Meanwhile, as at date (August 28, 2006), its total market capitalization



**TABLE I: WAPCO PROFIT & LOSS ACCOUNTS (2001-2005)**

Profit & Loss Accounts (N'000)	Dec-05	Dec-04	Dec-03	Dec-02	Dec-01	5-Yr Avg
Gross Turnover	26,626,109	22,095,823	13,729,548	12,459,539	13,410,247	17,664,253
Cost Of Sales	16,000,158	14,781,807	10,407,071	9,517,506	9,103,656	11,962,040
Gross Profit	10,625,951	7,314,016	3,322,477	2,942,033	4,306,591	5,702,214
Selling & Distribution Costs	-4,794,850	-4,100,254	-4,221,990	-2,299,308	-2,330,136	-3,549,308
Total Operating Expenses	-4,794,850	-4,100,254	-4,221,990	-2,299,308	-2,330,136	-3,549,308
Other Operating Income	293,279	2,029	103,479	115,390	120,240	126,883
Operating Profit/(Loss) Before Interest	6,124,380	3,215,791	-796,034	758,115	2,096,695	2,279,789
Interest Paid	-2,929,745	-4,927,768	-2,274,850	-736,603	-1,016,792	-2,377,152
Profit/(Loss) Before Exceptional Items	3,194,635	-1,711,977	-3,070,884	21,512	1,079,903	-97,362
Exceptional Items Before Tax	-	-1,447,369	0	-1,132,896	0	-516053
Operating Profit/(Loss) After Exceptional Item	3,194,635	-3,159,346	-3,070,884	-1,111,384	1,079,903	-613,415
Taxation	-431,471	-241,783	-104,072	-280,666	-99,637	-231,526
Net Income/(Loss) After Tax from continuing Operations	2,763,164	-3,401,129	-3,174,956	-1,392,050	980,266	-844,941
Net Income	2,763,164	-3,401,129	-3,174,956			-762,584
Minority Interest (M.I)	0	0	0	-8,503	-8,311	-3362.8
Attributable Profit/(Loss)	0	0	-3,174,956	-1,383,547	988,577	-713,985
Dividends	-900,302	0	0	0	0	-180060.4
Retained Profit	1,862,862	-3,401,129	-3,174,956	-1,383,547	988,577	-1,021,639

**TABLE II: WAPCO P & L ACCOUNTS COMMON-SIZED (2001-2005)**

Common-Sized P& L Accounts	Dec-05	Dec-04	Dec-03	Dec-02	Dec-01	5-Yr Avg
Gross Turnover	100.00%	100.00%	100.00%	100.00%	100.00%	
Cost Of Sales	60.09%	66.90%	75.80%	76.39%	67.89%	69.4%
Gross Profit	39.91%	33.10%	24.20%	23.61%	32.11%	30.6%
Selling & Distribution Costs	-18.01%	-18.56%	-30.75%	-18.45%	-17.38%	-20.6%
Total Operating Expenses	-18.01%	-18.56%	-30.75%	-18.45%	-17.38%	-20.6%
Other Operating Income	1.10%	0.01%	0.00%	0.00%	0.00%	0.2%
Operating Profit Before Interest	23.00%	14.55%	-5.80%	6.08%	15.64%	10.7%
Interest Paid	-11.00%	-22.30%	-16.57%	-5.91%	-7.58%	-12.7%
Profit Before Exceptional Items	12.00%	-7.75%	-22.37%	0.17%	8.05%	-2.0%
Exceptional Items Before Tax	0.00%	-6.55%	0.00%	-9.09%	0.00%	-3.1%
Operating Profit After Exceptional Item	12.00%	-14.30%	-22.37%	-8.92%	8.05%	-5.1%
Taxation	-1.62%	-1.09%	-0.76%	-2.25%	-9.23%	-2.99%
Net Income After Tax from continuing Operations	10.38%	-15.39%	-23.12%	-11.17%	7.31%	-6.40%
Net Income	10.38%	-15.39%	0.00%	0.00%	0.00%	-1.00%
Minority Interest (M.I)	0.00%	0.00%	0.00%	-0.07%	-0.06%	-0.03%
Attributable Profit	0.00%	0.00%	-23.12%	-11.10%	7.37%	-5.37%
Dividends	-3.38%	0.00%	0.00%	0.00%	0.00%	-0.68%
Retained Profit	7.00%	-15.39%	-23.12%	-11.10%	7.37%	-7.05%

**TABLE III: WAPCO PLC BALANCE SHEET STATEMENT (2001-2005)**

	2005	2004	2003	2002	2001
	N'000	N'000	N'000	N'000	N'000
<b>CURRENT ASSETS</b>					
Cash	2,877,997.00	1,936,972.00	793,279.00	664,082.00	923,141.00
Trades	59,606.00	173,248.00	299,254.00	260,320.00	142,222.00
Others	395,609.00	514,631.00	804,136.00	556,626.00	952,407.00
Receivables	455,215.00	687,879.00	1,103,390.00	816,946.00	1,094,629.00
Inventories	6,027,372.00	3,654,566.00	5,569,984.00	7,389,390.00	7,777,029.00
Prepaid Expenses	2,253,316.00	1,747,312.00	1,602,034.00	307,434.00	57,461.00
<b>TOTAL CURRENT ASSETS</b>	<b>11,613,900.00</b>	<b>8,026,729.00</b>	<b>9,068,687.00</b>	<b>9,177,852.00</b>	<b>9,852,260.00</b>
Total Long-term Investments	40,000.00	40,000.00	40,000.00	40,000.00	40,000.00
<b>TANGIBLE ASSETS</b>					
Leasehold Properties	865,943.00	829,494.00	456,436.00	484,743.00	538,068.00
Other Tangible Assets	30,051,167.00	30,611,760.00	30,918,412.00	25,193,671.00	15,550,175.00
<b>Total Tangible Assets</b>	<b>30,917,110.00</b>	<b>31,441,254.00</b>	<b>31,374,848.00</b>	<b>25,678,414.00</b>	<b>16,088,243.00</b>
Total Intang.Assets (excl Goodwill)	-	-	-	-	625,152.00
<b>TOTAL ASSETS</b>	<b>42,571,010.00</b>	<b>39,507,983.00</b>	<b>40,483,535.00</b>	<b>34,896,266.00</b>	<b>25,980,503.00</b>

	N'000	N'000	N'000	N'000	N'000
<b>CURRENT LIABILITIES</b>					
Note Payables(Short Term Debt)	-	444,377.00	9,851,602.00	6,911,743.00	4,722,003.00
Short Term Debt	5,269,710.00	6,867,225.00	-	701,630.00	-
Payable to Suppliers	5,283,212.00	4,835,662.00	5,869,371.00	1,913,811.00	1,312,792.00
Other Accrued Expenses	3,825,466.00	3,390,553.00	5,331,546.00	3,483,133.00	2,439,248.00
Dividend Payables	904,589.00	4,287.00	-	-	-
Accrued Income Taxes	627,021.00	599,359.00	633,240.00	454,622.00	475,628.00
<b>TOTAL CURRENT LIABILITIES</b>	<b>15,909,998.00</b>	<b>16,141,463.00</b>	<b>21,685,759.00</b>	<b>13,464,939.00</b>	<b>8,949,671.00</b>
Total long-Term Liabilities	10,539,420.00	19,994,675.00	12,133,853.00	11,541,436.00	6,839,340.00
Deferred Taxation	330,717.00	2,810.00	27,663.00	238,471.00	8,224.00
Pension Provisions	1,452,990.00	732,356.00	598,452.00	438,656.00	205,206.00
<b>Other Liabilities</b>	<b>1,783,707.00</b>	<b>735,166.00</b>	<b>626,115.00</b>	<b>677,127.00</b>	<b>213,430.00</b>
			34,445,727.00 -		
<b>TOTAL LIABILITIES</b>	<b>28,233,125.00</b>	<b>36,871,304.00</b>		<b>25,683,502.00</b>	<b>16,002,441.00</b>
<b>NET ASSETS</b>	<b>14,337,885.00</b>	<b>2,636,679.00</b>	<b>6,037,808.00</b>	<b>9,212,764.00</b>	<b>9,978,062.00</b>
<b>SHAREHOLDERS' EQUITIES</b>					
Share Capital	1,500,800.00	857,600.00	857,600.00	857,600.00	571,733.00
Share Premium	9,488,747.00	291,386.00	291,386.00	291,386.00	291,386.00
Revaluation Reserves	3,176.00	3,176.00	3,176.00	3,176.00	3,176.00
Bonus Reserves	-	-	-	-	187,866.00
Capital Reserve on Consolidation	-	1,846.00	1,846.00	1,846.00	1,846.00
General Reserves	3,345,162.00	1,473,119.00	4,874,248.00	8,049,204.00	8,917,907.00
Retained Profit	-	-	-	-	988,577.00
Minority Interest(M.I)	-	9,552.00	9,552.00	9,552.00	16,455.00
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<b>14,337,885.00</b>	<b>2,636,679.00</b>	<b>6,037,808.00</b>	<b>9,212,764.00</b>	<b>10,603,214.00</b>

<b>Number of Shares Outstanding</b>	3,001,600,004.00	1,715,200,002	1,715,200,002	1,715,200,002	1,143,467,000
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## WAPCO PLC: TRENDS IN FINANCIAL RATIOS

	2005	2004	2003	2002	2001
<b>EFFICIENCY RATIO</b>					
Receivable Turnover	46.59	24.67	14.30	13.04	12.25
Inventory Turnover	3.31	3.20	1.61	1.26	1.17
Payable Turnover	3.16	2.76	2.67	5.90	6.93
Average Days Receivable	7.83	14.79	25.53	28.00	29.79
Average Days Payables	115.42	132.17	136.49	61.87	52.63
No of Days Inventory in Stock	110.43	113.89	227.26	290.82	311.81
Cash Conversion Cycle	2.85	-3.48	116.30	256.95	288.97
Total Assets Turnover	0.65	0.55	0.36	0.41	0.50
Fixed Assets Turnover	0.85	0.70	0.48	0.60	0.83
Equity Turnover	1.86	8.38	2.27	1.35	1.26
<b>LIQUIDITY RATIOS</b>					
Current Ratio	0.73	0.50	0.42	0.68	1.10
Quick Ratio	0.35	0.27	0.16	0.13	0.23
Cash Ratio	0.18	0.12	0.04	0.05	0.10
<b>SOLVENCY RATIO/CAPITAL STRUCTURE</b>					
Debt-Equity Ratio	1.97	13.98	5.71	2.79	1.51
Long-Term Debt/Total Capital Ratio	0.25	0.51	0.30	0.33	0.26
Total Debt Ratio	0.66	0.93	0.85	0.74	0.60
Total Interest bearing Debt/Capital Ratio	0.37	0.63	0.44	0.39	0.31
Interest Coverage Ratio	1.09	-0.64	-1.35	-1.51	1.06
Cash-Flow Coverage Ratio	2.12	0.55	2.21	3.50	-0.72
Cash Flow/Long-Term Debt Ratio	0.59	0.14	0.41	0.22	-0.11
Financial Leverage Index	1.34	-15.85	26.74	-6.91	1.18
Financial Leverage	2.97	14.98	6.71	3.79	2.51
<b>PROFITABILITY RATIOS</b>					
Gross Margin	0.40	0.33	0.24	0.24	0.32
Operating Margin	0.12	-0.14	-0.22	-0.09	0.08
Return On Assets (ROA)	0.14	0.08	-0.02	0.02	0.08
Return On Equity(ROE)	0.19	-1.29	-0.53	-0.15	0.09
Net Profit Margin	0.10	-0.15	-0.23	-0.11	0.07
<b>VALUATION RATIOS</b>					
Net Asset Per Share (NAPS)	4.78	1.54	3.52	5.37	9.27
Earnings/(Loss) Per Share (K)	92	(198)	(185)	(81)	86
Sales Per Share (N)	8.87	12.88	8.00	7.26	11.73
Market Year-end Price as at December 31 (N)	28.00	17.30	18.51	14.15	22.00
DPS(K)	30.00	0.00	0.00	0.00	0.00
Trailing P/E	18.68				
Forward P/E	10.93				
Price/ Sales ratio	5.35				
P/ B ratio	9.92				
Volatility -Beta ( $\beta$ )	1.54				

**ANALYSIS OF WAPCO's FINANCIAL**

WAPCO faced a serious liquidity squeeze especially between the year 2002 and 2004. However, this reversed in 2005. This was reflected in the company's **current ratio**-(an indicator of its ability to meet current obligations), which declined from 1.1x in 2001 to 0.68x in 2002, 0.42x in 2003 and 0.5x in 2004 before picking up again in 2005 at 0.73x. This same trend applied to all liquidity indicators as evidenced in the company's **cash ratio** and **quick ratio** all of which signalled threat to the company's ability to service immediate debts with available cash.

The **operating efficiency ratio** which indicates management skills in effective and efficient utilization of the company's assets has improved over the years. During the year, WAPCO's **turnover** increased by 21% to N26.625 billion compared with its performance in 2004, a clear reflection in sales volume growth. Operating profit grew by 210% in 2005 to N6.1 billion as compared to N2.9 billion margin attained in 2004. The company financials revealed that the company's operations suffered a loss in 2002 before picking up in 2003. Operating expenses declined from 31% of sales in 2003 to 19% in 2004 with a further decline by another 1% in 2005. This signifies management's ability to stem down cost while turnover was down. The company's **number of Days' in receivable** reduced from its 25 in 2003 to 7 in 2005. The growth in sales was accompanied by a more than proportionate fall in account receivable testifying to the company's sound credit policy. The number Days Account payable Outstanding has also declined from with 136 in 2003 to 115 in 2004. In the same vein, its **average number of days inventory in stock** diminished significantly from 227 days in 2003 to 110days in 2005. As a result, the company is still expected to work more on its **sales strategies** so as to reduce this tie-down period. The **cash conversion period** which is the number of days it takes a company to turn its production into cash has reduced from its previous 256days in 2002 to an average of about 3 days in 2005.

In terms of **profitability**, WAPCO has its **gross margin** increased by 37% in 2004 to 33% from a constant margin of 24% in 2002 and 2003. A further gross margin growth of 7% was achieved in 2005 for the company's 40% gross margin. However, negative **operating margins** of 11% and 23% were recorded in 2002 and 2003 with a positive swing in 2005 to 10%.

The company's **transition to the path of profitability** was further assisted by the **economies of scale** in its operations which reduced the distribution and admin cost from 31% of turnover in 2003 to 18% in 2005. This, coupled with loan portfolio restructuring in 2004, increased the **EBIT** from an **operating loss** of 6% in 2002 to **operating profit margin** of 15% and 23% in 2004 and 2005 respectively.

**CAPITAL STRUCTURE**

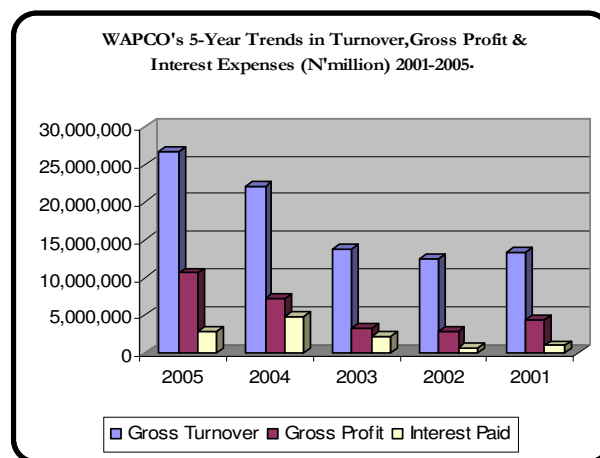
In order to finance it plant construction in 2002, the company, when the prospect of rights issue failed, had to raise a short term borrowing to fund this long term project. This created interest burden for the company as reflected in its interest expenses from 736 million in 2002 to 2279 billion in 2003 and 4,297 billion in 2004 resulting in the company's loss before tax from years 2002 to 2004. WAPCO's degree of **financial leverage** was observed to skyrocket from its 1.51 ratio in 2001 to 2.79 in 2002, 5.71 in 2003 and peaked 13.98 in 2004 before it slumped to 1.97 in 2005.

By 2004 measure, it indicates that equity constitutes only 7.15% of the company's capital structure with debt controlling the balance of 92.85%. This was quite unhealthy for a company that has a lot of growth potentials with no immediate leverage benefits. The company however rose to its challenge through a **rights issue** of about N10 billion in 2004 which increased the equity contribution and reduced its debt by N5 billion from its **rights proceeds**, thereby making equity contribution to be at a reasonable level of 50.7% of the entire capital base.

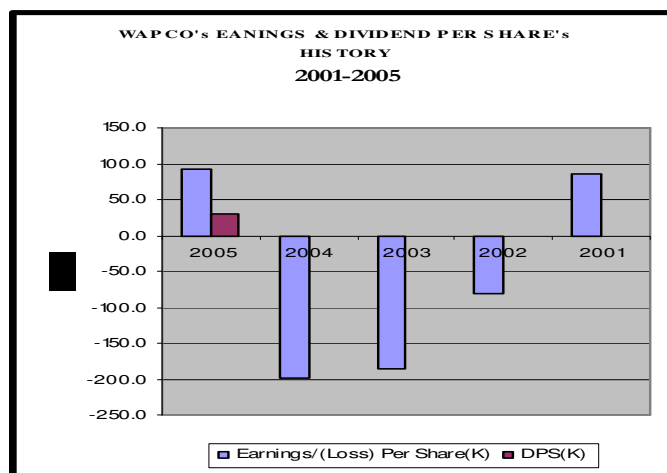
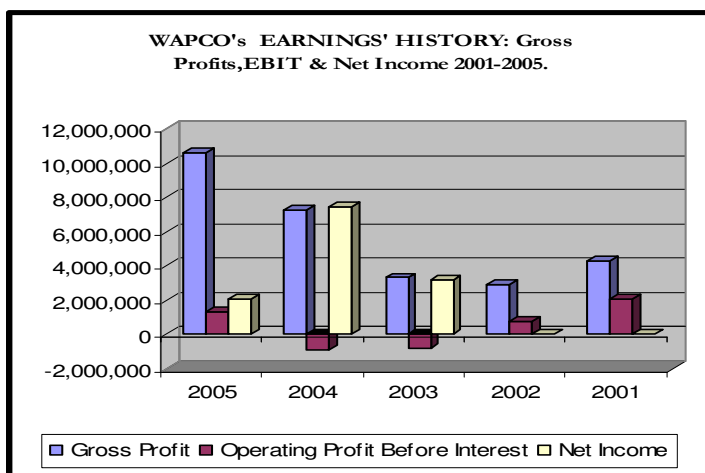
The company consolidated its short term debts with a consortium of 27 banks in 2004 to a medium term loan repayable over a four and half year repayment period with nine month moratorium. This assisted the company in its containment of interest payments and with part of the proceeds of the rights issues, the debt, which was basically the **Syndicated Committed Revolving Note Issuance Facility (SCRNIF)** of N18.125 billion was reduced to N13.125 billion in July 2005. With the stability in the exchange rate, the company in 2005 converted the outstanding debt to a US Dollar denominated term loan now structured through a syndicated term loan of US\$93 million for 3 years terminating in November 2008. With this arrangement and coupled with the expected growth in the shareholders fund, the company's equity balance in the scale of capital structure weighting awaits equity domination.

**WAPCO's degree of operating leverage exposed its bottom-line to a very high risk until the turnaround in 2005.** The company's investment in fixed asset has been increasing since 2002 due to expansion of its Ewekoro plant commissioned in 2005 with an installed capacity of **1.3 million tones**. This was responsible for the phenomenal growth in the company's turnover with positive impact on its profitability.

**WAPCO Performance Charts**



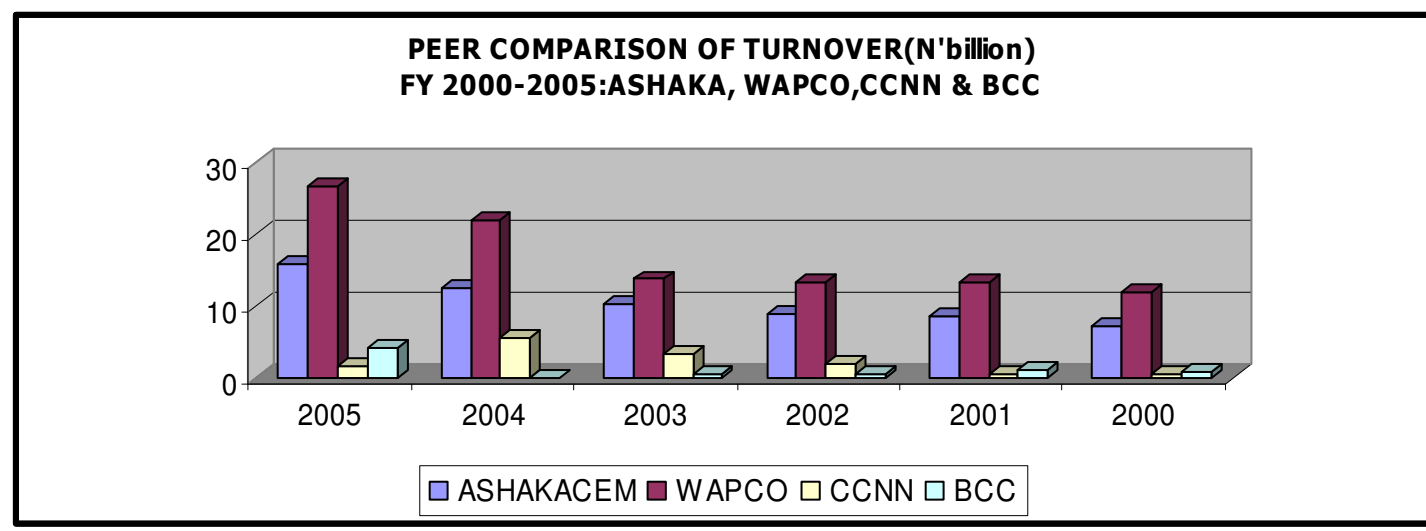
**WAPCO's Performance Charts**



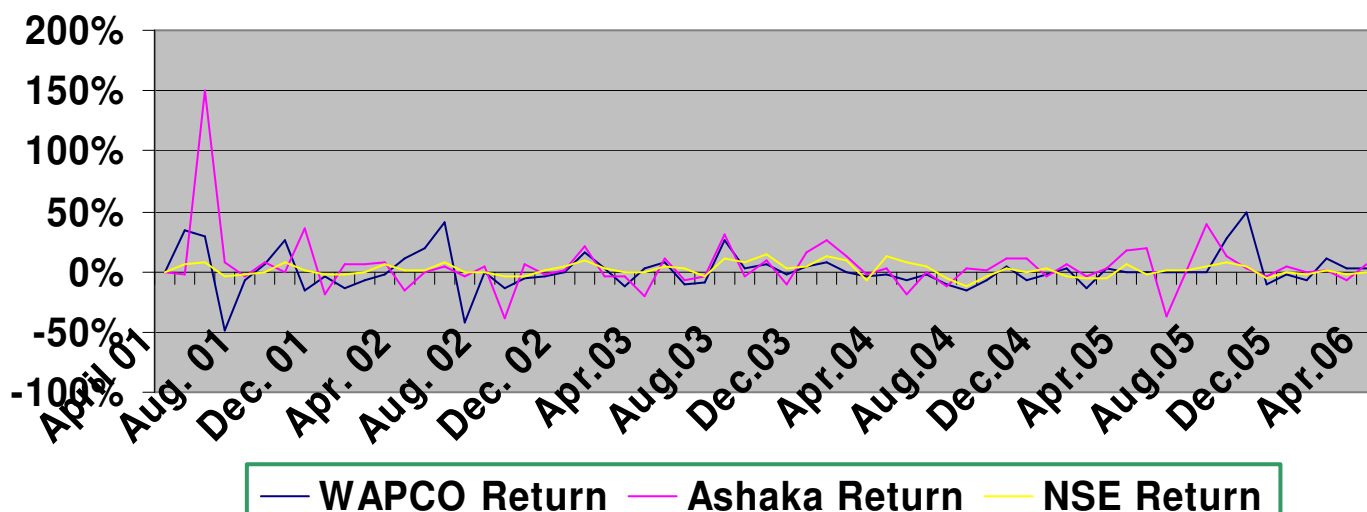
**CEMENT INDUSTRY PEER PERFORMANCE ANALYSIS**

5-YEAR MARKET TURNOVER HISTORY						
Year	2005	2004	2003	2002	2001	2000
Symbol	(N'b)	(N'b)	(N'b)	(N'b)	(N'b)	(N'b)
ASHAKACEM	15.815	12.567	10.199	8.742	8.649	7.220
WAPCO	26.626	22.096	13.730	13.263	13.410	11.994
CCNN	1.488	5.530	3.306	1.914	0.574	0.538
BCC	4.005	0.000	0.391	0.583	1.115	0.791
<b>TOTAL(N'b)</b>	<b>47.934</b>	<b>40.193</b>	<b>27.626</b>	<b>24.502</b>	<b>23.748</b>	<b>20.543</b>

5-YEAR MARKET SHARE HISTORY (BY T'OVER / SALES-VOLUME)						
Year	2005	2004	2003	2002	2001	2000
Symbol	% Share	% Share	% Share	% Share	% Share	% Share
ASHAKACEM	33.00	31.3	36.92	35.68	36.42	35.15
WAPCO	55.5	55.0	49.70	54.13	56.47	58.38
CCNN	3.1	13.8	11.97	7.81	2.42	2.62
BCC	8.4	0.0	1.42	2.38	4.70	3.85



## TECHNICAL CHART FOR COMPARATIVE RETURNS: WAPCO, ASHAKA & NSE INDEX ; 2001-2006



### WAPCO PLC: 2006 HALF-YEAR PERFORMANCE

WAPCO's half-year (Q2) result for the period ended June 2006 re-affirmed the inherent growth and earnings' potentials of the company after its restructuring exercise concluded one and a half years ago. The company's recorded an organic growth in turnover from N11.66 billion in the corresponding period 2005-Q2 to N18.64 billion in 2006 FY.

Similarly, its Profit After Tax (PAT) was overwhelming as it jerked up significantly by ~2149% from N0.23 billion reported in the corresponding period 2005-Q2 to N5.11 billion, a record that has never been surpassed by its competitor, ASHAKACEM, in the sector. This performance was undoubtedly one of the emerging multiplier effects of its 2005 restructuring exercise brought about as a relief from the burden of interest expenses on the company's term loan.

### WEST AFRICAN PORTLAND CEMENT (WAPCO) HALF-YEAR (Q2) RESULTS FOR THE PERIOD ENDED 30TH JUNE 2006

PERIOD	2006-Q2	2005-Q2	% CHANGE
Turnover(N 'b)	18.64	11.66	59.86%
PBT(N 'b)	315	192	64.06%
PAT(N 'b)	5.11	0.23	2148.90%

### TRENDS IN QUARTERLY PERFORMANCE: WAPCO, ASHAKACEM, BCC & CCNN 2006 & 2005

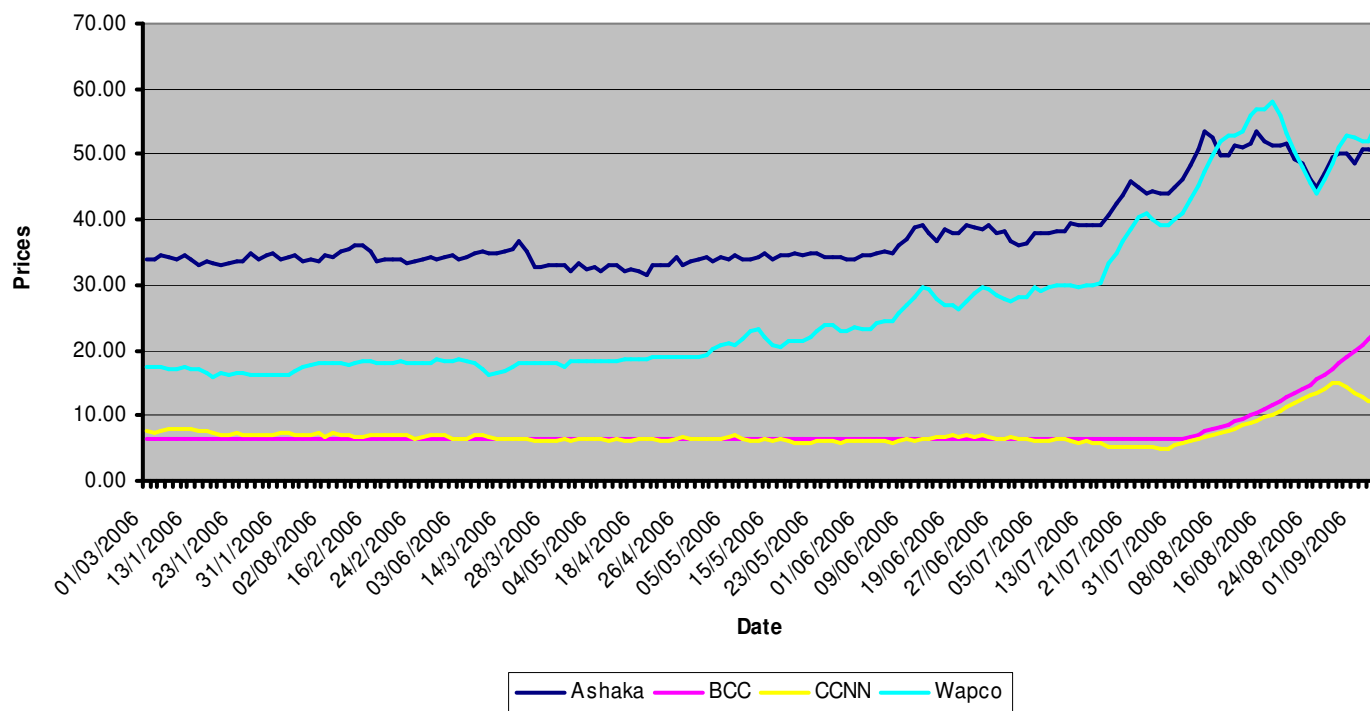
#### TURNOVER HISTORY (TURNOVER (N'BILLIONS))

Year	2006-Q2	2005-Q2	% CHANGE	2006-Q1	2005-Q1	% CHANGE
WAPCO	18.64	11.66	59.86%	8.36	5.35	56.26%
ASHAKA CEM	9	7.65	17.65%			
BCC	2.65	1.73	53.45%			
CCNN	n/a	2.94	n/a	1.488	1.615	-7.86%

#### EARNINGS HISTORY (PROFIT AFTER TAX (PAT) (N'b))

Year	2006-Q2	2005-Q2	% CHANGE	2006-Q1	2005-Q1	% CHANGE
WAPCO	5.11	0.23	2148.90%	1.96	-0.9	317.78%
ASHAKACEM	2.41	2.44	-1.23%			
BCC	2.07	0.41	410.86%			
CCNN	n/a	0.31	n/a	0.2166	0.3209	-32.50%

**Technical Chart:WAPCO, ASHAKA, CCNN & BCC Jan - Sept 2006**



**VALUATION METRICS/FUTURE OUTLOOK**

In determining the appropriate price for WAPCO PLC, we have employed three valuation metrics, viz: Discounted Cash Flow (DCF) for the intrinsic value of the stock, Price/Earning (P/E) multiples and Price/ Sales (P/S) Multiples as relative valuation methods for the market fair value.

With DCF, we arrived at a price of N63.77 for the stock while on the other hand; the P/E and P/S Multiples gave target prices of N61.24 and N16.27 respectively. This invariably revealed that WAPCO is trading at a discount of about 42% given its market price of N43.00 (as at Friday 25/08/06).

Similarly, WAPCO industry P/E ratio of 16.04 and a forecast EPS N3.57 suggests that the stock should be trading at N57.26. Meanwhile, the company's Price /Sales ratio is 5.35 while its Price/Book ratio stands at 9.92, both of which are still reasonable within the industry.

Meanwhile, we arrived at a target price of N58.25 for WAPCO having appropriately attached weights to our valuation metrics with the DCF allocated 60% (based on the inherent potentials of the company) while P/E & P/S Multiples are allocated 30% and 10% respectively.

**DATA SOURCES:** 1. The Nigerian Stock Exchange (NSE) 2. Company Financials 3. Internet Websites