



Stock Update: Non-Nigerian support gains momentum

Recommendation: (₦181.18)***As non-Nigerian support gains momentum ...***

- We review our estimates for Dangote Cement Plc (Dangcem) and cut our Nigeria FY 15 volume growth expectation by 2pps to -6% YoY, corresponding to estimated production volumes of 12MT (vs. 13.5–14.5MT guidance by management) on the back of our macro economic outlook and stifled construction spending. To this point, we note that, in addition to macro weakness, logistic drawbacks in shipping of cement occasioned by fuel shortages has already contributed to 7.5% YoY contraction in sales volume to 6.3MT in H1 15 while rainy season and Q4 festivities should keep volumes lower for the remaining half year. However, we forecast a more optimistic FY 15 volume story for the rest of Africa (we estimate a threefold YoY increase to 3MT), following “low pricing” penetration strategy in Senegal and rising market share in South Africa. In particular, the case for South Africa is strengthened by the recently imposed higher tariff on cement importation from Pakistan which largely underpins our volume estimate of ~1.3MT (+60% YoY) for the South African business over 2015. Specifically, in mid-May, South Africa introduced a provisional anti-dumping duty ranging between 14.3 – 77.2% on cement imports from Pakistan (~14% of South African market). The duty, which is expected to last for 6 months, eases competition and should ultimately support volume growth for domestic players—including Dangcem’s South African business.

Income Statement Data

	2015- 6M'm	2014 - 6M'm	%chg
Revenue	242,215	208,909	16.0%
PBT	128,726	107,070	20.2%
Tax	6,918	11,630	-40.5%
PAT	121,808	95,440	27.6%

Balance Sheet Data

	2015-Jun 'm	2014 -Dec 'm	%chg
Inventory	56,403	42,688	32.1%
Receivables	31,675	15,640	102.5%
Cash	51,629	20,593	63.5%
Payables	155,063	120,256	150.7%
Net Assets	612,712	591,886	3.5%

Stock Data

Price	₦165.15
52 week range	₦139.10 – ₦229.00
Market Cap. (N'T)	2.814
1-month Avg. Vol	570,605.53
Curr. PE	14.98x
Bloomberg Ticker	DANGCEM:NL
Reuters Ticker	DANGCEM.LG

Dangote Cement Plc- Share Price Trend**Analyst(s)****Philip Anegebe**philip.anegebe@arm.com.ng

Overall, group volume should be ~7% higher YoY at ~15MT (vs. 12MT in previous estimate), with growth driven by non-Nigerian sales.

Table 1: Capacity and commencement dates of non-Nigerian operations

market	commencement date	capacity	% of total planned capacity
South Africa	Q1 & Q3 2014	3,000,000	5%
Senegal	Q1 2015	1,500,000	3%
Ethiopia	Q2 2015	2,500,000	4%
Congo Rep	H2 2016	1,500,000	3%
Tanzania	Q3 2015	3,000,000	5%
Zambia	Q2 2015	1,500,000	3%
South Sudan	TBC	1,500,000	3%
Cameroon	Q1 2015	1,500,000	3%
Cote d'Ivoire	H2 2016	1,500,000	3%
Ghana	Q1 2013	2,500,000	4%
Kenya	TBC	1,500,000	3%
Liberia	2017	500,000	1%
Sierra Leone	H2 2015	700,000	1%

Source: Source: Dangote Cement Plc, ARM Research

On the price front, we expect Nigerian cement prices to remain at current levels in the near to medium term – largely in line with management guidance. For the near term case, weak industry demand, slight market share erosion for Dangcem in the most recent quarter and current naira stability offers little or no support for further price hike in Nigeria for the remainder of 2015. Away from Nigeria though, we expect average prices for the rest of Africa to come in 9% higher YoY at ₦30,498 per ton over 2015 (vs. ₦28,098 in previous estimates), on the back of higher cement prices in countries such as Zambia and Ethiopia. Overall, our volume and price adjustments translate to ~16% rise in our forecast 2015 revenues to ₦470billion. With cost of sales expected to rise a slightly slower 15% YoY to N164 billion, aided by the company's coal for LPFO substitution efforts, we forecast gross margins 2ppt higher YoY at 65% for FY 2015.

Expected lower tax to moderate rising spends on logistic capabilities and finance charges

In line with the trend over the first two quarters of 2015, we expect OPEX pressures to subsist for the rest of the year (i.e. +23% higher YoY at ₦79billion over 2015). Specifically, sharp increases in distribution and administrative expenses should continue to reflect ramp up of logistics and administrative capabilities to support maiden market penetration outside Nigeria. Nonetheless, we expect the initially highlighted gains from strong top-line performance to significantly mask the impact of these higher expenses. On other fronts, an ~16% YoY rise in net debt to ₦257billion in H1 15 and higher interest charges on domestic (~4pps higher YoY to 14%, by management guidance) and foreign debts should cascade to slight increase in net finance charges over FY 15. However, pass-through effect of net finance charges should be significantly moderated by lower effective tax rates (average of 6.4% over FY 15 in our estimates) . To the latter point, we note that management had re-iterated plans to continue ramping up volumes from zero tax plants within and outside Nigeria, with 28% of its Nigerian capacity still enjoying tax concessionary status.

Overall, we look for EPS growth of 43% from prior year to ₦13.42 by YE 15 (vs. 21% EPS growth in previous communication). Importantly, we highlight that our expectation of more than 124% growth in EPS by YE 2019 to ₦30.12 (vs. 112% EPS growth previously expected) on the back of rising non-Nigerian volumes and lower taxes largely underpins ~7% northward adjustment in our FVE to **₦181.18**. This implies an upgrade in our recommendation to **NEUTRAL** (vs. **SELL** in previous communications)

Valuation breakdown

Based on our estimates, we find Dangcem cheaper on a relative valuation basis vs. Bloomberg emerging market peers on current EV/EBITDA multiple. Relative to these peers, Dangcem's estimated EV/EBITDA of 11.6x is at 12% discount. Solely on this valuation method, we expect the stock to trade at N203. For our FCFF and DDM methods though, we arrived at values per share of ₦178.43 and ₦163.33. The main assumptions underlying our FCFE and DDM methods are a Beta of 0.9, an equity risk premium of 5%, WACC of 16.1%, and cost of equity of 19%.

Summary of forecasts

QUARTERLY					
Income Statement ('mln)	Q1 2015A	Q2 2015A	Q3 2015E	Q4 2015E	
Turnover	114,737	127,478	122,187	105,549	
COGS	39,997	44,504	42,766	37,216	
Gross Profit	74,740	82,974	79,422	68,332	
Operating Costs	17,595	19,408	22,370	20,519	
Operating Profit	58,439	63,966	58,274	49,597	
Net Finance costs	11,729	-5,408	3,366	3,259	
Profit Before Taxation	70,168	58,558	61,640	52,856	
Taxation	1549	5369	4086	3589	
Profit After Taxation	68,619	53,189	57,554	49,266	
Income Statement ('M)	2014A	2015E	2016E	2017E	2018E
Revenue	391,639	469,951	553,149	683,534	819,319
COGS	143,058	164,483	182,539	225,566	262,182
Gross Profit	248,581	305,468	370,610	457,968	557,137
Operating Cost	65,088	79,892	79,100	82,024	90,125
Operating Profit	187,102	230,276	297,041	382,779	475,205
Finance Income	30,565	59,221	59,212	21,729	4,097
Finance expense	32,978	46,276	38,906	35,094	38,626
PBT	184,689	243,221	317,346	369,414	440,676
Tax	25,187	14,593	19,041	22,165	22,034
PAT	159,501	228,628	298,306	347,249	418,642
Balance Sheet ('M)	2014A	2015E	2016E	2017E	2018E
Assets					
Fixed Assets	747,794	908,957	1,058,175	1,178,181	1,245,596
Stocks	42,688	44,410	49,286	51,880	52,436
Trade debtors	15,640	14,568	19,360	25,291	31,953
Cash and other bank balances	20,593	3,550	3,057	74,568	241,674
Total Assets	984,721	1,127,703	1,301,610	1,504,931	1,765,704
Liabilities					
Trade Creditors	100,930	115,138	125,952	135,340	157,309
Non-current Liabilities	159,886	167,924	175,075	179,666	182,911
Total liabilities	392,834	462,656	547,072	653,162	805,089
Shareholders' fund	591,886	665,047	754,539	851,769	960,616
Key Ratios	2014A	2015E	2016E	2017E	2018E
P/E	21.37	12.31	9.43	8.10	6.72
EV/EBITDA	16.34	11.34	9.08	7.21	5.83
ROA	17%	22%	25%	25%	26%
ROE	28%	36%	42%	43%	46%
Net Margins	41%	49%	54%	51%	51%
EPS	9.36	13.42	17.51	20.38	24.57

Source: Company financials, ARM Estimates

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

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