Dangote Cement Plc (DANGCEM)

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United Capital
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Equity Research | Earnings Update

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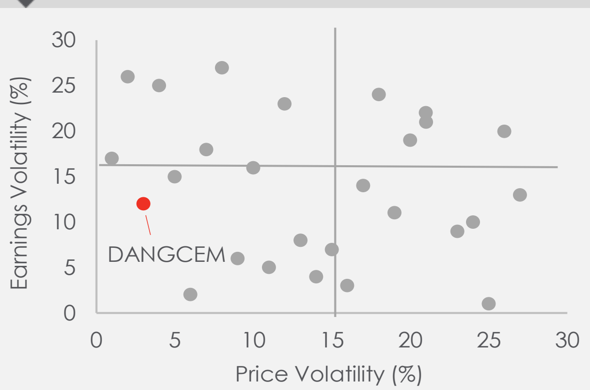
Risk Rating: Low

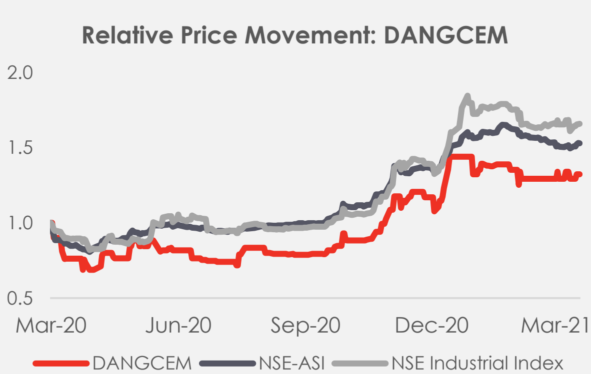


Note: Refer to appendix for complete description of risk rating

Key Data

Last Price (₦)	225.0
Last Price ($)	0.6
52 week High/Low (₦)	245.0/ 116.8
1M Price Change (%)	2.3
3M Price Change (%)	-8.2
6M Price Change (%)	61.9
YTD Change (%)	-8.1
Beta	1.2
Market Capitalization (₦'trn)	3.8
Market Capitalization ($'mn)	9,415.0
Shares Outstanding. (Units'bn)	17.0
Float (%)	14.7
Dividend Yield (%)	7.1

Price Performance Chart



Sources: Bloomberg, United Capital Research

Stock Rating	Target Price	Expected Return
BUY	**N253.7**	**12.8%**

Dangote Cement Plc ("DANGCEM", "The Company") reported FY-2020 results on 23rd March. Despite the pandemic-induced disruption to its activities, Group Revenue increased 16.0% y/y to N1.03trn, driven by strong growth in sales volume (+8.6% to 25.7Mt), particularly in Nigeria. The company also weathered the storm of cost pressures, aided by price increments, with Cost of Sales increasing 15.3%, slower than revenue growth. Overall, increased sales, efficient cost management and significant moderation in finance costs resulted in a strong bottom-line performance, with Profit Before Tax (PBT) and Profit After Tax (PAT) increasing by 49.0% and 37.7%, respectively. We update our forecasts and valuation in response to the new data and changing market dynamics.

Resilient local demand boosts top-line

DANGCEM defied the COVID-19 pandemic by printing impressive topline growth in FY-2020, despite economic restrictions in Nigeria and its markets across Africa. The company reported a 16.0% uptick in Revenue to N1,034.2bn from N891.7bn in FY-2019. This increase was driven by a robust expansion in Nigerian sales volumes (up 12.9% y/y to 15.9Mt) and surprising resilience in its Pan African operations (up 4.4% y/y to 10.0Mt). The company's fortunes were boosted by a V-shaped recovery in cement demand through H2-2020, a result of pent -up demand from Q2-2020, when construction activity was restricted due to pandemic-induced total lockdowns. Furthermore, in Nigeria, volume growth (+14.3%) more than compensated for a drop in export volumes (-27.3%), which was subdued by pandemic-related pan-African trade restrictions and the land border closure in Nigeria.

On further analysis, the company saw increased price realization (average selling price per tonne) due to inflationary pressures, which persisted through the fiscal year, and the impact of exchange rate devaluation on costs. For context, Revenue per tonne in Nigeria increased by 4.5% to N45,165.0 in FY-2020. The company also kicked off clinker exports with about 197kt exported from Nigeria through the

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year. As seen in Nigeria, the Pan African business saw improved sales volume growth, particularly following the lockdowns, with FY-2020 sales rising 12.7% y/y to N318.7bn, supported by strong performance in Cameroon, Congo, Ethiopia and Senegal.

Operational efficiency drives margin expansion

At the cost level, Cost of Sales rose significantly (+15.3% y/y to N468.4bn), albeit outpaced by Revenue growth (+16.0% y/y). Consequently, Gross Margin expanded by 27bps to 57.7% from 57.4%. The increase in Cost of Sales was mainly driven by an increase in energy costs from N122.8bn in FY-2019 to N146.3bn in FY-2020, an expected manifestation of the Naira's devaluation. Notably, the cost of material consumed increased by 15.1% y/y to settle at N134.9bn amid inflationary and FX pressures.

Operating expenses declined marginally by 0.2% y/y to N214.2bn in FY-2020 from N214.8bn in FY-2019, reflecting successful cost curtailment in the face of pandemic-related constraints. Specifically, lower haulage expenses (-7.7% y/y) led to a moderation in Selling and Distribution expenses (down 4.2% y/y) and counteracted the surge in Administrative expenses (11.5%). As a result, the group's EBITDA increased by 20.9% to N478.1bn on the back of a 16.7% y/y increase in Nigerian business EBITDA to N421.4bn (58.5% EBITDA margin) and a 49.0% y/y surge in Pan Africa EBITDA to N71.3bn (22.4% EBITDA margin). Notably, the surge in Pan Africa EBITDA is traceable to increased volumes in Cameroon, Congo, and Ethiopia, as well as higher pricing in Zambia and increased use of local coal and alternative fuels in Ethiopia. As such, group EBITDA margin expanded to 46.2% y/y from 44.3% in 2019.

...cost of sales rose significantly, albeit outpaced by revenue

Despite an increase in financial liabilities, the company saw a 23.7% reduction in Finance Costs, on the back of the low interest rate environment. FX gains also drove increased finance income (+291.8% y/y), against FX losses recorded in FY-2019. Notably, we observed an 863bps increase in the effective tax rate, which management explained was due to manufacturing lines exiting Pioneer status in February 2020 and thus being unable to take advantage of tax credits for the remainder of the year. Overall, Profit Before Tax (PBT) and Profit After Tax (PAT) increased by 49.0% y/y and 37.7% y/y, respectively. Our three-step Du-Pont analysis of the firm's Return on Equity (ROE) showed that despite a marginal moderation in Asset Turnover (0.50x in FY-20 from 0.51x in FY-19), a surge in Net Margin (from 22.5% to 36.1%) and increased leverage (2.3x in FY-20 vs 1.9x in FY-19) boosted ROE. In line with the huge bottom-line growth, the board of directors have proposed a dividend of N16.0/share, same as the preceding years' payout.

N100bn corporate bond issue drives leverage ratio to 2.3x

DANGCEM's debt portfolio continues to grow as the company looks to expand across its markets and boost its export capabilities. Debt/Equity and Leverage ratio increased to 1.3x (vs a 5-year average of 0.9x) and 2.3x (vs. 1.9x 5-year average), respectively, majorly

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driven by aggressive growth in financial liabilities. The rise in leverage is primarily attributable to the N100.0bn bond issued in April 2020, the proceeds of which are being used to fund capital expenditures related to the Company's 3Mt plants in Okpella and Obajana (completed), as well as working capital and debt refinancing needs. However, the company's interest coverage is very robust, at 8.8x, above the 5-year average of 5.6x.

Outlook: Topline line growth to moderate owing to high base

Our outlook on DANGCEM for FY-2021 is positive as we expect Nigeria's economic recovery to continue to support local demand for cement and buoy continued group revenue growth. Our expectation is also predicated on recovery in exports – given 2020's relatively low export base (due to the land border closure), the new Apapa and Onne sea export terminals and the additional 3Mt Obajana capacity. However, we do not expect any significant growth in local Real Estate demand, as interest rates rise towards pre-pandemic peaks, even as public infrastructure investment recovers. Accordingly, we expect revenue growth for the Nigerian segment to moderate to 14.4% (from 18.0%) to N801.2bn, owing to the high base of 2020 volumes. For its Pan Africa business, we see the expected SSA-wide post-pandemic recovery sustaining volume growth, forecasted at 5.0% y/y (vs. 4.4% in 2020), as more volumes are sold in Congo, Tanzania, Ethiopia and South Africa. Overall, we project a 13.0% y/y increase in Group revenue to N1,168.3bn.

We anticipate comparable cost burdens over the course of the year as inflation persists even as the FX situation improves. We also think the effectiveness of the 'Bag of Goodies' promo's relaunch in July would inspire additional marketing spend. Thus, we forecast a 12.9% y/y EBITDA growth to N537.5b, implying an EBITDA margin moderation of 22bps to 45.01%. Finally, we expect higher financing costs as a result of higher rates amid the company's expanded debt portfolio and the company's increased participation in the debt markets (in view of the company's N300.0bn bond program). We foresee this, along with the absence of pioneer tax credits, having an impact on bottom-line growth. These factors bring our forecast PBT and PAT to N407.1bn (+9.1%) and N305.4bn (+10.6%).

BUY rating maintained with downgraded Target Price

Following the completion of the first tranche of its share buyback program, the company's management noted that the SEC buyback authorization had expired but reiterated the company's intent to repurchase 10% of its total outstanding shares, with the program's success contingent on stock market turnout and the company's liquidity. Accordingly, while we do not rule out another buyback, we doubt the possibility of another one this year. **Based on the foregoing, and adjusting our valuation assumptions for a higher risk-free rate and country risk premium, we have revised our price target on the ticker slightly lower to N253.7 from N261.5, which still translates to a BUY rating (12.8% upside) based on its current market price.**

... we review our year-end target price downward to N253.7/ share

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Financial Highlights (N'Mn)

Financial Highlights (N'mn)			
Headlines	**FY-2020**	**FY-2019**	**Change**
Revenue	**1,034,196**	**891,671**	16.0%
Cost of sales	-437,970	-379,989	15.3%
Gross profit	596,226	511,682	16.5%
Other Income	4,754	2,980	59.5%
Operating expenses	-214,246	-214,769	-0.2%
Impairement Writeback/(Charge)	-188	190	-198.9%
Finance Income	29,814	7,610	291.8%
Finance Cost	**-43,988**	**-57,673**	-23.7%
Profit/Loss Before Tax	373,310	250,479	49.0%
Taxation	**-97,242**	**-49,958**	94.6%
Profit/Loss After Tax	**276,068**	**200,521**	37.7%
	FY-2020	**FY-2019**	
Cash and bank balances	145,835	123,903	17.7%
Trade & Other Receivables	35,194	31,093	13.2%
Trade & Other Payables	349,388	285,831	22.2%
Total Borrowings	503,764	376,766	33.7%
Total Debt	1,131,481	844,506	34.0%
Net Debt	357,929	252,863	41.6%
Net Assets	**890,970**	**897,937**	-0.8%
Total Assets	**2,022,451**	**1,742,443**	**16.1%**
Gross Margin	57.7%	57.4%	**0.3%**
Net Margin	26.7%	22.5%	**4.2%**
Cost to Sales	42.3%	42.6%	**-0.3%**
Leverage Ratio (Total Debt/Equity)	127.0%	94.0%	**32.9%**
Net Debt/Equity Ratio	40.2%	28.2%	**12.0%**
Price (N)	225.0		
Trailing 12M EPS (N)	16.2		
BVPS (N)	52.4		
Trailing P/E (x)	13.9		
P/BV(x)	4.3		
Trailing 12M ROAE	30.9%		
Proposed Final Dividend	16.0		
Dividend Yield	7.1%		
Qualification Date	27-Apr-21		
Closure Date	28-Apr-21		
Payment Date	27-May-21		

Sources: Company Financials, United Capital Research

Disclosure Appendix

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United Capital Research adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell. These generic ratings are defined below;

Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.
Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).
Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.
NR*: Please note that in addition to our three rating heads, we indicate stocks that we do not rate with NR; meaning Not-Rated. We may not rate a stock due to investment banking relationships, other sources of conflict of interests and other reasons which may from time to time prevent us from issuing a rating on the shares (or other instruments) of a company.

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Company	Disclosure
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Fidelity Bank Plc	h
Flour Mills of Nigeria Plc	h
Forte Oil Plc	g
International Breweries Plc	a,h
Nigerian Breweries Plc	h
PZ Nigeria Plc	h
Stanbic IBTC Plc	g
Total Nigeria Plc	h
UAC of Nigeria Plc	h
Zenith Nigeria Plc	a

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