

Dangote Cement Plc. (DANGCEM.NL)

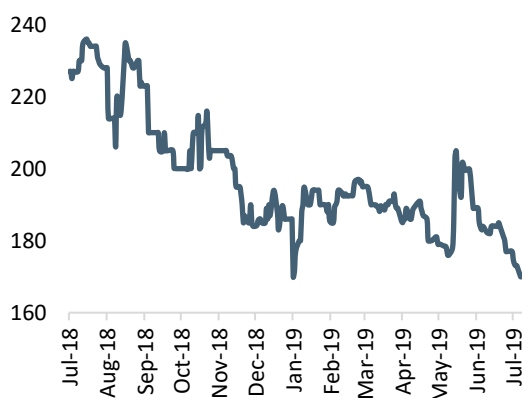
| | |
|----------------------------------|------------|
| Rating | BUY |
| Price | ₦170.0 |
| FVE (<i>last communicated</i>) | ₦248.14 |
| 52-week range (₦) | 167.90-240 |
| Market Cap. (N'bn) | 2,896 |
| 1-month Avg. Vol | 926,299 |
| Curr. PE | 11.8x |

Initial View

Non-core lines support PAT

- DANGCEM released Q2 19 results earlier today which showed EPS grew by 44% to ₦3.46 (in line with our estimate of ₦3.43) from ₦2.41 in Q2 18, emanating largely from a material decline in net finance cost (-71% YoY) and tax provision for the period (-51% YoY).
- Group revenue dropped 5.3% YoY to ₦228 billion, reflecting declines in both Nigeria (-6.9% YoY to ₦158 billion) and Pan-African (-0.4% to ₦70 billion) businesses. Dangcem continues to face receding market share¹ (64% vs 66% last year) in Nigeria with volumes dropping 6.2% YoY to 3.6MT, while prices (-0.8% YoY, +3.3% QoQ to ₦43,952/ton) are yet to fully reflect the ₦150/50 kg bag hike (similar to peers) -- mirroring lingering impact of the erosion in prices over H2 18. For Pan-Africa, volume was relatively flat at 2.3MT, while prices dipped 1% on the year to ₦29,839/ton.
- On the positive, COGS declined 6.5% YoY, with gross margin expanding 54bps to 58.8%. The cost savings emanated from improved energy cost (-14% YoY), with related cost per ton declining 3% YoY to ₦15,763. We believe the improvement is linked to the new gas turbines installed in Tanzania and improved efficiency on coal utilisation.
- Meanwhile, Opex rose 15% YoY to ₦52 billion, due to increased marketing expenses which offset the decline in admin cost (-9% YoY to ₦12 billion). As a result, EBITDA dropped 12% YoY, while related margin contracted 372bps to 48% – Nigeria (-416 bps to 61%) and Pan-Africa (-99 bps to 17%).
- The decline in net finance cost (-71% YoY to ₦5.6 billion) was spurred by the drop in FX loss (-94% YoY to ₦956 million) which left PBT nearly flat YoY at ₦77 billion. In addition, a lower ETR of 23% compared to 47% in Q2 18, supported growth in PAT by 44% on the year to ₦59 billion. DANGCEM currently trades at a P/E of 11.8x compared to Bloomberg Middle East & Africa peer average of 20.2x.

DANGCEM.NL - Share Price Trend



Analyst(s)

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¹ Given both Lafarge and CCNN were able to grow volumes over the review period by 2% and 145% YoY to 1.4MT and 368kt

Our last communicated FVE of ₦248.14 translates to a BUY rating. **Our model is under review.**

Summary of Results

| Income statement – (₦'million) | Q2 19 | Q2 18 | YoY growth | QoQ growth | H1 19 | YoY growth | Deviation from forecast |
|--------------------------------|---------|---------|------------|------------|---------|------------|-------------------------|
| Revenue | 227,573 | 240,323 | -5% | -5% | 467,730 | -3% | -7% |
| Cost of sales | 93,694 | 100,243 | -7% | -6% | 193,172 | -2% | -5% |
| Gross profit | 133,879 | 140,080 | -4% | -5% | 274,558 | -4% | -9% |
| OPEX | 52,456 | 45,444 | 15% | -1% | 105,290 | 21% | 4% |
| Operating profit | 82,114 | 96,730 | -15% | -7% | 170,496 | -15% | -16% |
| Net interest expense | -5,586 | -19,595 | -71% | -41% | -15,008 | 0% | -48% |
| PBT | 76,528 | 77,135 | -1% | -3% | 155,488 | -16% | -12% |
| PAT | 58,986 | 41,041 | 44% | -2% | 119,240 | 5% | 1% |
| EPS | 3.46 | 2.41 | 44% | -2% | 7.00 | 5% | 1% |

| Key Ratios | Q2 19 | Q2 18 | Change(pps) | H1 19 | H1 18 | Change(pps) |
|--------------------|-------|-------|-------------|--------|--------|-------------|
| Gross margin | 58.8% | 58.3% | 0.54% | 58.70% | 59.04% | -0.34% |
| EBIT margin | 36.1% | 40.2% | -4.17% | 36.45% | 41.56% | -5.11% |
| PBT margin | 33.6% | 32.1% | 1.53% | 33.24% | 38.46% | -5.22% |
| PAT margin | 25.9% | 17.1% | 8.84% | 25.49% | 23.46% | 2.04% |
| Effective tax rate | 22.9% | 46.8% | -23.87% | 23.31% | 39.01% | -15.70% |

Source: ARM Research

*unless otherwise stated

Ratings, Disclosure & Disclaimer – [Click here](#)