



Dangote Cement Plc

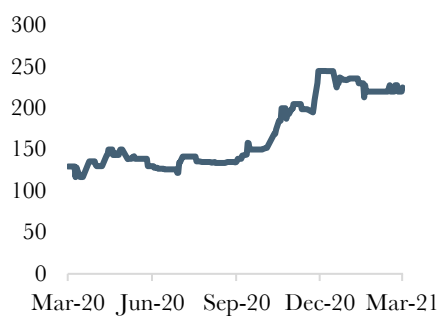
Price	N225.00
52-week range	N116.0-N253.4
Market Cap. (N'bn)	3,834
1-month Avg. Vol	1,026,958
Curr. PE	13.94

Stock report

Operational efficiency spur growth in EPS

- Dangote Cement posted an impressive growth of 36.9% YoY in EPS to N16.14 (surpassing our estimate of N14.08) over 2020. Despite posting an operating profit of N386.73bn which was largely in line with our estimate of N385.19bn, the deviation on the EPS leg stemmed from lower net finance cost and tax charges than forecasted in our model. Significant foreign exchange gains over 2020 derived from DANGCEM's operation in other African markets following the devaluation of the Naira led finance income higher by over 600% YoY to N29.81bn. Similarly, the absence of foreign exchange losses helped moderate finance expenses by 45.83% YoY to N9.69bn. Furthermore, the tax provisioned for in the FY'20 income statement was 5.41% lower than our estimate. Thus, PBT expanded by 49.04% YoY to N373.31bn (vs our forecast of a 36.82% YoY increase to N342.70bn).**

DANGCEM.NL - Share Price Trend



Analyst

Olayemi Olamofe

Olayemi.olamofe@arm.com.ng

- Going into 2021, we maintain our optimism on DANGCEM and expect the company to sustain earnings growth, albeit at a slower pace relative to 2020. According to the IMF, Sub-Saharan Africa is expected to grow by 3.2% YoY in 2021, which may be positive for the demand for cement. Furthermore, recent price increases taken in January 2021 as mentioned by management may bode well for topline and margins. Specifically, we expect PBT to expand by 10% YoY and EPS to grow by 4% YoY in 2021. The slower growth in our forecasted PBT and EPS numbers is largely due to the high base effect of 2020. The impact of our adjustments following an impressive run in 2020 culminated in an increase in our fair value estimate on DANDCEM to N255.73 (previous: N235:35). DANGCEM trades at a 2021 EV/EBITDA of 8.5x which is a discount to MEA peers of 10.4x. Accordingly, we maintain an **OVERWEIGHT** recommendation on the stock.
- In Q4'20, PBT and PAT expanded by 91.95% YoY and 45.94% YoY to N373.31bn and N276.07bn respectively. This was largely supported by expansion in gross profit, muted opex/sales ratio and a net finance income posted over the period (vs a net finance cost in Q4'19). Revenue grew by 28.73% YoY to N1.03trn with volume contributing 10.82% YoY to the total expansion in topline. On a segment basis, revenue generated from Nigeria and Pan-Africa rose by 29.55% YoY and 23.83% YoY to N184.44bn and N86.07bn respectively.

Sales volume in Nigeria increased at a faster pace (+15.77% YoY) than witnessed in DANGCEM's Pan African market (+4.57% YoY). In Nigeria, following the easing of the lockdown measures in H2'20, we saw strong demand for cement (+39.86% YoY) which drove the 45.52% YoY growth witnessed in Q3'20 revenue. We believe this momentum may have continued into Q4'20 which, coupled with the on-going National Consumer Promo, supported the strong growth numbers witnessed in the last quarter of the year. Except for Ethiopia and Tanzania, DANGCEM recorded growth in all of its Pan-African market in Q4'20 following increased infrastructural projects after relaxations of lockdown measures.

- However, we saw faster increases in the cost of sales, up 33.85% YoY to N120.43bn. Factoring in the volume sold over the Q4'20 period, we estimate a 20.78% YoY rise in cost per tonne to N18,992 with raw material and energy cost accounting for over 66% of the overall increase. While the devaluation of the Naira was negative for DANGCEM's gas contract given that it is priced in dollars, continued northward trend in consumer prices led to an increase in YoY raw material cost. While the faster increases in cost of sales relative to topline led gross margin down by 169bps YoY to 55.85%, improvement in volume supported a 24.95% YoY increase in gross profit to N152.32bn.
 - Moving down the P&L line, we observed DANGCEM remained operationally efficient with opex/sales declining by 565bps YoY to 20.03%. This was majorly driven by the 11.40% YoY reduction in selling and distribution expenses which more than offset the 29.33% YoY increase in admin expenses. The fall in opex/sales coupled with the expansion in gross profit helped supported a 44.43% YoY and 394bps YoY improvement in operating profit and operating margin to N98.81bn and 36.23% respectively. On the financing leg, the company posted a net finance income of N1.79bn in Q4'20 (vs a net finance cost of N16.26bn in Q4'19). This was driven by a combination of lower net finance cost, due to the absence of FX losses in the quarter, and a higher finance income on the back of the FX gains posted during the period.
 - Over the FY'20 period, DANGCEM recorded a 49.04% YoY and 37.68% YoY increase in PBT and PAT to N373.31bn and N276.07bn respectively. This was supported by 15.98% YoY growth in topline driven by both volume and price increases. Over the period, cost of sales grew at a slower pace relative to revenue despite inflationary cost pressures and naira devaluation. Management alluded this to improved plant efficiency, better fuel mix and general overhead optimization. This led to an expansion in both gross profit and gross margins, which combined with operating efficiency and lower YoY net finance cost supported the improvement in PBT and PAT numbers. Management's proposed final dividend for FY'20 is N16/share, which implies a payout ratio of 99% and a dividend yield of 7.11% using yesterday's closing price.
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Summary of Results

Income Statement (₦'million)	2020F	2021F	2022F	2023F	2024F	2025F
Volume (Million tonnes)						
Nigeria Volume	15.7	16.1	17.1	18.1	19.0	20.0
Rest of Africa Volume	10.0	11.2	11.4	11.6	11.7	11.9
	25.7	27.3	28.5	29.6	30.8	31.9
Nigeria Price (N'000)	45.7	47.1	47.6	48.1	48.5	49.0
Rest of Africa Average Price (N'000)	31.9	32.6	32.4	32.2	32.1	31.9
Revenue						
Nigeria	719,945	759,730	813,367	868,000	923,645	980,317
Rest of Africa	318,681	365,174	369,115	373,008	376,853	380,650
Intercompany	-	-	-	-	-	-
	1,034,196	1,124,903	1,182,482	1,241,008	1,300,498	1,360,967
COGS	437,970	462,891	477,344	494,374	510,058	547,611
Gross Profit	596,226	662,012	705,138	746,635	790,440	813,356
Operating Cost	214,058	228,084	239,785	249,243	260,206	279,810
Operating Profit	386,734	440,251	473,635	508,076	543,804	550,509
Finance Income	29,814	13,183	11,711	10,517	14,820	21,971
Finance expense	43,988	45,543	38,653	35,317	33,837	34,160
PBT	373,310	417,870	455,674	491,359	532,061	544,867
Tax	97,242	125,361	136,702	147,408	159,618	163,460
PAT	276,068	292,509	318,972	343,951	372,443	381,407
Balance Sheet (₦'million)						
Fixed Assets	1,390,687	1,443,208	1,477,469	1,502,006	1,529,336	1,529,336
Stocks	108,270	126,573	130,047	134,192	137,940	147,548
Trade debtors	35,194	41,621	41,742	43,986	45,517	47,971
Cash and other bank balances	145,835	93,777	121,406	181,825	267,728	394,190
Total Assets	2,022,451	1,977,942	2,051,785	2,151,587	2,278,210	2,424,794
Trade Creditors	349,388	337,814	347,884	359,801	370,706	397,451
Non-current Liabilities	301,664	240,432	214,766	192,973	174,381	158,449
Total liabilities	1,131,481	1,056,410	1,059,914	1,086,891	1,133,430	1,215,183
Shareholders' fund	890,970	921,532	991,871	1,064,696	1,144,781	1,209,611

Source: ARM Research *unless otherwise stated

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 other subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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