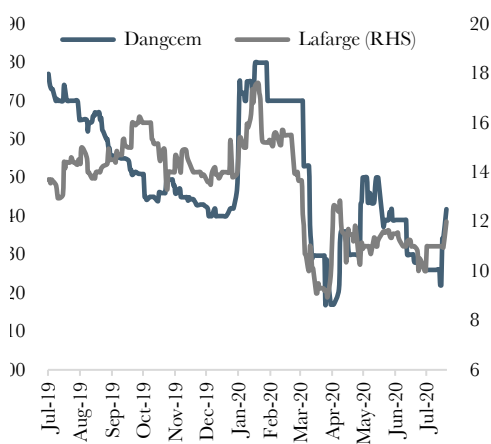


**DANGCEM**

Rating	<b>BUY</b>
Price	₦141.80
FVE	₦219.77
52-week range	₦116.00- ₦180.40
Market Cap. (₦bn)	2,416
1-month Avg. Vol	1,520,186
Curr. PE	12.1x

**WAPCO**

Rating	<b>BUY</b>
Price	₦12.00
FVE	₦23.38
52-week range	₦8.95- ₦17.60
Market Cap. (₦bn)	193.294
1-month Avg. Vol	3,201,003
Curr. PE	12.5x

**Share Price Trend****Analyst****Janet Ogunkoya**[Janet.ogunkoya@arm.com.ng](mailto:Janet.ogunkoya@arm.com.ng)**Cement stock update****A solid bounce back from COVID**

Dangcem's and WAPCO's Q 20 results had impressive turnouts, with EPS of ₦3.85 (+11% YoY) and ₦0.95 (+60% YoY) respectively, printing ahead of our forecasts. Besides the outperformance in topline by both companies, they also recorded efficiencies in opex and lower than expected finance costs, which gave the bottom line some boost. Dangcem's PAT growth was also aided by a lower effective tax rate in the quarter<sup>1</sup>, as PBT was lower 2% YoY. Following the outperformance, we updated our forecasts for the companies, which resulted in an increase in Dangcem and WAPCO's FVE to ₦219.77 and ₦23.38, from ₦201.05 and ₦19.65, respectively. While they both have impressive upsides from current market price of 59% and 95%, respectively, and also hold the potential for high dividend yields<sup>2</sup>, DANGCEM remains our top pick in the sector, given its strong fundamentals in ROE and margins.

**A resilient Topline:** Nigeria's cement consumption in the second quarter turned out better than we expected, with Dangcem and WAPCO recording mild declines in sales while trade receivables remained nearly unchanged, despite impact of COVID 19 lockdown. According to management, Dangcem's domestic volumes dropped as much as 28% in April – which we believe would be similar for WAPCO. However, a quick recovery in cement demand in subsequent months, together with slight support from Dangcem's re-entry into the exports markets via the new Apapa port (see *previous report*)<sup>3</sup>, led to only a slight decline in Nigeria volumes by 6% YoY to 3.4MT<sup>4</sup> in Q2. Revenue per ton was up 3% YoY to ₦45,118 (+1% QoQ), reflecting impact of VAT increase and wound down distributor discounts. Overall, Nigeria revenue was down only 3% YoY to ₦153 billion. Dangcem's sales across the Pan-African businesses grew 8% YoY in Q2, thanks to a 3% growth in volumes (especially Ethiopia and Senegal) and a 4% increase in prices. Meanwhile, WAPCO's revenue in the quarter dropped 5% YoY to ₦57 billion in Q2, as volume dropped 4% YoY to 1.3MT and revenue per ton also dipped 1% YoY to ₦44,030 (-1.2% QoQ).

**Resilient margins:** Both companies reported better than expected gross margins in the quarter. However, while Dangcem's dropped 190bps YoY to 57% owing to higher cost, Wapco's touched a record high of 42% (+800 bps YoY). Understandably, Wapco's recent capex on its

<sup>1</sup> According to management, Dangcem's lower ETR was due to the amended commencement rule as contained in the revised Finance Act.

<sup>2</sup> WAPCO's potential yield of 15%, based on 80% payout and N1.83 dividend, Dangcem's FY 20 dividend yield prints at 7%, based on a N10.3 dividend and 85% payout. However, should DANGCEM keep up with its N16 dividend like it has in the past two years (despite lower EPS in 2019) this could deliver 11% dividend yield.

<sup>3</sup> Which aided a 28kT export to Senegal in late June.

<sup>4</sup> Domestic sales was up 1.8%, excluding impact of shut imports from the border closure on exports

power plants has started to yield the benefits of improved energy efficiencies which drove its energy cost per tonne down by 4% YoY to ₦6,000. However, bulk of Wapco's margin growth stemmed from a 51% YoY plunge in cost of raw materials, of which we would be seeking clarity from management.

- Ironically, the lockdown gave the companies room for opex efficiencies. Dangcem's opex to sales dropped 130bps YoY to 22% YoY, thanks to lower spend on selling and distribution costs, while Wapco's dropped 450 bps YoY to 7% thanks to savings on office and general expenses which drove admin cost down in the quarter. Thus, Dangcem's EBIT margin was relatively flat at 36%, while WAPCO's rose 10ppts to 37%.
- Dangcem's 2020E adjusted EPS has been revised higher to ₦13.04 from ₦10.16 (2019 EPS: ₦12.52). Our forward EPS incorporates our expectation of a 5% share buy-back. Excluding the buy back, our adjusted EPS for the year would print at ₦12.39. The major revisions to our forecast are: (1) the increase in total revenue by 10% to ₦961 billion, reflecting improved optimism for both the Nigerian and Pan-African markets and boost expected from the 'Bag of Goodies' promo; (2) A downward revision to our finance cost to ₦50 billion, which did increase in Q2 20 (+70% YoY), but a tad lower than we expected and also taking to account the high base of finance costs from H2 19 when Dangcem started to issue the ₦150 billion CPs; (3) reduced opex expectations, with opex to sales now lower at 22% vs previous estimate of 24%; and (4) a revision to our effective tax rate for the year from 30% to 25%.
- We also estimate a higher 2020E adjusted EPS for Wapco at ₦2.3 from our previous forecast of ₦0.92 and 2019 of ₦0.96. Our revisions comprise of: (1) a pent up optimism for the top line to ₦238 billion from ₦200 billion; (2) revised COGS per ton to ₦30,500 from ₦32,700, reflecting improved energy cost savings and the plunge in Q2's cost of raw materials, and (3) revision to finance cost to ₦9 billion, as the declines are printing faster than we previously estimated.
- Overall, they both have **BUY** ratings and also trade at cheap multiples. DANGCEM and WAPCO have a forward P/E of 11x and 5.3x trading at a discount to their 5-year averages of 15.5x and 10x (pre-losses), and also below Bloomberg's MENA peer average of 16x. Similarly, their forward EV/EBITDA of 6x and 2.8x, print below their 5-year average of 9.6x and 9.8x, and also below MENA peer average of 10x.
- **Waning patience for Dangcem's share buyback:** On the conference call yesterday, Dangcem's management gave no tangible updates on the planned share buyback programme, defiant to our expectations. Instead, management echoed the same response from the previous meeting, stating that care was being taken to time the market and assess the company's liquidity before going ahead with the planned buy back. With an FCFE of ₦554 billion as at H1 20 (but cash of only ₦51 billion), we believe Dangcem has room to accommodate the ~₦238 billion share buyback (assuming 10% buyback). However, the management's constant postponement begs a lot of questions, although we are constantly told by the management's representative that the programme is unlikely to be cancelled. We would continue to seek updates from management regarding the programme. In our view, we continue to assume that, rather than carry out the entire 10% share buyback, Dangcem may carry out just 7%, split into 5% over 2020 and the remaining 2% in early 2021.

## DANGCEM Summary of Results and Forecasts - ₦'000

ANNUAL								
Income Statement (₦'million)	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Volume (Million tonnes)								
Nigeria Volume	12.7	14.2	14.1	14.7	15.5	16.4	17.7	19.4
Rest of Africa Volume	9.2	9.4	9.6	9.8	10.3	10.7	11.0	11.5
	<b>21.9</b>	<b>23.6</b>	<b>23.7</b>	<b>24.5</b>	<b>25.8</b>	<b>27.1</b>	<b>28.7</b>	<b>30.8</b>
Nigeria Price (N'000)	45.6	43.6	43.2	45.0	46.3	46.1	45.9	46.3
Rest of Africa Average Price (N'000)	29.7	30.2	29.6	30.8	31.4	31.3	31.1	31.4
Revenue								
Nigeria	580,151	618,303	610,247	659,877	717,385	758,411	813,804	896,664
Rest of Africa	251,289	283,262	282,710	301,501	324,471	333,981	341,926	360,618
Intercompany	25,857	352	-	-	-	-	-	-
	<b>805,582</b>	<b>901,213</b>	<b>891,671</b>	<b>961,378</b>	<b>1,041,856</b>	<b>1,092,392</b>	<b>1,155,730</b>	<b>1,257,283</b>
<b>COGS</b>	<b>351,290</b>	<b>383,311</b>	<b>379,989</b>	<b>417,252</b>	<b>440,474</b>	<b>459,582</b>	<b>481,065</b>	<b>509,523</b>
<b>Gross Profit</b>	<b>454,292</b>	<b>517,902</b>	<b>511,682</b>	<b>544,126</b>	<b>601,382</b>	<b>632,810</b>	<b>674,665</b>	<b>747,760</b>
<b>Operating Cost</b>	<b>155,297</b>	<b>189,426</b>	<b>214,769</b>	<b>212,147</b>	<b>222,928</b>	<b>235,586</b>	<b>247,946</b>	<b>263,160</b>
<b>Operating Profit</b>	<b>304,208</b>	<b>338,698</b>	<b>299,893</b>	<b>336,001</b>	<b>383,805</b>	<b>404,233</b>	<b>435,761</b>	<b>496,083</b>
<b>Finance Income</b>	<b>35,926</b>	<b>11,323</b>	<b>7,610</b>	<b>8,724</b>	<b>6,565</b>	<b>3,100</b>	<b>597</b>	<b>2,848</b>
<b>Finance expense</b>	<b>52,711</b>	<b>49,778</b>	<b>44,192</b>	<b>50,041</b>	<b>52,454</b>	<b>43,164</b>	<b>39,252</b>	<b>36,596</b>
<b>PBT</b>	<b>289,590</b>	<b>300,806</b>	<b>250,479</b>	<b>279,855</b>	<b>329,018</b>	<b>356,162</b>	<b>389,899</b>	<b>455,848</b>
<b>Tax</b>	<b>85,342</b>	<b>-89,519</b>	<b>49,958</b>	<b>83,957</b>	<b>98,705</b>	<b>106,849</b>	<b>116,970</b>	<b>136,754</b>
<b>PAT</b>	<b>204,248</b>	<b>390,325</b>	<b>200,521</b>	<b>195,899</b>	<b>230,312</b>	<b>249,314</b>	<b>272,929</b>	<b>319,094</b>
Balance Sheet (₦'million)								
<b>Fixed Assets</b>	<b>1,192,140</b>	<b>1,171,864</b>	<b>1,206,749</b>	<b>1,235,383</b>	<b>1,260,539</b>	<b>1,277,541</b>	<b>1,287,284</b>	<b>1,287,284</b>
<b>Stocks</b>	<b>94,594</b>	<b>106,998</b>	<b>114,806</b>	<b>115,012</b>	<b>120,972</b>	<b>125,761</b>	<b>131,158</b>	<b>138,408</b>
<b>Trade debtors</b>	<b>30,155</b>	<b>44,468</b>	<b>30,001</b>	<b>38,590</b>	<b>42,761</b>	<b>41,813</b>	<b>46,021</b>	<b>49,930</b>
<b>Cash and other bank balances</b>	<b>168,387</b>	<b>166,896</b>	<b>123,903</b>	<b>109,850</b>	<b>-3,104</b>	<b>24,015</b>	<b>74,847</b>	<b>175,986</b>
<b>Total Assets</b>	<b>1,665,883</b>	<b>1,694,463</b>	<b>1,741,351</b>	<b>1,763,213</b>	<b>1,694,883</b>	<b>1,748,452</b>	<b>1,825,874</b>	<b>1,949,866</b>
<b>Trade Creditors</b>	<b>270,721</b>	<b>230,970</b>	<b>284,739</b>	<b>307,636</b>	<b>324,317</b>	<b>337,926</b>	<b>353,242</b>	<b>373,628</b>
<b>Non-current Liabilities</b>	<b>364,047</b>	<b>212,344</b>	<b>212,620</b>	<b>529,976</b>	<b>415,932</b>	<b>380,910</b>	<b>352,761</b>	<b>330,060</b>
<b>Total liabilities</b>	<b>884,523</b>	<b>707,850</b>	<b>843,414</b>	<b>1,061,309</b>	<b>976,894</b>	<b>976,915</b>	<b>993,324</b>	<b>1,030,213</b>
<b>Shareholders' fund</b>	<b>781,360</b>	<b>986,613</b>	<b>897,937</b>	<b>701,904</b>	<b>717,989</b>	<b>771,537</b>	<b>832,550</b>	<b>919,654</b>
Key Ratios								
<b>P/E (x)</b>	<b>19.2</b>	<b>11.4</b>	<b>12.1</b>	<b>10.9</b>	<b>9.4</b>	<b>8.7</b>	<b>8.0</b>	<b>6.90</b>
<b>EV/EBITDA (x)</b>	<b>10.7</b>	<b>7.6</b>	<b>6.8</b>	<b>6.3</b>	<b>5.5</b>	<b>5.1</b>	<b>4.7</b>	<b>3.98</b>
<b>ROA</b>	<b>13%</b>	<b>23%</b>	<b>12%</b>	<b>11%</b>	<b>13%</b>	<b>14%</b>	<b>15%</b>	<b>17%</b>
<b>ROE</b>	<b>26%</b>	<b>44%</b>	<b>21%</b>	<b>24%</b>	<b>32%</b>	<b>33%</b>	<b>34%</b>	<b>36%</b>
<b>EBIT Margin</b>	<b>38%</b>	<b>38%</b>	<b>34%</b>	<b>35%</b>	<b>37%</b>	<b>37%</b>	<b>38%</b>	<b>39%</b>
<b>Tax burden</b>	<b>71%</b>	<b>130%</b>	<b>80%</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>
<b>Interest burden</b>	<b>95%</b>	<b>89%</b>	<b>84%</b>	<b>83%</b>	<b>86%</b>	<b>88%</b>	<b>89%</b>	<b>92%</b>
<b>Asset Turnover</b>	<b>0.50</b>	<b>0.54</b>	<b>0.52</b>	<b>0.55</b>	<b>0.60</b>	<b>0.63</b>	<b>0.65</b>	<b>67%</b>
<b>Equity Multiplier</b>	<b>2.13</b>	<b>1.72</b>	<b>1.94</b>	<b>2.51</b>	<b>2.36</b>	<b>2.27</b>	<b>2.19</b>	<b>212%</b>
<b>Gross margin</b>	<b>56%</b>	<b>57%</b>	<b>57%</b>	<b>57%</b>	<b>58%</b>	<b>58%</b>	<b>58%</b>	<b>59%</b>
<b>Net margin</b>	<b>25%</b>	<b>43%</b>	<b>22%</b>	<b>20%</b>	<b>22%</b>	<b>23%</b>	<b>24%</b>	<b>25%</b>
<b>EBIT margins</b>	<b>38%</b>	<b>38%</b>	<b>34%</b>	<b>35%</b>	<b>37%</b>	<b>37%</b>	<b>38%</b>	<b>39%</b>
<b>PBT margins</b>	<b>36%</b>	<b>33%</b>	<b>28%</b>	<b>29%</b>	<b>32%</b>	<b>33%</b>	<b>34%</b>	<b>36%</b>
<b>Adj. EPS (N)</b>	<b>10.3</b>	<b>23.3</b>	<b>12.5</b>	<b>13.0</b>	<b>15.1</b>	<b>16.2</b>	<b>17.7</b>	<b>20.5</b>
<b>Effective Tax rates</b>	<b>29%</b>	<b>-30%</b>	<b>20%</b>	<b>30%</b>	<b>30%</b>	<b>30%</b>	<b>30%</b>	<b>30%</b>
<b>Debt to Equity</b>	<b>49.6%</b>	<b>35.1%</b>	<b>41.0%</b>	<b>77.2%</b>	<b>58.0%</b>	<b>48.7%</b>	<b>41.8%</b>	<b>36%</b>
<b>Debt to Assets</b>	<b>23.3%</b>	<b>20.4%</b>	<b>21.1%</b>	<b>30.7%</b>	<b>24.6%</b>	<b>21.5%</b>	<b>19.0%</b>	<b>17%</b>
<b>Interest coverage (X)</b>	<b>5.8</b>	<b>6.8</b>	<b>5.2</b>	<b>5.2</b>	<b>6.3</b>	<b>7.9</b>	<b>9.4</b>	<b>11.5</b>
<b>BVPS (N)</b>	<b>45.9</b>	<b>57.9</b>	<b>52.7</b>	<b>43.4</b>	<b>45.3</b>	<b>48.7</b>	<b>52.5</b>	<b>58.0</b>

## WAPCO Summary of Results and Forecasts - ₦'000

ANNUAL							
Income Statement (N'million)	2018*	2019	2020E	2021E	2022E	2023E	2024E
Production capacity (Million tonnes)	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Utilisation rate	46%	48%	52%	52%	53%	54%	55%
Volume (Million tonnes)	4.83	4.90	5.39	5.41	5.51	5.62	5.72
Price (N'000)	45.11	43.43	44.27	44.49	44.71	44.49	44.26
Revenue	217,813	212,999	238,571	240,583	246,435	249,829	253,184
COGS	150,701	157,047	164,110	165,295	167,557	170,424	172,974
Gross Profit	67,112	55,952	74,461	75,287	78,878	79,405	80,210
Operating Cost	28,776	22,655	23,435	24,395	24,559	25,075	25,293
Operating Profit (EBIT)	38,528	34,910	52,035	52,312	55,568	55,700	56,252
Net finance cost	-40,038	-17,018	-8,083	-7,336	-4,986	-4,764	-3,446
PBT	-1,510	17,892	43,952	44,976	50,582	50,936	52,805
Tax	9,607	(2,374)	(7,472)	(11,244)	(12,645)	(12,734)	-13,201
PAT	8,097	15,518	36,480	33,732	37,936	38,202	39,604
Balance Sheet (N'million)	2018**	2019	2020E	2021E	2022E	2023E	2024E
Property, plant and equipment	394,489	369,797	366,655	364,022	362,085	360,637	360,637
Non-Current Assets	447,376	422,106	420,942	419,215	418,575	418,085	418,085
Current Assets	12,551	27,104	29,515	18,943	31,540	39,820	49,627
Total Assets	540,737	497,152	514,991	504,186	511,561	523,631	533,895
Borrowings	266,207	64,185	60,976	40,416	38,395	36,475	34,652
Non-Current Liabilities	193,546	67,826	65,193	45,181	43,680	42,254	40,899
Current Liabilities	212,650	84,412	97,587	100,049	101,337	107,193	110,891
Equity	134,541	344,914	352,210	358,956	366,544	374,184	382,105
Key Ratios							
P/E	(12.32)	15.88	5.30	5.73	5.10	5.06	4.9
EV/EBITDA	5.9	4.4	2.8	2.7	2.4	2.3	2.1
ROA	1.6%	3.0%	7.2%	6.6%	7.5%	7.4%	7.5%
ROE	6.0%	6.5%	10.5%	9.5%	10.5%	10.3%	10.5%
Gross margin	30.8%	26.3%	31.2%	31.3%	32.0%	31.8%	31.7%
Net Margin	3.7%	7.3%	15.3%	14.0%	15.4%	15.3%	15.6%
EPS	0.93	0.96	2.26	2.09	2.36	2.37	2.46
EBIT margins	17.7%	16.4%	21.8%	21.7%	22.5%	22.3%	22.2%
Effective Tax rates	N/A	13.3%	17.0%	25.0%	25.0%	25.0%	25.0%
Debt to Capital	66.4%	15.7%	14.8%	10.1%	9.5%	8.9%	8.3%
Interest coverage	0.96	2.05	6.44	7.13	11.14	11.69	16.3
BVPS	62.34	30.86	31.97	31.30	31.76	32.51	33.1

**ARM ratings and recommendations**

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

<b>TOP 20</b>		<b>NON-TOP 20</b>	
<b>Rating</b>	<b>Deviation</b>	<b>Rating</b>	<b>Deviation</b>
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

<b>RECOMMENDATION KEY</b>	
<b>Rating</b>	<b>Recommendation</b>
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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