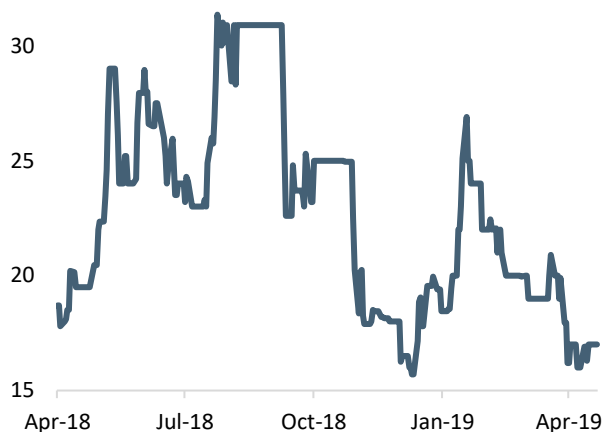




Stock Data	
Price	₦17.00
FVE (last communicated)	₦17.31
52-week range	₦14.40 - ₦32.20
Market Cap. (₦'bn)	223.440
1-month Avg. Vol	306,214
Curr. PE	15.4x

CCNN - Share Price Trend



Analyst(s)

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

Initial View

Solid volume, diluted EPS, pricey valuation

- Reaping the benefits of an enlarged capacity following the infusion of Kalambaina, CCNN Plc Q1 2019 results released late yesterday showed material growth in sales volume, which annualised suggest capacity utilisation of 82%. While top line growth was strong, the pass through to EPS remain unseen following the sizeable dilution that accompanied the merger. For context, EPS as at Q1 19 printed at ₦0.28 from ₦0.86 in Q1 18. While our model is under review, we believe the stock is expensive at current pricing, with P/E of 15.0x compared to its 5-year average of 6.7x and DANGCEM of 8.3x.
- **Solidifying northern presence.** As mentioned above, the company annualised 82% utilisation rate on the 2 million metric tons plant is gradually retracing the level recorded on the old plant (500,000 metric tons). Sales volumes in the quarter printed at 411,945 tons, which compared to the closest period on the same enlarged capacity (Q4 18) suggests 46% growth. Surprisingly, while the volume jump could have driven surge in receivables, actual trade receivables printed at just ₦50.5 million. Further suggesting CCNN's grip of the northern market, advance payments from customers surged to ₦8.3 billion from ₦2 billion in FY 18.
- Recall we had guided in our Sector Update published in December 2018 (See report: **Competition upsetting the status quo**), that pricing will be a key driver for volume play in 2019. The results released bode well with our view, with CCNN

guiding to price erosion of 2% and 5% compared to Q1 18 and Q4 18 respectively to ₦40,993/ton. However, the volume gain from the price play far outweighed the price erosion with revenue printing at ₦16.9 billion which is 39% higher compared to ₦12.2 billion recorded in Q4 last year.

- Reflecting the higher volumes, COGS rose 40% QoQ to ₦9.2 billion – higher when compared to the growth in revenue. As such, gross margin slipped 40 bps QoQ to 46%. Further on COGS, energy cost, which typically constitutes ~50% of total COGS, printed at ₦12,150/ton reflecting continued impact of the new coal-fuelled Kalambaina plant, as against sole use of the old LPFO plant which had driven energy costs to high levels of ~₦20,860/ton over H1 2018.
- On opex, cost to income ratio contracted to 13.6%, which was lower than 15.6% and 30.4% recorded in Q1 and Q4 2018, respectively. Overall, PBT printed at ₦5.4 billion, while PBT margin rose 16.32 pts YoY to 31.7%. Meanwhile, post-tax profit also came in strong at ₦3.6 billion despite a higher effective tax rate of 32% (Q1 18: 28%) with related margin expanding 737 bps to 22%. EPS for the quarter stood at ₦0.28 (reflecting impact of the additional shares) compared to ₦0.13 in Q4 2018.
- The improved utilisation rate, in part, soothes our concerns regarding the lagging performance over H2 18 (avg. 46%), which contradicted management’s guidance of a 90% utilisation rate at the time (See report: *Management guidance, a delusion of grandeur*). The company’s favourable market position in the North East, coupled with the company’s drive to push exports to neighbouring countries are the likely drivers of volume growth in near term. While we maintain our optimism of market share accretion in the North and better exports to neighbouring countries, our concern remains the trickling impact to EPS relative to current price.
- CCNN stock remains expensive with a P/E of 15.36x¹ compared to its 5-year average of 6.67x and DANGCEM of 8.26x. Our last communicated FVE of ₦17.31 translates to a SELL rating on the stock which currently trades at ₦17.00. Our model is under review.

¹ Based on annualized Q1 19 EPS

Summary of Results

Income statement – (₹'million)	Q1 19	Q1 18	YoY growth	Q4 18	QoQ growth
Volume (MT)	411,945	128,793	220%	281,316	46%
Price (₹/ton)	40,993	41,881	-2%	43,190	-5%
Revenue	16,887	5,394	213%	12,150	39%
Cost of sales	9,198	3,131	194%	6,569	40%
Gross profit	7,689	2,263	240%	5,581	38%
OPEX	2,299	844	173%	3,691	-38%
Operating profit	5,392	1,420	280%	2,117	155%
Net interest expense	(44)	(32)	37%	(254)	-83%
PBT	5,348	1,505	255%	1,863	187%
PAT	3,637	1,084	236%	1,721	111%
EPS	0.28	0.86	-68%	1.37	-80%

Key Ratios	Q1 19	Q1 18	YoY (bps)	Q4 18	Change(bps)
Gross margin	46%	42%	3.6%	46%	42%
EBIT margin	32%	26%	5.6%	17%	26%
PBT margin	32%	28%	3.8%	15%	28%
PAT margin	22%	20%	1.5%	14%	20%
Effective tax rate	32%	28%	4%	8%	28%

Source: ARM Research *unless otherwise stated

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