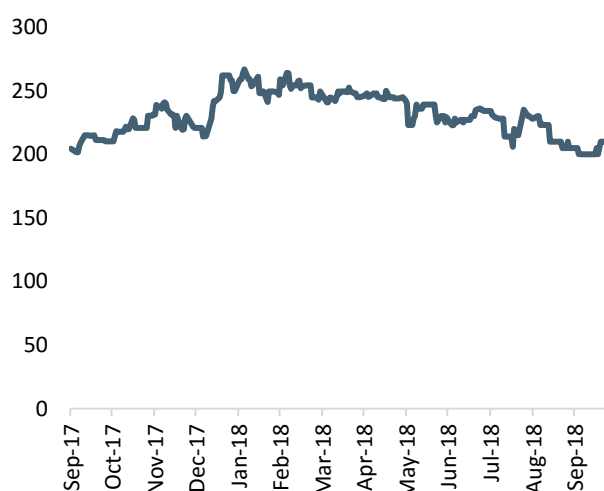


Quarterly EPS	Q1	Q2	Q3	Q4
<b>2016 A</b>	3.10	2.97	1.77	3.12
<b>2017 A</b>	4.14	4.31	2.88	0.65
<b>2018A (E*)</b>	4.23	2.41	2.64	3.01*

Stock Data	
<b>Price</b>	₦210.00
<b>FVE</b> (last communicated)	₦278.54
<b>52-week range</b>	₦199.90 - ₦290.00
<b>Market Cap. (N't)</b>	3.579
<b>1-month Avg. Vol</b>	1,258,754
<b>Current PE</b>	21.9x

#### Dangote Cement Plc- Share Price Trend



#### Analyst(s)

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## Dangote Cement Plc. (DANGCEM.NL)

### Initial View

#### Slack Nigeria performance slowed earnings growth

- Dangote Cement (DANGCEM) released Q3 18 result this morning, reporting EPS growth of 1.6% YoY to ₦2.64 (missing our estimate of ₦3.55). The variance between actual and expected stemmed from a lower than expected growth in revenue (+6.3% YoY vs. +13.8%) and a faster growth in cost of sales (+9.5% YoY vs. +8.0%) which combined resulted in a lower growth in gross profit of 3.8% YoY (vs. 18.3% estimate). However, following the revision of prior year's cash tax, reported Q3 18 effective tax rate came in lower at 27% (Q3 17: 31.2% and Q2 18:46.8%), thus providing support for PAT.
- Going by the breakdown, group revenue grew by 6.3% YoY to ₦202.9 billion driven by higher volumes in Nigeria and the Pan African businesses, despite relatively softer prices across markets. Starting off with the Nigeria, while the business recorded price erosion of 3.9% YoY to ₦43,187 per tonne, sales volume grew 6.2% YoY to 2.5mt, thus neutering the moderation in price to record revenue growth 2.01% YoY to ₦127.2 billion. For the rest of Africa, volumes grew by 15.9% YoY to 2.5mt taming the effect of a 1.4% decline in average prices to ₦30,728 per tonne – driving the revenue higher by 14.3% YoY to ₦75.6 billion
- However, input cost grew at a much faster pace (+9.46% YoY to ₦ 90.1 billion) buoyed by higher salaries and depreciation expense. Peculiarly, salaries and related staff costs rose by 39.4% YoY to N8.7 billion while depreciation expense rose by 13.8% YoY to N16.2 billion – moderating the impact of declines in

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energy cost per tonne (8.9% YoY N4,860) and materials consumed per tonne (7.1% YoY to N5,674). Consequently, gross margin contracted by 1.3% YoY to 55.6% (Forecast: 59.1%).

- Elsewhere, operating expense grew by 19.1% YoY to ~~N~~48.4 billion, driven by higher haulage and depreciation expenses. Particularly, haulage cost per tonne in Nigeria rose 44.4% YoY to ~~N~~4,541, a development we will be seeking clarification from management. As a result, OPEX to sales grew to 23.9% (+2.6% YoY). The depressed margins coupled with higher operating expense drove operating income lower by 4.7% YoY to ~~N~~66.3 billion with respective margin at 32.7% (-3.8% YoY). Further down, net finance cost moderated by 10.4% YoY to ~~N~~4.5 billion hinged on a decline in both its finance income and cost. For clarity, finance income declined by 32.9% YoY to ~~N~~7 billion, while the finance expense declined by 25.6% YoY to N11.6 billion.
- A feed through of the pressure from its input and operating cost drove PBT lower by 4.3% to ~~N~~61.8 billion (forecast: ~~N~~75 billion). However, the lower tax reported in the period (-17.2% YoY to 16.7 billion) after restating its Q3 17 tax, drove PAT higher by 1.59% to N45.1 billion. For context, effective tax rate dropped to 27.0% (vs 31.2%).
- DANGCEM trades at a P/E and EV/EBITDA of 21.9x and 8.9x compared to Bloomberg Middle and East Africa Peers at 30.8x and 9.3x respectively. Our last communicated FVE of ~~N~~278.54 translates to a **BUY** rating on the stock. Our model is under review.

## Summary of Results

Income statement – (N'000)	Q3 18	YoY growth	QoQ growth	Deviation from forecast	9M 18	9M 17	YoY growth	Deviation from forecast
<b>Volumes (mt)</b>								
Nigeria	2,946	6%	-23%		10,756	9,629	11.70%	
Pan Africa	2,461	16%	6%		7,026	6,864	2.36%	
<b>Prices (N)</b>								
Nigeria	43,187	-4%	-3%		43,821	43,215	1.40%	
Pan Africa	30,728	-1%	2%		30,502	27,772	9.83%	
Revenue	202,851,000	6%	-16%	-7%	685,290,000	603,575,000	14%	-2.1%
Cost of sales	90,087,000	9%	-10%	1%	287,682,000	259,854,000	11%	0.4%
Gross profit	112,764,000	4%	-20%	-12%	397,608,000	343,721,000	16%	-3.8%
Operating expenses	48,401,000	19%	7%	1%	135,264,000	113,497,000	19%	0.3%
Operating profit	66,343,000	-5%	-31%	-20%	266,860,000	233,139,000	14%	-5.7%
Net interest expense	-4,517,000	-10%	-77%	-160%	-19,496,000	-12,957,000	50%	-13.4%
PBT	61,826,000	-4%	-20%	-18%	247,364,000	220,182,000	12%	-5.1%
PAT	45,113,000	2%	10%	-25%	158,277,000	168,828,000	-6%	-8.9%

Key Ratios	Q1 18	Q1 17	Change(pps)	FY 17	FY 16	Change(pps)
Gross margin	55.6%	56.9%	-1.3%	58.0%	56.9%	1.1%
EBIT margin	32.7%	36.5%	-3.8%	38.9%	38.6%	0.3%
PBT margin	30.5%	33.8%	-3.4%	36.1%	36.5%	-0.4%
PAT margin	22.2%	23.3%	-1.0%	23.1%	28.0%	-4.9%
Effective tax rate	27.0%	31.3%	-4.2%	36.0%	23.3%	12.7%

Source: ARM Research \*unless otherwise stated

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