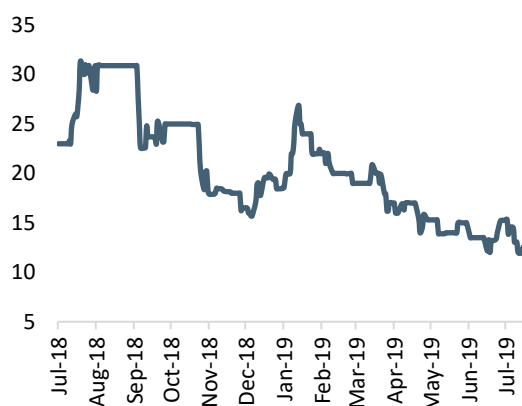


Cement Company of Northern Nigeria Plc. (CCNN.NL)

Initial View

Rating	BUY
Price	₦11.60
FVE (<i>last communicated</i>)	₦22.87
52-week range (₦)	10.8-32.0
Market Cap. (N'mn)	152,465
1-month Avg. Vol	857,420
Curr. PE	4.6x

CCNN - Share Price Trend



Analyst(s)

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Decent....

- CCNN released H1 19 result last Friday, showing EPS of ₦0.28 which was unchanged from the previous quarter, but lower than Q2 18 (₦1.21) and our forecast of ₦0.37. While the company continues to leverage on the expanded capacities post-merger, the pass-through to shareholders remains clouded owing to the 11.9 million shares added during the merger.
- Top line came in below the belt at ₦15.3 billion, compared to our estimate of ₦17.6 billion due to surprises on volume and price. On the volume front, 368kt was sold out of 399kt produced, compared to our forecast of 400kt (utilization rate of 80%). Prices, on the other hand, did not reflect the hike which was effected in April alongside other producers, as revenue per ton (ex-factory prices) increased by only ₦22/50 kg bag to ₦41,428/ton. This was due to recognition of the pre-payments (Q1 19: ₦8.3 billion to Q2 19: ₦2.6 billion) which were already transacted on the old prices. On the other hand, COGS printed at ₦8.6 billion, while cost per ton printed higher at ₦23,239 compared to ₦22,410 in Q2 18 and ₦22,329 in Q1 19. As a result, gross margin contracted by 396 bps YoY to 43.9% (Q2 19: 45.5%).
- Operating costs in the quarter printed at ₦2.4 billion, while on a per ton basis it came in higher at ₦6,560 compared to ₦6,320 in Q2 18. Understandably, most of the pressure on opex stemmed from increased selling and distribution expenses (+33% YoY to ₦2,670 per ton). Consequently, opex to sales was 166bps higher YoY to 16%, while EBIT margin contracted 507bps YoY to 29% (EBIT: ₦4.4 billion) from a record high of 34% in Q2 18.
- Overall, PBT printed at ₦4.4 billion, almost unchanged from the EBIT helped by a nearly muted interest burden, albeit net finance cost printed at ₦1.9 million, compared to ₦933,000 net finance income in Q2 18. Furthermore, a lower effective tax rate of 16% (Q2 18: 30%, Q1 19: 32%), translated to PAT of ₦3.64 billion. CCNN trades at a current P/E of 4.6x compared to domestic peer average of 6.1x. Our last communicated FVE of ₦22.87 translates to a BUY rating. **Our model is under review.**

Summary of Results

Income statement – (₹ million)	Q2 19	Q2 18	YoY growth	QoQ growth	Deviation from forecast	H1 19	YoY growth
Revenue	17,597	6,691	163%	-10%	-13%	32,148	39%
Cost of sales	9,140	3,489	162%	-7%	-6%	17,759	18%
Gross profit	8,458	3,202	164%	-13%	-21%	14,389	93%
OPEX	2,613	949	175%	5%	-7%	4,716	54%
Operating profit	5,867	2,253	160%	-19%	-26%	9,757	147%
Net interest expense	(13)	1	-1537%	-95%	-85%	-46	-64%
PBT	5,854	2,155	172%	-18%	-25%	9,711	142%
PAT	4,833	1,519	218%	0%	-25%	7,283	157%
EPS	0.28	1.21	-77%	0%	-25%	0.55	157%

Key Ratios	Q4 18	Q4 17	Change(pp s)	FY 18	FY 17	Chang e(pps)
Gross margin	45.93 %	42.33 %	3.61%	44.80%	39.56%	5.24%
EBIT margin	17.44 %	25.38 %	-7.94%	24.82%	22.89%	1.94%
PBT margin	15.33 %	22.58 %	-7.25%	23.93%	21.46%	2.47%
PAT margin	14.17 %	19.93 %	-5.76%	18.07%	16.46%	1.61%
Effective tax rate	7.60%	11.73 %	-4.14%	24.51%	23.30%	1.21%

Source: ARM Research *unless otherwise stated

Ratings, Disclosure & Disclaimer – [Click here](#)