

Still on the path of sustained growth

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 (₦)	16.95
Last Price (\$)	0.04
52 week High/Low (₦)	23.45/ 11.00
1M Price Change (%)	-5.6
3M Price Change (%)	-12.4
6M Price Change (%)	+25.6
YTD Change (%)	-3.7
Beta	1.049
Market Capitalization (₦'bn)	205.9
Market Capitalization (\$'mn)	543.2
Shares Outstanding. (Units'm)	12,146.9
Float (%)	27.7
Dividend Yield (%)	8.8

**Price Performance Chart**



Sources: Bloomberg, United Capital Research

Stock Rating  
**BUY**

Target Price  
Old: N27.00  
New: N19.58

Expected Return  
**15.5%**

*Dangote Sugar Plc (DANGSUGAR) released its financial result for FY-2020. According to the report, Revenue grew by 33.0% y/y to N214.3bn in FY-2020 from N161.1bn in FY-2019. Cost of Sales grew, albeit slower than the growth in Revenue, up 30.7% y/y to N160.6bn in FY-2020. Overall, decent control of Operating expenses also ensured Operating profit grew, up 40.4% y/y. Profitability growth was reflected in PBT and PAT growth, up 53.0% y/y and 33.2% y/y. In light of the new numbers, we update our forecasts and valuation with details in the report.*

**Border closure supports Revenue growth:** DANGSUGAR reported Revenue growth of 33.0% y/y to N214.3bn in FY-2020 from N161.1bn in FY-2019. Across business segments, Revenue was driven by growth in the 50kg SKU bags (up 34.6% y/y) and Retail Sugar (up 34.6% y/y). Also, Molasses revenue grew 20.0% y/y. The growth in Revenue was largely price driven. Based on our model estimates, average price per 50kg bag grew 25.9% y/y while volume growth was 6.9% y/y. The surge in price (first price increase in two years) was necessary given the devaluation of the Naira which impacted the Naira cost of raw sugar and other key inputs. In addition, the company's ability to raise prices was enhanced by the government curbing smuggling activities which reduced presence of low-priced inferior sugar quality. It also enhanced volume growth masking weakness in consumption due to the pandemic.

**Naira devaluation amplifies material cost:** The company's Cost of Sales grew 30.7% y/y to N160.6bn in FY-2020 from N122.8bn in FY-2019. The growth in Cost of Sales was largely driven by surge in raw material cost (up 35.1% y/y to N122.9bn), due to naira devaluation and FX scarcity which amplified the naira cost of importing raw sugar. Despite the surge in Cost of Sales, Gross margin expanded 131bps y/y to 25.1% in FY-2020 while Gross profit grew 40.4% y/y to N53.7bn in FY-2020.

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**Curtailed Opex growth supports Operating profit:** Operating expenses recorded sub-inflationary growth of 12.3% y/y to N9.7bn in FY-2020 from N8.6bn in FY-2019, reflecting decent controls on OPEX. The curtailed growth in Operating expenses was driven by lower Selling & Distribution (down 16.8% y/y) expenses. On the other hand, Administrative expenses grew 15.3% y/y to N9.0bn in FY-2020 from N7.8bn in FY-2019. The slower growth in Operating expenses (relative to Gross profit) fed faster growth in Operating profit, up 48.5% y/y to N44.4bn in FY-2020 from N29.9bn in FY-2019.

**Sturdy profitability aided by Revenue growth:** Profit before Tax (PBT) and Profit after Tax (PAT) grew 53.0% y/y and 33.2% y/y to N45.6bn and N29.8bn in FY-2020. The growth in PBT was largely supported by the already strong Revenue growth and further amplified by Fair value gains on biological assets (FY-2020: Gains of N2.4bn vs FY-2019: Loss of N0.3bn). Meanwhile, DANGSUGAR recorded FX loss of N1.6bn in FY-2020 compared to FX loss of N0.06bn in FY-2019. The increased FX loss reflects the persistent devaluation of the Naira. This drove Finance cost higher by 271.1% y/y to N1.9bn. Meanwhile, the slower growth in PAT (compared to PBT) reflects higher Effective tax rate of 34.7% in FY-2020 (vs. 25.0% in FY-2019).

**Decent growth prospects despite expected cost pressures:** The reopening of the border poses the most significant threat to the company's growth in the near term. We reckon volume growth in FY-2020 was largely supported by the closure of the border which limited influx of smuggled sugar, creating a larger market for domestic sugar producers. However, it only helped to mask contraction in demand particularly from the confectionery and pastries industry due to limited social activities. Thus, while we express pessimism on the reopening of the border, we expect the reopening of the domestic economy will resuscitate demand from bakers. Thus, we project a faster volume growth for FY-2020. Overall, we forecast Revenue growth of 15.4% y/y for FY-2020.

That said, we express concern over cost outlook for the firm. Apart from further threats of devaluation, we note that the price of raw sugar futures have been trending higher in Q1-2021. To give perspective, average price of US raw sugar futures printed at \$16.21 which is already higher than 2020 and 2019 full year average of \$12.87 and \$12.35. We expect price to still trace higher as global commodity demand continues to recover. This we expect to weigh on the company's cost of raw materials. As a result, we model a higher cost margin of 77.0%.

Overall, we forecast Net income to sustain growth. We project Adjusted net income growth of 16.8% y/y. Our Net income expectations adjust for items like Fair value gains and Financial asset impairments. Factoring these items, our Net income growth projection is 9.4% y/y for FY-2021.

**...Outlook remains positive as volume growth is expected to remain on an upward trajectory.**

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**Moderate upside...BUY rating retained:** Following adjustments to our forecasts, we review our target price lower to N19.58/s. The steep cut in our target price reflects surge in risk-free rate (following the higher yield environment) as well as higher risk premium built into our DCF model. Our new TP implies a 15.5% upside and thus we maintain our BUY rating.

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**...we revise our year-end Target Price to N19.58/share with a BUY rating on the stock.**

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## Financial Highlights (N'Mn)

## Earnings Flash | Dangote Sugar Refinery Plc FY-2020 Audited Result

Financial Highlights (N'Mn)			
Headlines	FY - 2020	FY- 2019	Change
<b>Revenue</b>	<b>214,298</b>	<b>161,086</b>	33.0%
Cost of Sales	-160,551	-122,801	30.7%
<b>Gross Income</b>	<b>53,746</b>	<b>38,285</b>	<b>40.4%</b>
Other Income/Expense	907	606	49.6%
Operating Expense	-9,688	-8,629	12.3%
Impairments	-530	-332	NM
<b>Operating Profit</b>	<b>44,436</b>	<b>29,930</b>	<b>48.5%</b>
Fair Value Adjustments	2,417	-313	NM
Finance Income	685	720	-4.9%
Finance Costs	-1,916	-516	271.1%
<b>Profit Before Tax</b>	<b>45,622</b>	<b>29,820</b>	<b>53.0%</b>
Taxation	-15,847	-7,459	112.5%
<b>Profit After Tax</b>	<b>29,775</b>	<b>22,361</b>	<b>33.2%</b>
	<b>FY - 2020</b>	<b>FY - 2019</b>	
Cash and Cash Equivalents	44,860	24,612	82.3%
<b>Trade &amp; Other Receivables</b>	<b>63,060</b>	<b>33,779</b>	<b>86.7%</b>
<b>Trade &amp; Other Payables</b>	<b>135,518</b>	<b>63,224</b>	<b>114.3%</b>
<b>Total Debt</b>	<b>3,613</b>	<b>3,667</b>	<b>-1.5%</b>
<b>Total Assets</b>	<b>278,032</b>	<b>193,706</b>	<b>43.5%</b>
Net Assets	124,712	108,136	15.3%
Gross Margin	25.1%	23.8%	1.3%
Cost to Sales	74.9%	76.2%	-1.3%
Net Margin	13.9%	13.9%	0.0%
Leverage (Debt/Equity)	2.9%	3.4%	-0.5%
Leverage (Net Debt/Equity)	-33.1%	-19.4%	-13.7%
Price(N)	16.95		
Trailing 12M EPS(N)	2.45		
BVPS(N)	10.3		
Trailing 12M P/E (x)	6.9		
P/BV (x)	1.7		
Trailing 12M ROAE	25.6%		
Proposed Dividend (N)	1.50		
Dividend Yield	8.8%		

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.

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**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

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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
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