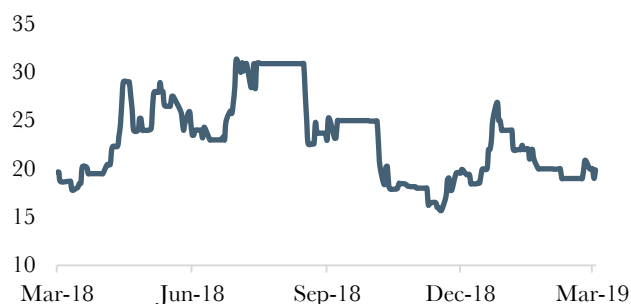




Stock Data	
Price	₦19.05
FVE (last communicated)	₦17.31
52-week range	₦14.40 - ₦32.20
Market Cap. (₦'b)	249.727
1-month Avg. Vol	306,214
Curr. PE	45.6x

Quarterly EPS	Q1	Q2	Q3	Q4
2016 A	0.19	0.33	0.05	0.42
2017 A	0.41	0.41	0.8	0.95
2018 A	0.86	1.21	1.12	0.13

#### CCNN - Share Price Trend



#### Analyst(s)

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**Click the link below for our update on the merger: [Downgrade to SELL due to material dilution](#)**

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

### Initial View

#### Management guidance, a delusion of grandeur

- Following the completion of the merger arrangement between Cement Company of Northern Nigeria (CCNN) and Kalambaina Cement Limited, with onward listing of the shares of the enlarged entity on the Nigerian Stock Exchange, CCNN released results of the combined entity this afternoon. The numbers showed synergy benefits between the two companies, however, far lower than the pro forma presentation provided by management of both companies in the Scheme of Merger document, which necessitated the approval of the merger by shareholders. For context, reported revenue of ₦31.7 billion (which came in higher than our estimate of ₦26.5 billion) is far below the pro forma guidance of ₦46.9 billion.
- On volumes, the enlarged entity consolidated production volume at 742,224 tons for the full 2018 reflecting capacity utilisation on the enlarge plant size of 2 million tons per annum of just 37% (Adjusted average rate: 59%). Recall, average capacity utilisation on the 500,000 per annum capacity printed at 96% over the last two years, with average annual production of 478,101 tons. Accordingly, compared to FY 17 volume of 467,707 tons (with 94% utilisation), the additional production volume at the Kalambaina plant was just 274,517 tons.
- Production cost synergy or recovery from a high base?** The reported numbers showed significant improvement in production cost during the year, with cash cost per ton declining 14% YoY to ₦20,452. Recall, following FX and energy related concerns over 2017, cash cost per ton expanded 22% YoY to

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₹23,845 from ₹19,614 in FY 16. As a result, we reckon that recovery in cost played a large role in the moderation in cost per ton than an outright synergy benefit from the coal fired Kalambaina, as reflected in the 48% YoY growth in cost to sales to ₹17.5 billion during the year, with gross margin expansion of 524bps to 44.8% (Our estimate: 46%).

- Elsewhere, we are highly concerned about the elevated administrative expense during the year. Excluding merger related fees, we are quite comfortable with the outturn across most lines. However, worrisome is the ₹2.3 billion (FY 17: ₹648 million) management and technical fees paid to Damnaz Cement Co. Limited (a wholly owned subsidiary of BUA Group).
- ***Management guidance, a delusion of grandeur.*** In the pro forma scheme of merger numbers, management guided to a robust PAT of ₹17.9 billion over FY 18, citing the aggressive estimates on sales volume and cost synergy from the utilisation of a more efficient energy mix. The reported numbers deviated largely from the guidance, with PAT coming in at ₹5.7 billion, to even miss our highly conservative estimate of ₹6.3 billion.
- Reflecting the material dilution from the additional shares of 11.9 billion created from the acquisition of Kalambaina, EPS dropped to ₹0.44 from ₹2.57 in 2017. Further reflecting impact of the dilution was the decline in DPS to ₹0.40 from ₹1.25 in 2017, despite the 43 ppts increase in pay-out ratio to 92%.
- Going by the presented numbers, we are yet to see any synergy from the substantial acquisition cost of the Kalambaina plant by CCNN. For context, while total construction cost of the Kalambaina plant was stated to be \$350 million (₹126 billion using ₹360/1\$), the asset was transferred to CCNN at ₹315 billion. We hope to meet with management of BUA/CCNN in the weeks ahead to seek clarity on its guidance relative to reported numbers and what to expect in the years ahead.
- CCNN trades at a P/E and EV/EBITDA of 45.64x and 25.62x compared to Bloomberg Middle and East Africa Peers at 55.93x and 15.06x respectively. Our last communicated FVE of ₹17.31 translates to a SELL rating on the stock which currently trades at ₹19.90. Our model is under review.

## Summary of Results

Income statement – (₹ million)	Q4 18	YoY growth	QoQ growth	FY 18	FY 17	YoY growth	Deviation from forecast
<b>Revenue</b>	<b>12,150</b>	104%	62%	<b>31,722</b>	<b>19,588</b>	39%	12%
<b>Cost of sales</b>	6,569	91%	52%	17,511	<b>11,840</b>	18%	4%
<b>Gross profit</b>	<b>5,581</b>	121%	76%	<b>14,211</b>	<b>7,749</b>	93%	22%
<b>OPEX</b>	3,691	246%	236%	6,580	3,369	54%	55%
<b>Operating profit</b>	<b>2,119</b>	40%	3%	<b>7,875</b>	<b>4,483</b>	147%	5%
<b>Net interest expense</b>	(257)	53%	-12038%	(283)	(280)	-64%	-1674%
<b>PBT</b>	<b>1,863</b>	38%	-10%	<b>7,592</b>	<b>4,203</b>	142%	1%
<b>PAT</b>	<b>1,721</b>	45%	22%	<b>5,731</b>	<b>3,224</b>	157%	3%
<b>EPS</b>	<b>0.13</b>	<b>-86%</b>	<b>-88%</b>	<b>0.00</b>	<b>2.57</b>	<b>157%</b>	3%

Key Ratios	Q4 18	Q4 17	Change(pps)	FY 18	FY 17	Change(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](#)