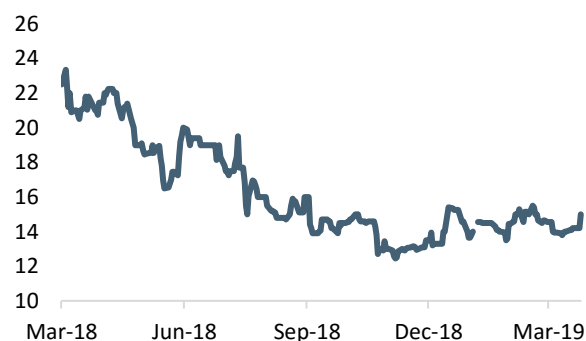


Rating	UNDERWEIGHT
Price	₦15.00
FVE	₦14.44
52-week range	₦12.45-₦22.25
Market Cap. (₦'bn)	180
1-month Avg. Vol	703,488
Curr. PE	8.1x

DANGSUGAR:NL - Share Price Trend



Analyst(s)

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Dangote Sugar Refinery Plc. (DANGSUGAR.NL)

Initial View

Smuggling of cheap sugar hurts topline

- Dangote Sugar Refinery (Dangsugar) released its full year 2018 result wherein it reported weaker earnings (-45% to ₦22 billion), 5% deviation from our earnings estimate – mainly due to higher than expected tax paid during the period. For clarity, effective taxes over the period printed at 36.5% (5-year average: 28% and ARM Estimate: 30%).
- The unimpressive performance mirrors lower sugar prices (-17% YoY to ₦12,429 per 50KG bag), volumes (-12% YoY to 587,899MT) and absence of foreign exchange gain recorded in the prior period. The company declared a final dividend of ₦1.10 (FY 17: ₦1.75), which translates to a dividend yield of 7.3%, based on last closing price.
- Over Q4 18, revenue dipped by 19% YoY to ₦33.6 billion, reflecting declines in sugar prices and volumes. Sugar prices dropped by 15% YoY in the review period, reflecting the influx of low-priced smuggled sugar thereby forcing DSR to reduce its prices to compete favorably in the market. Additionally, volumes were also pressured, down by 18% YoY as gridlock situation at APAPA affected outbound logistics.
- Despite the poor showing in topline, gross margin expanded by 557bps to 29% as input cost decline at a faster pace (-24.7% YoY to ₦24.0 billion) relative to revenue. For us, we believe the decline mirrors the moderation observed in global sugar prices (-11.6 % YoY) and improved dollar liquidity. Further down, mirroring gains from margin expansion and slight moderating in OPEX, EBIT margin expanded by 598 bps to 24%

- **Absence of FX gains muddles margin expansion:** Despite the expansion in operating margins, profit before tax came in lower at ₦8.4 billion (-41% YoY), as the absence of FX gains in the quarter led to a deceleration in net finance income to ₦242.8 million (₦5.3 billion). To recall, in Q4 2017, the company recorded foreign exchange gain of ₦4 billion. Overall, Profit after tax dipped 60% YoY to ₦5.3 billion
- DANGSUGAR trades at a P/E of 8.1x compared to Bloomberg Middle and East Africa Peers at 26.9x. Our last communicated FVE on the stock is ₦14.44 which translates to an **UNDERWEIGHT** rating on the stock. We will revisit our numbers after further analysis and discussion with management.

	Deviation						
	Q4 18	YoY growth	QoQ growth	From forecast	FY 18	FY 17	YoY growth
Revenue	33,618	-18.8%	2.9%	-2.2%	150,373	204,422	-26.4%
Cost of sales	24,018	-24.7%	-7.2%	4.1%	110,688	153,434	-27.9%
Gross profit	9,600	0.9%	41.4%	-3.2%	39,685	50,988	-22.2%
Operating expenses	1,631	-25.1%	-14.5%	6.1%	7,772	7,482	3.9%
Operating profit	7,968	8.6%	63%	-6.1%	31,914	43,506	-26.6%
Net interest expense	243	-95.4%	-42%	22.0%	2,242	7,223	-69.0%
PBT	8,439	-41.2%	33.9%	-3.6%	34,400	53,599	-35.8%
PAT	5,312	-60.0%	33.1%	6.3%	22,022	39,784	-44.6%

	Q4 18	Q4 17	Change(pps)	FY 18	FY 17 17	Change(pps)
Gross margin	28.6%	23.0%	5.6%	26.4%	24.9%	1.4%
EBIT margin	23.7%	17.7%	6.0%	21.2%	21.3%	-0.1%
PBT margin	25.1%	34.7%	-9.6%	22.9%	26.2%	-3.3%
PAT margin	15.8%	32.0%	-16.2%	14.6%	19.5%	-4.8%
Effective tax rates	37.1%	7.6%	29.5%	36.7%	25.8%	10.9%

Source: ARM Research *unless otherwise stated

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