Dangote Cement Plc (DANGCEM)

Sustained demand underpins robust growth

United Capital
The Intelligent Choice

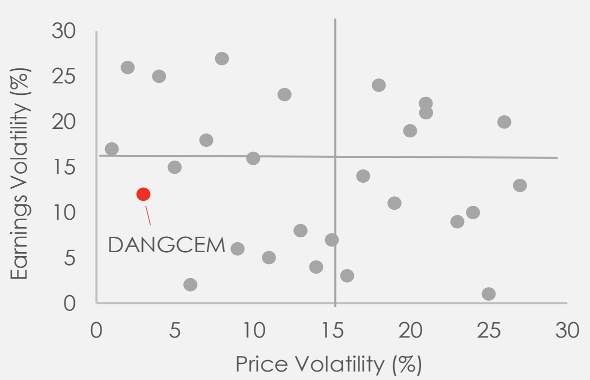
Equity Research | Earnings Update

12th August, 2021

Research Analyst:
Ayooluwa Aseweje
+234-(0)813-767-0892
Ayooluwa.aseweje@unitedcapitalplcgroup.com

Stock Rating	Target Price	Expected Return
HOLD	**N270.3**	**11.9%**

Risk Rating: Low

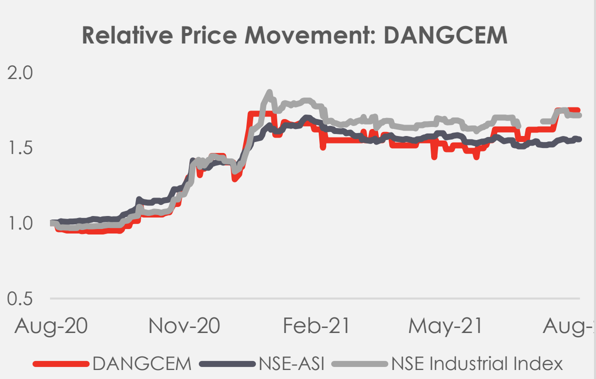


Note: Refer to appendix for complete description of risk rating

Key Data

Last Price (₦)	241.6
Last Price ($)	0.6
52 week High/Low (₦)	253.4/ 132.5
1M Price Change (%)	7.9
3M Price Change (%)	14.3
6M Price Change (%)	7.9
YTD Change (%)	1.3
Beta	1.2
Market Capitalization (₦'trn)	4.2
Market Capitalization ($'mn)	10,280.0
Shares Outstanding. (Units'bn)	17.0
Float (%)	14.7
Dividend Yield (%)	7.1

Price Performance Chart



Sources: Bloomberg, United Capital Research

Dangote Cement Plc (DANGCEM) recently released its H1-2021 financials which showed remarkable double-digit increase of 44.8% y/y in Revenue to N690.5bn, as well as a 72.7% y/y and 51.9% y/y growth in PBT and PAT to N281.3bn and N191.6bn respectively. The performance was largely driven by higher sales volumes, as well as improved cost management during the period which drove margin expansion. We examine the numbers closely and review our expectations accordingly.

Sustained demand drives surge in Revenue

During the H1-2021 period, DANGCEM group Revenue increased by 44.8% y/y to N690.5bn, supported by a 26.1% surge in volumes sold to 15.3mmt and higher Revenue-per-tonne (+14.5% y/y to N45,133.66) which was attributed to lower rebates and price increment during the period. The impressive growth was reflected in both the Nigerian and Pan-African market segments, as sales volumes were up by 33.2% and 15.5%, respectively. The substantial growth in H1-2021 reflects sustained strength in construction activities post-Covid pandemic in Nigeria and Sub-Saharan Africa which continues to spur cement demand across DANGCEM's markets. This is reflected in the group-wide volume growth recorded across all business regions, except Senegal. Notably, DANGCEM resumed clinker exports from the Apapa and Onne terminals in Q2-2021 with volumes up 103.6% to 57.0Kt. Additionally, volume growth was supported by the new 3mmt Obajana line.

Energy costs remain a nuisance

DANGCEM saw a 36.4% surge increase in Cost of Sales during the half year. As expected, the pressure on Cost of Sales mostly emanated from Raw material (+46.7% y/y) and Fuel costs (+53.5% y/y). This was a consequence of Naira weakness, persistent price pressure on energy sources and production inputs. As revenue growth outpaced growth in Cost of Sales, Gross Profit grew by 51.0% y/y to N414.4bn as Gross

Sustained demand underpins robust growth

Margin expanded by 2.4ppts to 60.0% in H1-2021. We note that DANGCEM's Gross Margin came under more pressure from energy costs in Q2-2021 (58.6% compared with 61.5% in Q1-2021), which was attributed to global supply chain bottlenecks which impacted freight costs of imported energy (coal) and material (gypsum) inputs.

Controlled cost growth underpins margin expansion

Over H1-2021, OPEX grew by 14.1% y/y to N118.3bn owing to a 17.9% y/y increase in Admin expenses, and a 12.8% y/y rise in Selling and distribution costs. However, as Gross Profit growth printed ahead of OPEX growth, DANGCEM proved operationally efficient with OPEX/Sales ratio contracting from 21.7% to 17.1%, This supported a 5.1% expansion in group EBITDA margin to 50.8%, as EBITDA expanded 61.0% y/y to N351.1bn.

Rising debt burden, absence of tax credits suppresses net margin growth

In H1-2021, DANGCEM successfully raised a N50.0bn bond in 3 tranches with a maturity profile of 2024-2028, under the NGN300.0bn bond purchase programme. The new issuance, alongside an increase in bank loans, drove net interest bearing debt to N582.2bn (compared with N501.7bn by FY-2020). The increase in Net debt coupled with a N10.6bn FX loss in Q1-2021 led to a 32.1% spike in Net finance cost to N20.4bn in H1-2021. Also, absence of pioneer tax credits during the half year fed a 144.2% spike in Tax expense to N89.6bn, suppressing Net Margin expansion (27.8% vs 26.5% in H1-2020). Overall, PAT nestled at N191.6bn, a solid 51.9% y/y expansion.

Outlook: Demand, price increments to sustain double-digit growth

Going into H2-2021, we remain optimistic on DANGCEM and expect the company to sustain double-digit growth, albeit at a slower pace relative to H2-2020, given the relatively high base from the period. On a macro-scale, we are optimistic about economic recovery in Nigeria and Sub-Saharan Africa, as well as sustained cement demand, which has driven capacity expansion plans. Additionally, price increases actioned in the first half of the year will help sustain topline growth and margins, as costs remain pressured.

Furthermore, we see further room for price increments during H2-2021 as demand remains strong and inflationary pressures persist. However, risks to a more robust H2-2021 performance include disruptive rains in Q3-2021, an intensified third wave of Covid-19 in SSA and attendant lockdowns, persistent disruptions in global supply chains, higher freight prices, further naira devaluation and elevated inflationary pressures. However, we observe that DANGCEM has done particularly well in the face of rising expenses and this bolsters our optimistic outlook. Specifically, we project FY-2021 Revenue growth of 28.7% to N1,330.9bn (prev. N1,168.3bn) and expect EPS to grow by 31.9% y/y to N21.4/s in FY-2021.

Sustained demand underpins robust growth

HOLD recommendation with upgraded target price

We updated our forecasts for DANGCEM in light of the H1-2021 numbers which exceeded our expectations, as well as our optimistic prognosis for cement demand in H2-2021. Accordingly, we raise our target price on DANGCEM to N270.28 (previous: N253.70). This revision reflects our expectation of upbeat sales volumes, further price increases and sustained cost management, as well as favourable adjustments in computing the cost of equity. Our target price implies a HOLD rating and an upside potential of 11.9%.

Sustained demand underpins robust growth

Financial Highlights (N'Mn)

Financial Highlights (N'mn)			
Headlines	**H1-2021**	**H1-2020**	**Change**
Revenue	**690,545**	**476,852**	44.8%
Cost of sales	-276,115	-202,420	36.4%
Gross profit	**414,430**	**274,432**	51.0%
Other Income	6,051	2,740	120.8%
Operating expenses	-118,284	-103,693	14.1%
Impairement Writeback/(Charge)	-	-	na
Net Finance Cost	-20,943	-10,628	97.1%
Profit/Loss Before Tax	**281,254**	**162,851**	72.7%
Taxation	-89,624	-36,708	144.2%
Profit/Loss After Tax	**191,630**	**126,143**	51.9%
	H1-2021	**FY-2020**	
Cash and bank balances	151,705	145,835	4.0%
Trade & Other Receivables	42,889	35,194	21.9%
Trade & Other Payables	356,573	349,388	2.1%
Total Borrowings	570,122	503,764	13.2%
Net Assets	**805,034**	**890,970**	-9.6%
Total Assets	**2,074,679**	**2,022,451**	**2.6%**
Gross Margin	60.0%	57.6%	**2.5%**
Net Margin	27.8%	26.5%	**1.3%**
Cost to Sales	40.0%	42.4%	**-2.5%**
Leverage Ratio (Debt/Equity)	70.8%	56.5%	**14.3%**
Price (N)	248.0		
Trailing 12M EPS (N)	10.1		
BVPS (N)	23.8		
P/E (x)	24.6		
P/BV(x)	10.4		
Trailing 12M ROAE	40.3%		

Sources: Company Financials, United Capital Research

Disclosure Appendix

Investment Rating Criteria and Disclosure

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.

Please note that we sometimes give concessional rating on stocks, which may be informed by technical factors and market sentiments.

Conflict of Interest: It is the policy of United Capital Plc and all its subsidiaries/affiliates (thereafter collectively referred to as "UCAP") that research analysts may not be involved in activities that suggest that they are representing the interests of UCAP in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts' reporting lines are structured so as to avoid any conflict of interests. Precisely, research analysts are not subject to the supervision or control of anyone in UCAP's Investment Banking or Sales and Trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests as clients. Overall, the Group protects clients from probable conflicts of interest that may arise in the course of its business relationships.

Risk Rating

Our Risk rating assesses the likelihood of market price deviating significantly from valuation fair prices. Risk factors limit gravitation of market prices towards target prices or result in significant decline in current price and thus swing buy/sell rating from positive to negative or vice versa. Risk factors are broadly grouped into systematic and unsystematic risk. Systematic risk (also called market risk or un-diversifiable risk) captures uncertainties or volatilities inherent to the entire market. This also includes macroeconomic shocks emanating from government actions or inactions, unanticipated policy pronouncements, external shocks and socio-political tensions which may swing market prices significantly away from targets. Unsystematic risk (specific risk, diversifiable risk or residual risk) on the other hand captures company or sector specific uncertainties which can mostly be reduced by diversification. These include labour union/industrial actions, corporate governance/management inefficiency, litigation, possible liquidation/winding-down of operation, internal labour unrest, government action, policy missteps as well as disruptions resulting from innovation, technology and technical progress etc.
United Capital Research adopts a 3-tier risk rating for assets under our coverage: High, Medium and Low. The rating scale is ordinal and captures the diverse risks that we deem applicable the company of focus. The ratings are defined below;
High: High probability of an imminent systematic risk or/and unsystematic risk
Medium: Slightly high (but lower compared to 'High') probability of an imminent systematic risk or/and unsystematic risk
Low: Low probability of an imminent systematic risk or/and unsystematic risk

Analyst Certification

The research analysts who prepared this report certify as follows:
1. That all of the views expressed in this report articulate the research analyst(s) independent views/opinions regarding the companies, securities, industries or markets discussed in this report.
2. That the research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Other Disclosures
United Capital Plc or any of its affiliates (thereafter collectively referred to as "UCAP") may have financial or beneficial interest in securities or related investments discussed in this report, potentially giving rise to a conflict of interest which could affect the objectivity of this report. Material interests which UCAP may have in companies or securities discussed in this report are disclosed:

- UCAP may own shares of the company/subject covered in this research report.
- UCAP does or may seek to do business with the company/subject of this research report
- UCAP may be or may seek to be a market maker for the company which is the subject of this research report
- UCAP or any of its officers may be or may seek to be a director in the company(ies) covered in this research report
- UCAP may be likely recipient of financial or other material benefits from the company/subject of this research report

Company	Disclosure
Dangote Cement Plc	a,h
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

Disclosure keys

a. The analyst holds personal positions (directly or indirectly) in one or more of the stocks covered in this report
b. The analyst(s) responsible for this report (whose name(s) appear(s) on the front page of this report is a Board member, Officer or Director of the Company or has influence on the company's operating decision directly or through proxy arrangements
c. UCAP is a market maker in the publicly traded equities of the Company
d. UCAP has been lead arranger or co-lead arranger over the past 12 months of any offer of securities of the Company
e. UCAP beneficially own 1% or more of the equity securities of the Company
f. UCAP holds a major interest in the debt of the Company
g. UCAP has received compensation for investment banking activities from the Company within the last 12 months
h. UCAP intends to seek, or anticipates compensation for investment banking services from the Company in the next 6 months
i. The content of this research report has been communicated with the Company, following which this research report has been materially amended before its distribution
j. The Company is a client of UCAP
k. The Company owns more than 5% of the issued share capital of UCAP

Disclaimer