

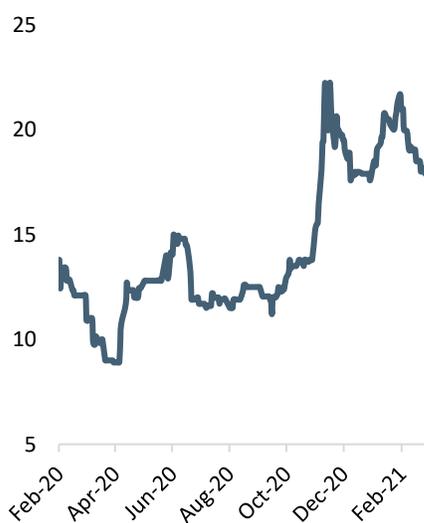


Dangote Sugar Refinery Plc. (DANGSUGA.NL)

Earnings Update

Rating	NEUTRAL
Price	₦17.85
FVE	N/A
52-week range	₦8.90 – ₦23.45
Market Cap (₦bn)	216.822
1-month Avg. Vol	9,875,975
Current. PE	7.32

DANGSUGA:NL - Share Price Trend



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Strong end to a strong year

Dangote Sugar Refinery's Q420 revenue of ₦53.78 billion was a decline from Q320's ₦57.28 billion (-6%QoQ) but still represented a strong growth of 23% when compared to Q419 (₦43.66 billion). DSR's cost of sales declined, for the first time since Q119, by 0.6%YoY which is impressive in the midst of a double-digit inflation and a currency depreciation. Gross profit more than doubled to ₦19.6 billion on the back of higher revenue and declining costs while operating profit also doubled (to ₦16.56 billion) despite a rise in OPEX. A sharper drop in finance expense than finance income brought net finance expense down by 40% which helped lead PBT higher by 142%YoY to ₦16.54 billion. DSR are hosting a conference call on Thursday to go over their results and provide guidance for the upcoming year; we will provide our forecasts after this call.

- Corporate sales leads revenue higher:** DSR's 23%YoY revenue growth to ₦53.78 billion over Q420 was driven by a 25% rise in sales of their 50kg bags (i.e. corporate sales). Corporate sales accounts for 95% of their total sales so performance in that space is a strong driver of overall revenue performance. Retail sales, on the other hand, accounts for 3% of total revenue and declined by 32%YoY in Q420. There were also increases in the sale of molasses (85%YoY) and freight income. Costs, on the other hand, declined by 0.6%YoY to ₦34.18 billion led by a 7.4%YoY fall in overhead costs. Raw materials, which makes up the bulk of cost of sales, was up by 0.91%YoY over the quarter. Consequently, gross profit rose 112%YoY to ₦19.6 billion leading to a higher gross margin of 36% (Q419: 21%).

OPEX rose 23.6%YoY to ₦2.96 billion largely driven by the 27% YoY rise in admin cost over the period as employee costs, management fees and training costs increased while sales & distribution costs fell by 12.7%YoY. Additionally, DSR booked a ₦99 million impairment on its investment in Dangote Niger Sugar Ltd. Operating profit (EBIT) came in at ₦16.56 billion, a 141%YoY increase, which translates to an EBIT margin of 31% (Q419: 16%).

- Finance income was lower by 80%YoY following a fall in interest income earned on bank deposits while finance expenses crashed by 106%YoY. The combined effect was a 40%YoY fall in net finance expense to ₦174 million. PBT came in 142% higher YoY at ₦16.54 billion but a spike in tax expense to ₦13.4 billion, from an ₦800 million tax credit a year ago, meant that PAT declined by approx. 60%YoY to ₦3.15 billion.
 - Over FY20, DSR's revenue grew by 33% to ₦214.3 billion which marks the fastest pace of increase since FY16. There was growth across corporate sales (+35%), retail sales (+35%) and sales of molasses (+52%) while freight income (-57%) recorded the only decline. Cost of sales was up 31% over the year to ₦160.6 billion, led by higher raw materials (+35%), overhead costs (+16%) and labour costs (+25%), which led to a gross profit of ₦53.7 billion (+40%). OPEX came in at ₦9.7 billion, a 12% increase, as admin costs rose 15% and sales & distribution costs declined by 17%. EBIT rose 48% to ₦44.4 billion which gives us a margin of 21% (FY19: 19%), while finance income fell by 5% and finance expense was 270% higher. A positive fair value adjustment of ₦2.4 billion meant that the overall effect was a 53% rise in PBT to ₦45.62 billion while a doubling of income tax expense to ₦15.9 billion meant that PAT rose by a more subdued rate of 33% to ₦29.78 billion.
 - Highlights from the balance sheet include a 34%QoQ decline in cash to ₦44.86 billion as DSR recorded a higher cash outflow in Q4 20 for the purchase of PPE. Inventories were up 58%QoQ to ₦63 billion as raw materials in transit (+50%), finished goods (+85%) and production supplies (+98%) rose significantly during the period. Lastly, trade and other receivables were up 20% to ₦63.1 billion as trade receivables rose 83% to ₦6.9 billion and advance payment to contractors climbed by 45% to ₦30.1 billion
 - The management team at DSR are hosting a conference call on Thursday to go over their results and provide guidance for the upcoming year. We will hold off making any forecasts or changes to our estimates until after this meeting which should provide us with more clarity.
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Summary of Results and Forecasts

QUARTERLY					
Income Statement (₹'000) *	Q419	Q120	Q220	Q320	Q420
Revenue	43,660,974	47,643,021	55,590,750	57,280,222	53,783,754
COGS	34,394,570	34,922,219	47,488,161	43,958,028	34,182,891
Gross Profit	9,266,404	12,720,802	8,102,589	13,322,194	19,600,863
Operating Cost	2,391,447	2,005,900	1,829,031	2,896,979	2,955,597
Operating Profit	6,874,957	10,714,902	6,273,558	10,480,415	16,557,461
Interest Income	720,020	124,050	184,242	234,982	141,511
Interest Expense	516,210	1,352,978	124,791	470,724	(32,944)
PBT	6,851,973	9,477,263	7,566,958	12,033,427	16,544,670
Tax	(806,775)	3,137,216	2,326,327	(3,015,475)	13,399,008
PAT	7,658,748	6,340,047	5,240,631	15,048,902	3,145,662
Balance Sheet (₹ '000) *	Q419	Q120	Q220	Q320	Q420
Fixed Assets	82,997,430	83,555,790	84,205,071	93,953,690	101,733,526
Inventories	38,863,729	58,682,305	29,409,125	39,851,323	63,000,300
Receivables	33,779,377	37,816,728	36,072,545	52,595,742	63,060,342
Liabilities					
Payables	63,223,853	94,302,394	82,743,625	131,702,660	135,518,094
Non-current Liabilities	8,029,989	8,004,627	6,785,611	7,151,579	11,271,389
Total liabilities	85,569,452	119,364,984	109,487,655	148,844,414	153,320,682
Shareholders' fund	108,136,464	114,508,939	117,017,142	121,566,043	124,711,707
Key Ratios	Q419	Q120	Q220	Q320	Q420
Gross Margin	21.2%	26.7%	14.6%	23.3%	36.4%
EBIT Margin	15.7%	22.5%	11.3%	18.3%	30.8%
PBT Margin	15.7%	19.9%	13.6%	21.0%	30.8%
PAT Margin	17.5%	13.3%	9.4%	26.3%	5.8%
EPS	0.64	0.53	0.44	1.24	0.26

Source: ARM Research, NSE

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:

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

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

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