



Nigeria's Cement Manufacturing Industry Report

Prepared by



May 2008

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GDP (PPP) – US\$'bn ¹	294.8
GDP – Real Growth Rate (%)	5.6
GDP Composition by Sector (%)	
Agriculture	17.6
Industry	53.1
Services	29.3
GDP Per Capita (US\$)	1,400
Population (million)	138.2
Labour Force (million)	50.13
Unemployment Rate (%)	5.8
Exports (US\$'bn)	61.81
Imports (US\$'bn)	30.35
Foreign Reserves (US\$'bn)	45
Inflation Rate (%)	10.5
Interest Rate – MPR (%)	10
Exchange Rate (US\$/N)	116
NSE Index 2007 Growth Rate (%)	74

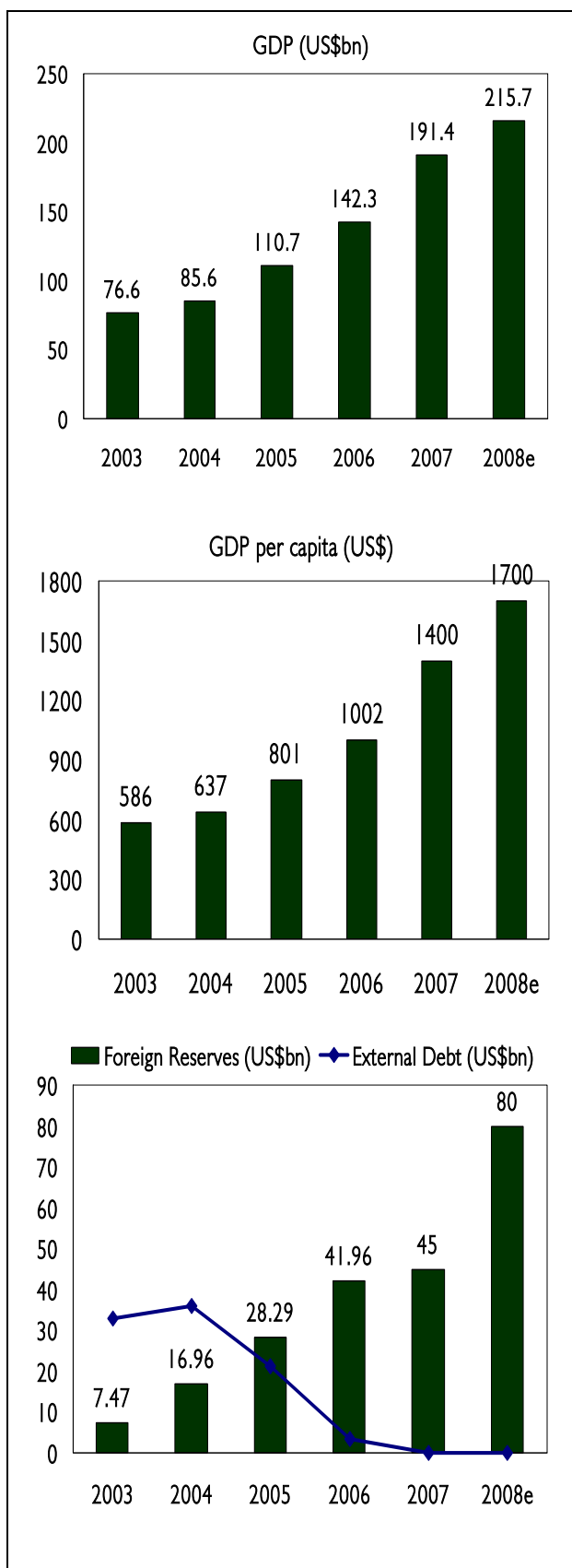
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Macroeconomic Overview

Over the last few years, the Nigerian economy has experienced a series of reforms and restructuring of its key sectors. Such reforms include the financial, petroleum, power sector among others. The financial sector reform has been the most noticeable as the banks and insurance companies have been mandated to recapitalise in line with government regulatory requirements. The telecommunications industry also experienced a major transformation when the general system for mobile telecommunications (GSM) was introduced in 2001. The deregulation of the downstream petroleum sector and privatization of many government-owned parastatals also represent some of the many structural changes that have been made in recent years.

The size of the Nigerian economy as measured by the country's GDP has increased by a compound annual growth rate (CAGR) of 20.68% (in nominal terms) between 2001 and 2006. A noticeable trend in the economy's growth pattern is the increasing contribution of the non-oil sector, particularly the agricultural and manufacturing sectors to the nation's GDP. It is expected that in the years ahead, other key sectors such as construction, consumer goods and tourism may begin to play more important roles in overall economic growth and development. As the on-going economic reforms continue to trickle down into other segments, and barring any unforeseen circumstances, we expect a much more balanced and self-sustaining economy in years to come. Sustainability of such positive change will however remain a major challenge for successive governments.

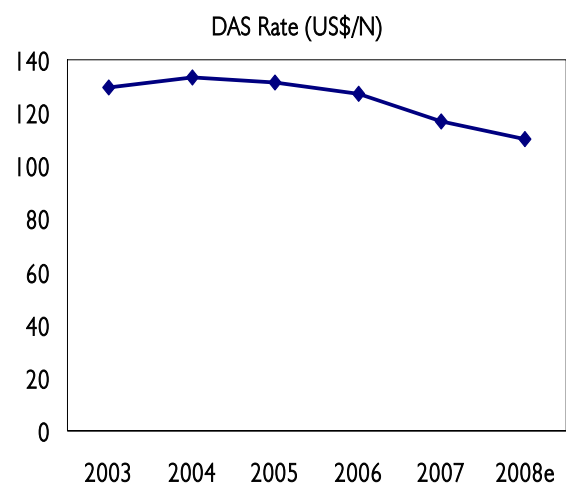
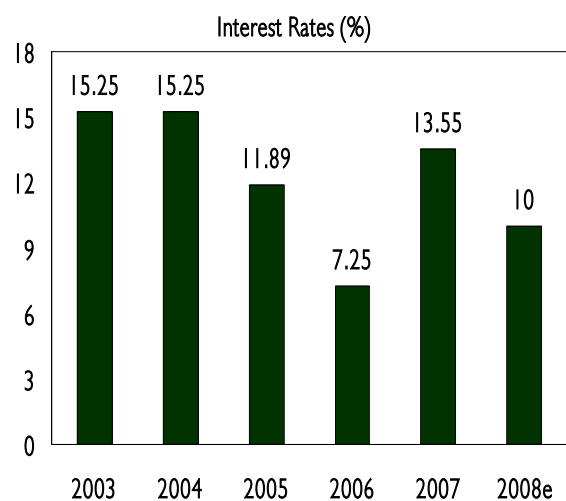
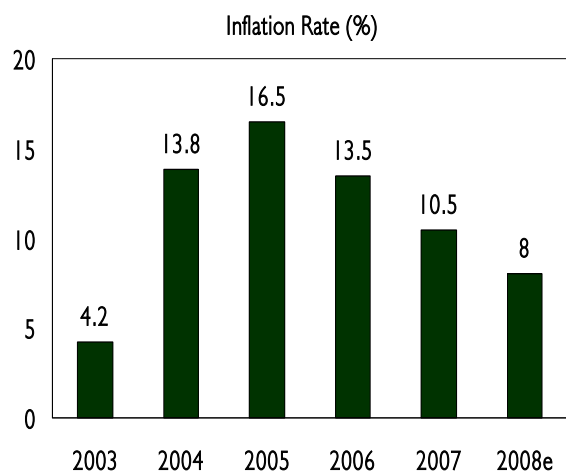
¹ All statistics are based on 2007 estimates. Source: World Factbook, CBN and LeadCapital Research



Nigeria's gross domestic products (GDP) increased steadily from 2003 to 2007 but witnessed a sharp rise in 2007. This was due largely to the benefits of the economic reform process which has led to a more balanced and sustainable income generating system. The non-oil sector has continued to grow at a much faster rate than the oil sector with the agro-allied industry employing about 70% of the labor force while contributing over 40% to GDP. This trend, coupled with our recent international ratings, as well as our favourable debt position and positive Foreign Direct Investment (FDI) has been the main catalyst for the huge rise in GDP in 2005. GDP is expected to grow at a rate of 8% and 10% for years 2008 and 2009 respectively.

Perhaps one of the biggest achievements of the previous administration was the country's foreign debt management. In 2005, the Paris Club of creditor countries agreed a debt relief package for Nigeria. About US\$18 billion of debt was written off with Nigeria buying back a chunk of the outstanding loans. The significant debt relief would ensure long term debt sustainability and represent an important contribution by Nigeria's Paris Club creditors to its economic development.

Foreign reserves have also grown phenomenally over the past 5 years from US\$7.47 billion in 2003 to US\$45 billion in 2007 (CAGR 57%). The Central Bank of Nigeria (CBN) attributes such tremendous growth to the increasing crude oil prices in the international market. Based on this trend and considering other macroeconomic factors, we forecast Nigeria's foreign reserves to attain US\$80 billion at the end of 2008.

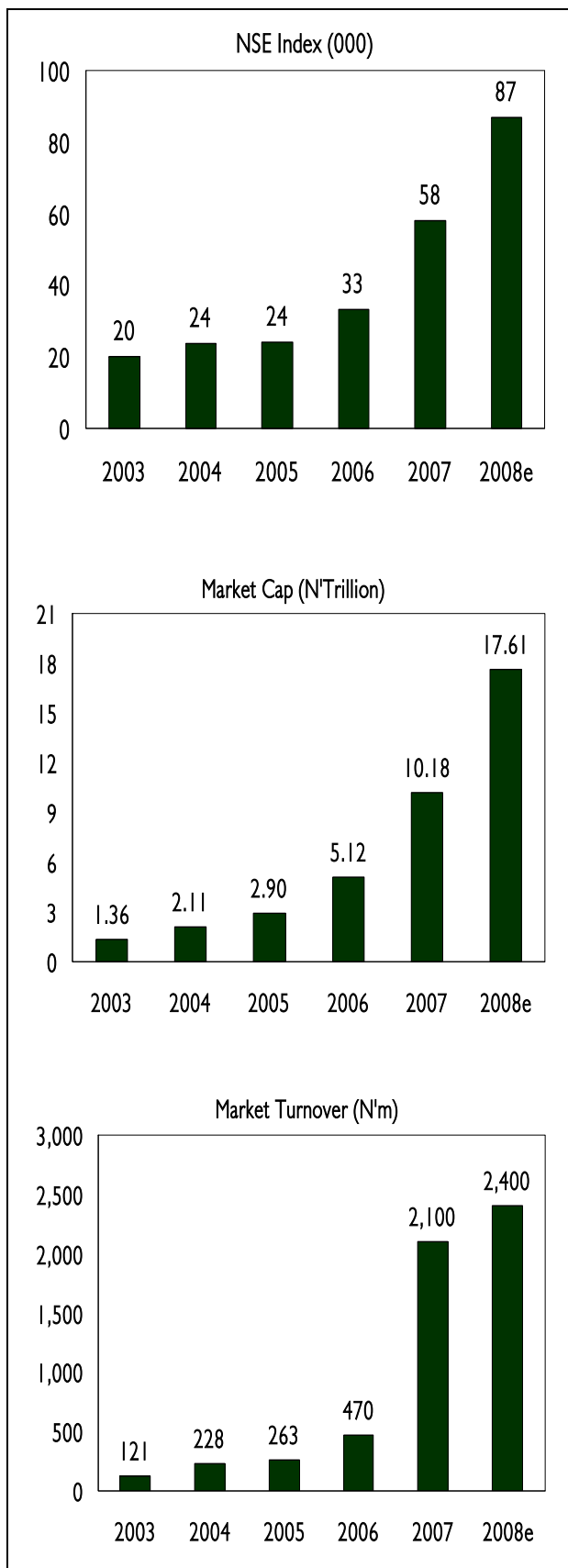


Consumer prices (year on year) declined sharply in 2005 due to the application of strict monetary and fiscal policy measures. With single digit inflation already being experienced, the economy is gradually moving towards a more stable and investor friendly position. This decline in inflation figures is further aided by the boost in agricultural production which has led to the general rise in the food supply resulting in reduced price level. Government's favorable monetary and fiscal policies have also contributed to the favourable consumer price index position. LeadCapital research believes that considering the increasing contribution of the real sector to overall GDP and with government's 7 point agenda focusing on power and infrastructural development among others, Nigeria's inflation rate can actually come down to as low as 10% at year-end 2008.

Interest rates² have been on a decline over the past 5 years. The government through the Central Bank of Nigeria (CBN) has established certain punitive measures to keep interest rates to minimal levels. The rates fell by a Compound Annual Decline Rate of 22% in between 2003 and 2006 from 15.25% to 7.25% but rose sharply in 2007 to 13.55%. As at April 28th 2008, interest rates stood at 13.65%.

Since 2004, Nigeria's exchange rates have continually appreciated against the dollar and other major world currencies. This performance can be attributed to the country's improvement in naira fundamentals through growth in export revenue driven amongst others, by rising oil prices and an increasing external reserve position.

² Measured by 90 day treasury bills



Capital Market Overview

The capital market has experienced a phenomenal growth over the past couple of years. The deluge of public offerings and rights issues have increased the overall level of activity in the market with volumes and values attaining unprecedented levels. The CBN enforced recapitalization drive (for banks) in 2005 is largely responsible for the bullish trend that has been experienced in recent times. With the Pension reforms having had its desired effect through the injection of fresh capital into the market by the PFAs, the level of capital market activities have increase tremendously.

Market capitalisation and Turnover have also received respective boosts due to the 'pseudo explosion' of the market over the past 3 years. With marginal growth in the bond market due to its relative unattractiveness, the capital market has attained unprecedented levels. The recent recapitalisation directive for market operators is expected to boost activities as stockbroking firms are expected to approach the capital market for funds to meet up with the regulatory requirements and separate the stronger firms from the weaker ones.

The country has experienced 8 years civil rule for the first time in its recent history and since post-independence period. Political power has been successfully transferred from one civilian government to another. Furthermore, the country has improved on its Fitch BB- rating (now rated BB) and received rave reviews due to its reforms and agendas. Sustainability of these initiatives will however remain a major challenge for subsequent administrations in the years to come.

Overview of the Cement Industry

Cement can be defined as a hydraulic binder, which hardens when water is added. Technically, it can be defined as a material with adhesive and cohesive properties which makes it capable of bonding mineral fragment into a compact whole. It is essentially a necessity with no close substitutes. In Nigeria, cement is used in the construction of residential and public buildings, roads, bridges and drainages as well as rehabilitation of infrastructure. It is therefore an essentially commodity and forms part of the day-to-day living of an average Nigerian. The Nigerian cement industry was one of the earliest import-substitution industries in the country.

The history of cement production in Nigeria dates back to 1957. Initially, three cement plants were commissioned by the Northern, Eastern and Mid-Western regional governments. Subsequently, other companies such as Ashaka Cement, Benue Cement Company (BCC), West African Portland Cement Company (WAPCO) and Cement Company of Northern Nigeria (CCNN) were established. Today, there are several cement manufacturing companies in Nigeria with plants located in various parts of the country. Some of the notable companies include:

- West African Portland Cement Company Plc (WAPCO)
- Ashaka Cement Company Plc
- Benue Cement Company Plc (BCC)
- Cement Company of Northern Nigeria Plc (CCNN)
- Dangote Industries Limited
- Nigerian Cement Company Limited
- Edo Cement Company Limited
- Calabar Cement Company Limited

One major characteristic of the cement industry in Nigeria is the problem of demand vs. supply inequality. Since inception, available supply has not been able to meet the ever growing demand for cement. Even in the 1980s, during the economic recession which witnessed a decline in the demand for cement, these supply gaps were still very much evident. The modest but continuous growth in the Nigerian economy is a prospect for cement plants to increase local production. However, the extent to which they can do so effectively depends on the incentives underlying government policies as they affect local production, distribution and pricing.

Due to inherent industry challenges, local production has remained at 50% of installed capacity (with a year on year growth rate of approximately 3%). The government recently announced a ban on importation of bagged cement in an attempt to enhance greater market competition, encourage new investments, and stem the continuous rise in the price of cement. Such efforts have not yielded any benefits as the price of cement has increased by over 300% since 1999 and the problem of supply insufficiency still exists.

One of the main challenges plaguing the industry includes lack of sufficient funding to carry out operations, especially on a large scale. Most of the cement manufacturers do not have the financial capacity to operate at optimal levels and hence are unable to meet up to the high demand for cement. Only the quoted companies such as WAPCO and BCC are able to raise funds from the public but such funds are often inadequate to meet the ever growing needs of their business.

The cement industry in Nigeria has experienced immense growth over the past few years. With a population of over 140 million people and a growth rate of approximately 3% per annum, the demand for and consumption of cement is expected to increase. Government however remains the largest consumer of cement in the country with an estimated 50% of total consumption. The frequency of road and bridge reconstruction as well as rehabilitation of social infrastructure emphasises government's continued patronage of the industry but also widens the demand-supply gap which currently exists.

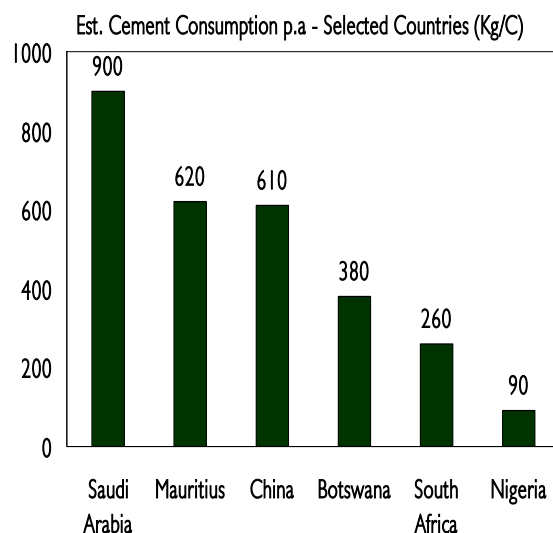
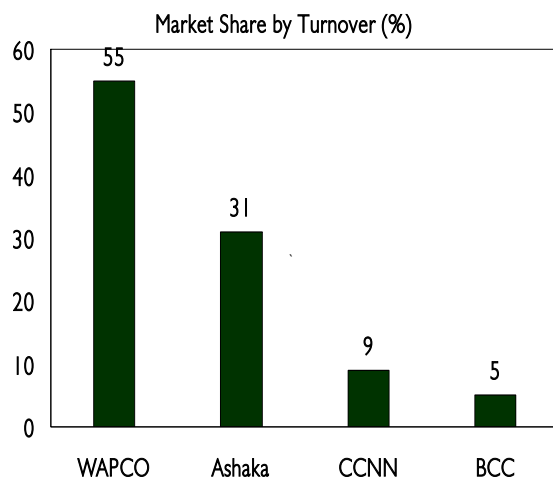
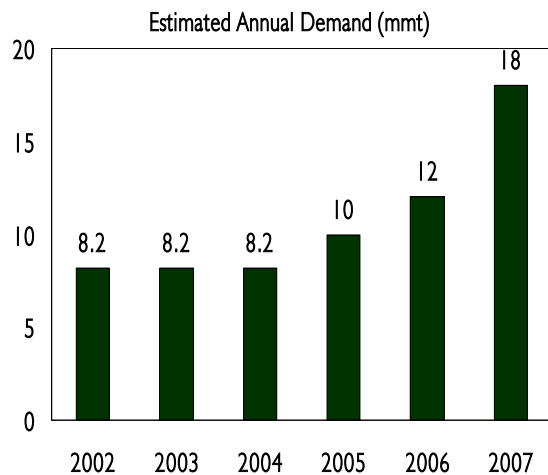
The Nigerian Cement industry has the potential to contribute to the larger economy in several ways. First, by virtue of its nature, the industry is labour intensive and is therefore a major employer of labour – both skilled and unskilled. The industry also has a significant contribution to the country's Gross Domestic Product (GDP) and is a source of Foreign Direct Investment. Through the construction, renovation and rehabilitation of major roads, bridges, networks and public infrastructure, the cement industry plays a major role in overall economic development and enhancement of social welfare.

Cement production in Nigeria is a lucrative business especially for those with the required capacity to run it. Demand for cement is literally insatiable and so wastages are minimal. Shelter is a scarce necessity and its demand in recent times has been on a steady rise especially among the young corporate class. It therefore behooves on the producers to formulate strategies aimed at meeting up to this ever increasing demand.

As at 2006, demand for cement was estimated at over 10 million metric tonnes. With a YOY growth rate of 3% per annum, this figure is expected to grow to 11 million and 13 million by end of 2010 and 2015 respectively. This high rate is fueled by factors such as increase in GDP, growing population and per capita income, mortgage sector reforms, high demand for home ownership, increasing need for infrastructural development especially within the urban areas. Such increasing demand has widened the demand-supply gap as government's efforts towards controlling the inequality have so far proved abortive.

The Federal Government recently lifted the ban on importation of bagged cement in an attempt to boost supply as it was evident that local production was not sufficient to meet up to demand. The erratic power supply among other industry challenges has stifled government's efforts in this regard. Importers still maintain a larger market share and often bring in low quality cement at exorbitant prices. The situation has therefore not changed as cement still remains very scarce and expensive. A bag of cement currently sells for N2,200 compared to N625 in 2002, representing a Compound Annual Growth Rate (CAGR) of 23%.

Due to the inherent scarcity, high cement prices continue to increase construction costs making buildings unaffordable to potential buyers. In an attempt to tackle this problem, government granted licenses to importers to buy bulk cement for bagging in Nigeria. This has still not had its desired effects. We believe that in order to boost supply of cement, certain inherent challenges within the system have to be tackled effectively.



Demand for cement has been on the rise ever since the commencement of cement production in 1957. Despite the post oil boom recession in the mid 1980s to early 1990s, supply has not been able to catch up with demand. This inequality has not been aided by the rise in per capital income during the last 5 years and increase in government's cement consumption rate due to the ever increasing level of road reconstruction and rehabilitation. From 2003 to 2007, estimated annual demand for cement has grown from 8.2 million metric tonnes to 18 million metric tonnes, representing a CAGR of 22%. This trend is expected to continue in future as the economy expands and purchasing power improves.

In terms of market share, WAPCO maintains a clear dominance. With 55% market share by turnover, its closest rival is Ashaka Cement at 31% while the combination of CCNN and BCC produces a market share of 14%. The other players in the industry are marginal players with little or no share of the market. Some of them have not even started production yet and as such do not possess any immediate threat to the major players.

Despite the increasing demand for cement over the years, Nigeria's annual cement consumption is still relatively low when compared to other select countries. The average cement consumption in the world is estimated at 273 Kg/Capita which is much higher than that of Nigeria at 90 Kg/Capita. Nigeria's cement consumption remains the lowest in Africa. Such statistic can be attributed to the high cost of cement as well as supply inadequacies caused by several industry exogenous factors such as epileptic power supply.

Characteristics of the Cement Industry

Labour Intensive

Due to the nature of the cement making process, the industry is highly labour intensive. Unlike other sectors that require minimal human inputs, cement making involves a significant amount of manual processes. The industry currently employs over 5,000 people, making it one of the largest employers of labour in Nigeria. Also, technological inadequacies make it more imperative to deploy human labour in the day-to-day running of the cement manufacturing companies.

Capital Intensive

Just like any other sector in the manufacturing industry, the cement manufacturing process is highly capital intensive. This is due to the heavy automation and machinery deployed in running the business as well as the construction of high capacity plants. The increasing demand for cement in Nigeria imposes a high degree of pressure on local manufacturers to increase their capacity and its utilisation. Such objectives can only be met if the companies have access to financial capital needed for maintenance, upgrade and expansion.

Entry Restrictions

Even though the industry is a competitive one, the existence of high initial set up costs, maintenance costs and inconsistent government policies makes it extremely difficult for aspiring manufacturers to gain entry into the market. This has further increased the dominance of some of the top companies – WAPCO, Ashaka Cement, BCC and Flour Mills as they have the financial clout required to withstand the rigours and challenges of the industry.

Product Homogeneity

One peculiar feature of the cement manufacturers is the homogeneity of its product offerings. Although there are slight variations in terms of quality and grade, cement still remains the sole product manufactured or imported and subsequently sold. The industry has no substitutes and so prices are determined largely by the forces of demand and supply. Therefore, the increasing scarcity of cement implies that prices will continually be on the rise as consumers do not have the privilege of choice between alternatives.

Government Involvement

The Federal Government has a major influence in the regulation and control of the cement manufacturing industry. Such influence ranges from control of pricing decisions, regular policy formulation and other regulatory responsibilities. The initial ban and subsequent lifting on the importation of bagged cement in an attempt to boost local production is one of several government policy efforts aimed boosting the potentials of the industry and also moderating prices.

Increasing Demand

The demand for cement globally increases with time. This is as a result of several 'demand inducing' factors such as population growth rate, increase in purchasing power and per capita income and the need for continuous government spending on road reconstruction, project management and infrastructural development. Such rate of growth varies between countries with Nigeria however having one of the fastest demand growth rates in the world. Other developing economies in Africa also experience increasing demand for cement.

Industry Challenges

High Initial Setup Costs

The costs of establishing a cement company are extremely high. This is because the machinery involved as well as the cost of installing a new plant is large and as such many aspiring cement manufacturers cannot gain entry into the industry. In addition to the high initial costs, the cost of maintaining the heavy duty equipment used for the normal day-to-day activities makes it difficult for existing players to remain profitable. This has led to the forced closure of some companies such as Eastern Bulkcem and Ibeto Group.

High Distribution Costs

Due to the nature and composition of cement which is quite heavy, the costs of distributing the product to the final consumer is relatively high. As such most manufacturing companies are located near their customers so as to reduce the burden of transporting large sacks of cement across long distances. This explains the reason why most producers are regional players who prefer to operate within a specified coverage area.

Unfavourable Government Policies

Over the years, government policy making towards the cement companies and the manufacturing sector at large has been disappointing. Policies such as the privatisation of previously government controlled cement companies which led to their collapse due to under funding, government's ban and subsequent lifting on importation of cement and the imposition of multiple taxes on producers have all had negative implications on industry growth prospects.

Insufficient Local Capacity

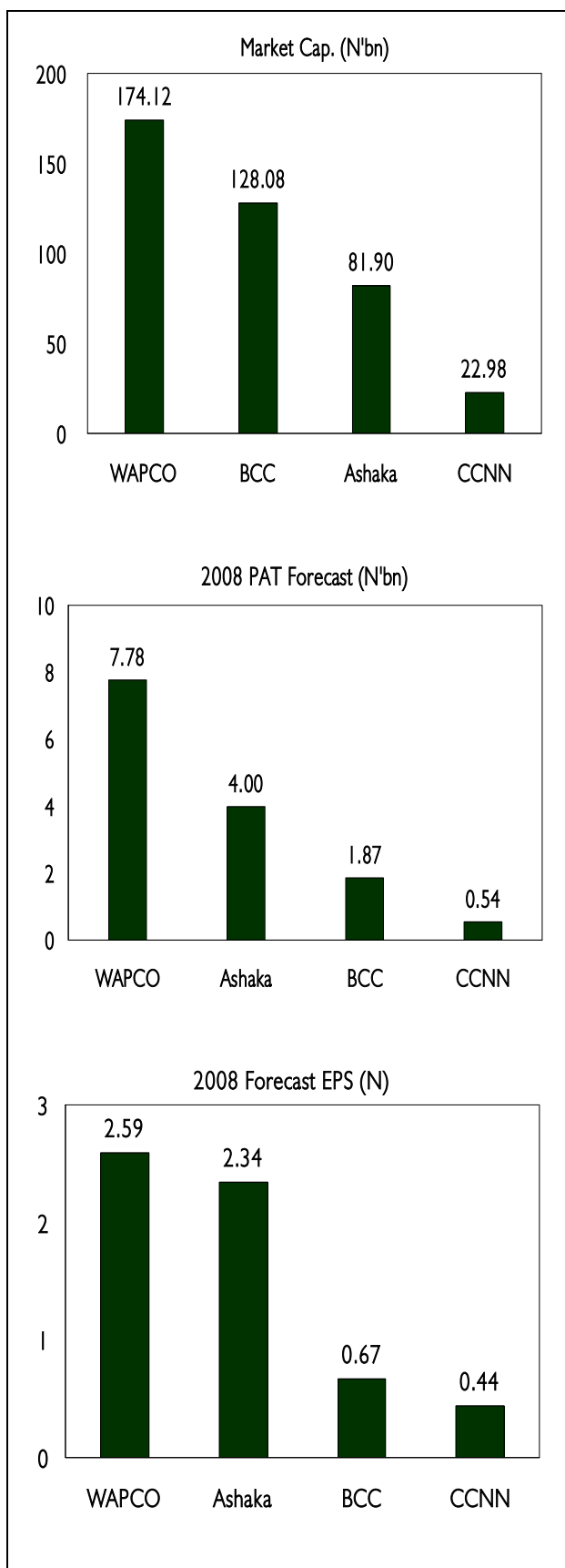
Perhaps one of the most visible challenges in the Nigerian cement industry is the lack of required resources to meet the ever increasing demand for cement. Cement consumption though still relatively low, has increased phenomenally over the last few years with local supply not being able to meet up. Government in its attempt to boost local production placed a ban on importation of cement in 2001 but later in 2007 lifted the ban due to the inability to meet its objective. We believe that if the underlying fundamentals of these companies are strengthened, such inequalities will gradually cease to exist.

Erratic Power Supply

One major challenge facing manufacturing companies generally is the issue of unstable supply of power. Being a capital intensive sector which to a large extent relies on the use of heavy duty automated machinery, constant electricity remains a critical success factor. However, due to the inconsistency and/or unavailability of the state generated power supply, companies are forced to rely on alternative sources of power generation which invariably imposes high overhead costs and reduces margins.

Technological Inadequacies

In more advanced countries, cement production is done based on highly effective and efficient automated machinery and equipment which ensures that the best quality cement is produced within the shortest time. In Nigeria, the available infrastructure and technology is not sufficient to produce at optimal levels and as such capacity utilisation will continue to remain low.



Industry Comparables

WAPCO is the industry leader by market capitalisation. It is currently the highest priced stock and has the largest number of shares outstanding. Despite Ashaka Cement's larger market share, Benue Cement Company (BCC) follows behind WAPCO with a capitalisation of N128 billion. This is due to its superior shares outstanding of 2.8 billion ordinary shares. Cement Company of Northern Nigeria (CCNN) trails its peers with just under N23 billion in market capitalisation. The cement industry capitalisation has not grown considerably over the years (especially when compared with the banks and insurance companies) due to its relative capital market underperformance in recent times.

WAPCO also leads the market by earnings as our 1 year forward PAT (based on extrapolations from its interims) stands at N7.78 billion which is almost double that of its closest competitor – Ashaka at N4 billion. BCC's 2008 forecast PAT is N1.87 billion while that of CCNN is N540 million. This scenario bears some similarity to the variation in market share by turnover and volume.

2008 forecast EPS for the industry also depicts market leadership by WAPCO and Ashaka. However, due to WAPCO's superior shares outstanding, Ashaka reduces the gap considerably. BCC trails behind the top two due to its rather excessive paid up share capital of 2.78 billion shares. The company has therefore not been able to justify such huge shares outstanding as its recent decline in PAT from N3.1 billion to N1.2 billion has worsened its earnings valuation considerably.

Lafarge WAPCO Nigeria

Current Price (N)	57.50
Shares Outstanding (billion)	3
Market Capitalisation (N'bn)	172.59
Trailing PAT (N'bn)	11.4
Trailing EPS (N)	3.82
Trailing P/E ratio (x)	15.03
Expected PAT (N'bn)	7.78
Forecast P/E ratio (x)	22.17
Forecast Earnings Yield (%)	4.5
Forecast Dividend Yield (%)	2.3
6 Month Target Price (N)	60
12 Month Target Price (N)	75

Recommendation

Short Term
Long Term

HOLD
BUY

Analyst

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Company Profile

West African Portland Cement Plc ('WAPCO' or 'the company') was first established in 1959 with its factory in Ewekoro, Ogun state in 1960. The company commenced production with an initial capacity of 200,000 tonnes per annum but later grew this capacity to 1.5 million metric tonnes per annum. However, in the late 1990s, the company began to witness reduced output due to obsolete technology and an outdated production process. In August 2003, it therefore commissioned a new ultra modern state-of-the-art plant in Ewekoro. The plant has a capacity of 1.3 million metric tonnes per annum and has continued to produce at optimal levels since it began operations.

As a result of takeover by Blue Circle Industries Plc UK, Lafarge SA of France became the majority shareholder in WAPCO. Continued interest of Lafarge in the affairs of its subsidiary company led to the announcement of a change of name from "WAPCO" to "Lafarge Cement WAPCO Nigeria Plc". LeadCapital Research believes that the company will leverage on the strong reputation built by its parent company as the leading cement manufacturer in the world.

WAPCO was listed on the stock exchange in 1979 and today has a market capitalisation of N172 billion. The company is the largest in its sector by market cap. and market share (by local production and turnover). WAPCO is also the industry leader by earnings and with the level of production currently being attained by its Ewekoro plant, we expect its current a further consolidation of its current industry dominance.

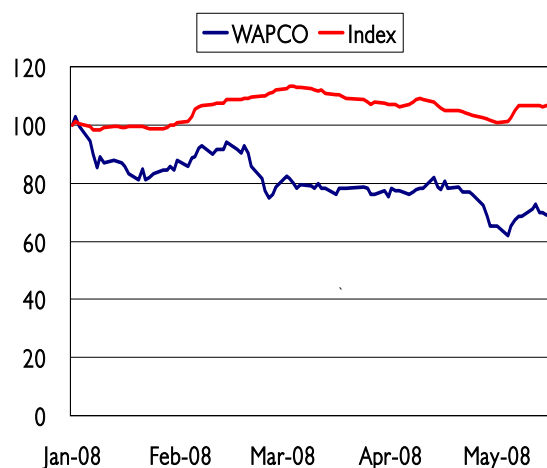
WAPCO has been actively traded since its public listing nearly two decades ago. The company has consistently won the NIS ISO certificate for product quality by the Standards Organisation of Nigeria (SON). Particularly, the company won the following awards:

- NIS ISO 9001 Certification
- NIS ISO 14001 Certification
- SON ISO Gold Award 2005
- Quoted company of the year award (2005)

WAPCO intends to continue to take advantage of emerging opportunities in the cement industry by optimizing output production in its Ewekoro and Sagamu branches. Based in its relatively larger capacity, the company would undergo a gradual plan aimed at 'tightening' the gap between demand and supply. In an attempt to attain this objective, WAPCO recently announced its intention to raise extra funds through equity and/or debt injection which would be used to fund capacity expansion and utilisation.

Going forward, the company seems well positioned to increase its frontiers beyond the current level and compete effectively with its international contemporaries. Major challenges include its possible inability to operate due to unfavourable government policies and continuous multiple tax impositions which reduce earnings. Also, the lifting of the ban on cement importation would create fresh competition from importers thereby serving as a possible threat to overall market share growth. Lafarge however has the required resources to manage such challenges.

Investment Strategy



WAPCO has below average history of dividend payment having declared cash dividends 4 times in the last 10 years. The company declared a bonus issue of 1 for 1 in 2000 and 1 for 2 in 2001 but has failed to issue any bonuses since then. This has at various times elicited negative market reaction from investors leading to successive declines in its share price after their full year results have been announced.

Despite its rather unimpressive dividend policies, based on its earnings capacity, WAPCO remains one of the cheapest stocks in its sector. Its 1 year forward PE ratio stands at 20.48x, below the industry average of 38.46x. In terms of its Price to Book, the stock is trading at 9.9x – also comparing favourably with industry average of 11.3x. The stock has however not shown an ability to record decent price appreciation in the short term with its share price losing by 32% year to date and 17% over the last 12 months. We therefore place a **HOLD** recommendation on the stock for short term investors and a **BUY** for investors with long term horizons.

Ashaka Cement

Current Price (N)	48.00
Shares Outstanding (billion)	1.70
Market Capitalisation (N'bn)	81.90
Trailing PAT (N'bn)	2.76
Trailing EPS (N)	1.62
Trailing P/E ratio (x)	29.60
Expected PAT (N'bn)	4
Forecast P/E ratio (x)	20.48
Forecast Earnings Yield (%)	4.9
Forecast Dividend Yield (%)	4.6
6 Month Target Price (N)	50
12 Month Target Price (N)	57

Recommendation

Short Term	HOLD
Long Term	BUY

Analyst

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Company Profile

Ashaka Cement ('Ashaka' or 'the company') was incorporated in 1974 and listed on the floor of the Nigerian Stock Exchange (NSE) in 1990. The company is primarily into the manufacture and marketing of cement. Located in Gombe state, Ashaka Cement has built a reputation as the market leader in the northern region of Nigeria. The company is one of the major subsidiaries of global cement giant – Lafarge.

Ashaka Cement is the largest cement producer in Northern Nigeria and has been operating since 1979. The company has the capacity to produce up to 850, 000 tons of cement a year. The only company in Nigeria with a larger capacity is Lafarge Cement WAPCO Nigeria (WAPCO) which is the overall industry leader.

In its bid to diversify its income base, Ashaka recently invested N5 billion in a coal fuel project. Currently, coal serves as an important raw material for tyre and battery manufacture as well as for fuel wood in domestic cooking. Ashaka in addition to receiving revenue through sale to end users, intends to use the coal it produces as an energy source for cement manufacture.

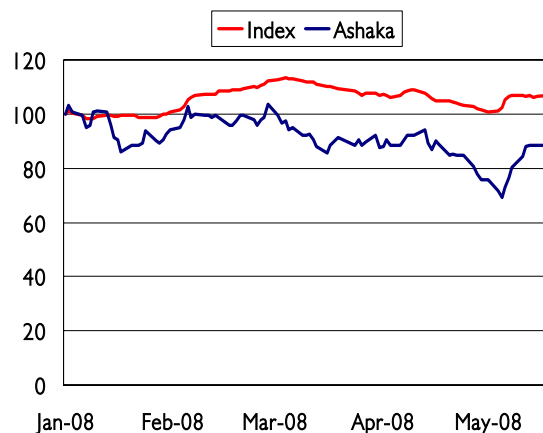
The company's major strategy is to control the region in which it operates. Ashaka is the leader in the north and has grown to become a household name since it began operations. Just like its major competitor – WAPCO, Ashaka can also leverage on the financial strength, and resources of its parent company - Lafarge in growing its core business and establishing itself as one of the major players in the African cement market.

Ashaka Cement is one of the most socially responsible cement companies operating in Nigeria. As part of its social responsibility, the company has built and furnished several blocks of classrooms in various communities and awarded scholarships consistently on an annual basis. Ashaka has also built health centers, provided clean drinking water, access to electricity and constructed roads, all within its geographical location. Recently, the company donated 300 bags of fertilizer and 15 water pumping machines to some farmers' associations to boost their sales. All these efforts testify to their drive towards improving the standard of living of people by providing support in various forms.

Ashaka carries with it a reputation of being a dominant regional player with huge prospects for expansion into other 'untapped' regions. The company looks set to grow its core business in response to the possible threat to its market share by Cement Company of Northern Nigeria (CCNN), Dangote Industries and Benue Cement Company (BCC). Major challenges will include industry wide restrictions such as erratic power supply and infrastructural inadequacies as well as its ability to expand and diversify its business at the pace required of it.

The company's major strengths include its niche playing, significant market share, affiliation with world renowned Lafarge group and nearly 3 decades of experience in cement manufacturing and marketing. Ashaka is also endowed with a competent and experienced management team led by its Chief Executive Officer – Engineer Muhammed Daggash. The future therefore seems bright for one of Nigeria's leading cement companies.

Investment Strategy



A historical overview of Ashaka Cement's price performance reveals that YTD the NSE all share index has outperformed the company. Ashaka recorded a decline in performance by 15% as against a 5.89% rise in the index during the same period. This trend is however due to bearish market sentiments regarding cement companies in 2008. Year 2007 to date, the company's price has also depreciated by 18%.

Ashaka Cement has consistently paid cash dividends yearly for the past 15 years. The company also has a history of scrip issues having declared four issues over the same period including a '2 for 3' in 2004. Its dividend yield of 4.6% is clearly the highest in the industry. Based on the company's 'not so impressive' price performance in recent times, we advise short term investors to **HOLD** perhaps until the release of their full year results which should contain attractive corporate actions. We however advise a **BUY** for investors with long term horizons as we believe that the company's strong fundamentals are capable of sustaining positive returns in the future.

Benue Cement Company

Current Price (N)	48.60
Shares Outstanding (billion)	1.29
Market Capitalisation (N'bn)	75.90
Trailing PAT (N'bn)	1.87
Trailing EPS (N)	0.94
Trailing P/E ratio (x)	51.95
Expected PAT (N'bn)	1.87
Forecast P/E ratio (x)	72.17
Forecast Earnings Yield (%)	1.4
Forecast Dividend Yield (%)	1.1
6 Month Target Price (N)	52
12 Month Target Price (N)	68

Recommendation

Short Term
Long Term

HOLD
BUY

Analyst

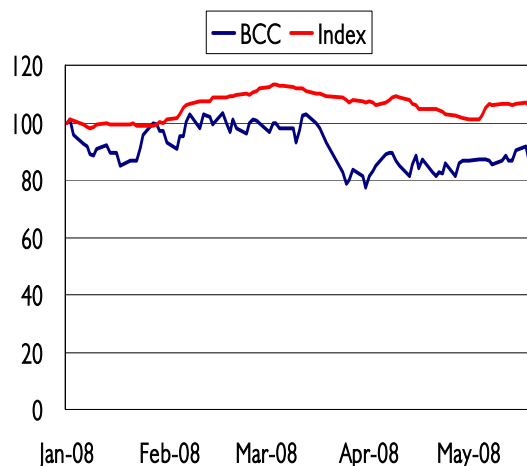
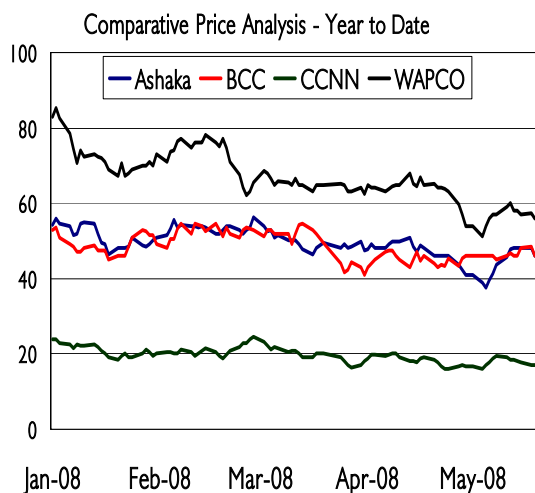
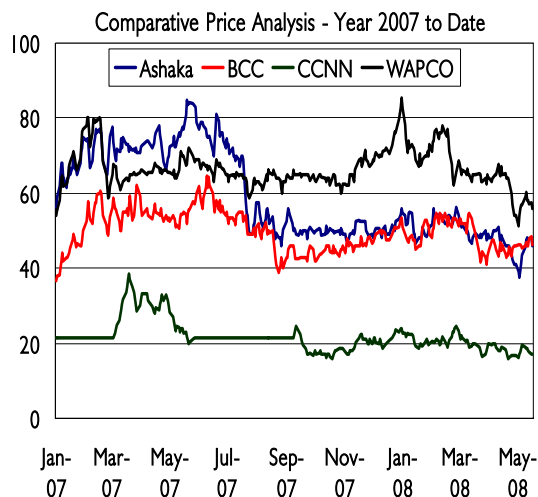
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Company Profile

Benue Cement Company ('BCC' or 'the company') was incorporated in 1975 as a state owned cement company – with majority shareholding belonging to the Benue state government. The company was subsequently listed on the floor of the Nigerian Stock Exchange (NSE) in 1991. BCC is capitalised to the tune of N75.9 billion and its shares outstanding is in excess of 1.2 billion shares. The company is currently located in Gboko, Benue state and has a significant market control within that region.

BCC is primarily involved in the manufacture and sale of ordinary portland cement. In 2006, the company was taken over by industrialist and entrepreneur – Alhaji Aliko Dangote and has since seen an aggressive restructuring and repositioning strategy launch BCC into national reckoning. Since the takeover, the company has grown from relative obscurity to a company with a small but growing share of the cement market.

The current productive capacity of BCC is about 400,000 tonnes per annum. The company has however concluded plans to install fully automated electronic production lines. This should increase their capacity to 3 million tonnes per annum by the end of 2008 (leading to a total revenue of N60 billion). Considering the existing gap in the cement market, such boost in production will be met with a ready market for it and as such sales will be made at optimal levels. With the new management of BCC promising to supply cement at reduced prices, the company is in pole position to take advantages of the immense opportunities in the cement industry.



Investment Strategy

Over the past 18 months, Benue Cement Company has recorded the most impressive performance in terms of price appreciation. The company appreciated by 26.5% from N36.50 to N46.20 while that of its peers – Ashaka Cement and CCNN experienced declines in price of 18%, 21% WAPCO could only appreciate marginally by 3% during the same period. This is evidence of the fact that the stock has the ability to record impressive returns to loyal shareholders.

The general bearish sentiments in the market this year has had its impact on the performance of cement companies. All the companies within the sector have recorded price losses during the period from January 2008 to date. Such bearish trends in the market could have presented attractive entry points for investors. The company has however not been able to keep up to pace with the index, recording a decline in performance as against a marginal rise in the index over the last 5 months.

BCC does not have an impressive dividend history. The company has not paid any cash dividends since 1996 and declared a scrip issue of 1 for 8 in 2006, albeit the first issue since 1997. Using various methods of valuation such as comparable earnings and net assets, we arrive at a fair value of N29.10 for the stock, suggesting that it is currently overvalued by 67%. However, considering factors such as historic price performances and the current capacity expansion, we have a compelling reason to believe that the company will improve its future performances. We therefore recommended a **HOLD/BUY** for short and medium term oriented investors.

Cement Company of Northern Nig.

Current Price (N)	17.00
Shares Outstanding (bn)	1.2
Market Capitalisation (N'bn)	24.85
Trailing PAT (N'm)	(34)
Trailing EPS (N)	(0.03)
Trailing P/E ratio (x)	N/A
Expected PAT (N'm)	541
Forecast P/E ratio (x)	39
Forecast Earnings Yield (%)	2.6
Forecast Dividend Yield (%)	1.3
6 Month Target Price (N)	22
12 Month Target Price (N)	25

Recommendation

Short Term	BUY
Long Term	HOLD

Analyst

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Company Profile

Cement Company of Northern Nigeria ('CCNN' or 'the company'), one of Nigeria's oldest cement companies was established in 1962. The company was listed on the floor of the NSE and was subsequently privatised by the Federal Government in 2000. HeidelbergCement thereafter acquired majority shares of the company and has become the majority shareholder since then. The company which is based in Sokoto, Sokoto state is in the business of manufacturing and marketing of 'SokotoCement'. Its distribution network covers the North-Western region of Nigeria.

Since the takeover by HeidelbergCement, the company has seen its revenues increase considerably. Productive capacity and market share have also improved by a significant proportion. The company with branches located in Gusau, Kebbi and Kano with Ashaka Cement being its major competitor.

Investment Strategy

CCNN recently posted its 1st quarter results for the period ended March 2008 with an impressive N680% increase in its PAT from N18.27 million to N135.32 million. The company is coming from a loss position of N34 million in the previous year to a profit, perhaps indicating some form of turnaround. Our 1 year forward PAT stands at N541 million, leading to a forecast PE ratio of 39x, slightly above the industry average of 37x. However, based on its low absolute price (6% deviance from its YTD low) we recommend a **BUY** for short term investors. Investors with long term horizons are advised to **HOLD** until the company is able to show a sustainability of the recent turnaround.

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