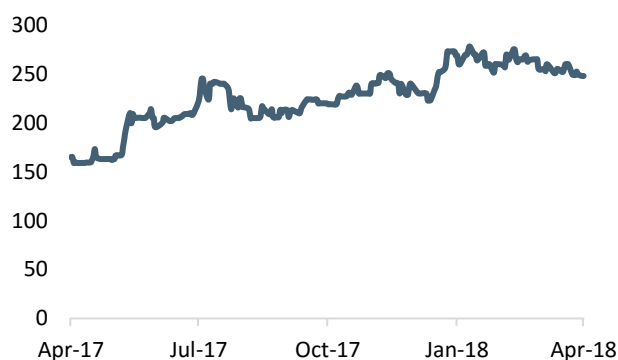




Quarterly EPS	Q1	Q2	Q3	Q4
2016 A	3.10	2.97	1.77	3.12
2017 A	4.14	4.31	2.88	0.65
2018A (E*)	4.23	4.12*	3.16*	3.01*

Stock Data	
Price	₦265.00
FVE (last communicated)	₦256.85
52-week range	₦158.99 - ₦290.00
Market Cap. (N't)	4,226
1-month Avg. Vol	15,889
Current PE	21.4x

Dangote Cement Plc- Share Price Trend



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Dangote Cement Plc. (DANGCEM.NL)

Initial View

Improved Margins underpin earnings growth

- Dangote Cement (DANGCEM) released Q1 18 result this afternoon showing a double-digit growth of 29.1% YoY growth in EPS to ₦4.23 (missing our estimate of ₦4.29). Performance stemmed largely from improved margins, better cost management and a surprise foreign exchange gain (+305% YoY to ₦12 billion) which combined neutered a higher effective tax rate of 33.5% (vs. 27% in Q1 17) reported in the review period.
- Going by the breakdown, much of Q1 18 margin expansion (+197bps YoY to 59.8%) stemmed from relatively higher prices in the Nigerian business (+8% YoY to ₦43,816/tonne) and a rebound in volumes (+5.3% YoY to 4.0MMT) both of which pushed Nigerian revenue 14.2% YoY higher to ₦173.9 billion. For the non-Nigerian business, despite a decline in volumes (-4.4% YoY to 2.2MMT) – a fallout of the civil unrest in Ethiopia, as well as weaker sales in Ghana and Tanzania –, revenue from the region rose 16.8% YoY to ₦68.6 billion underpinned by higher average pricing (+22.1% to ₦30,620/tonne) in the region. Consequent on the improvement in volumes in Nigeria as well as pass-through from still high per tonne prices across markets, group revenue printed higher 16.3% YoY at ₦242 billion – missing our estimate by only 5.4%.
- Additionally, over the review quarter, the company's cost of sales rose slower than revenue (+10.9% YoY to ₦98.7 billion) a development management attributed to the pass-through of the

naira weakness relative to same period last year (₦337/\$ as at the end of Q1 2018 compared to ₦305/\$1 in Q1 2017).

- Also, the gains from energy efficiency continued to materialize with cash cost per tonne (+9.2% YoY to ₦15,682) and energy cost per tonne (+9.9% YoY to ₦5,173) rising single digit. Overall, gross profit was 20.3% higher YoY to ₦144.7 billion with related margin expanding 200bps YoY 59.8% (forecast: 58.0%) – the highest level in eleven quarters.
- Over the quarter, selling and distribution expenses rose 6.5% YoY to ₦29.6 billion which drove operating expenses upwards 9.6% YoY to ₦41.4 billion (forecast: ₦38.4 billion) albeit, slower than revenue growth. As a result, OPEX to sales contracted 360bps YoY to 17.1% which together with robust gross margin led operating margin higher 769bps YoY to 42.9% - the highest level in twelve quarters. Elsewhere, the company booked ₦12.5 billion net foreign exchange gain resulting from intergroup loans. The gain combined with a decline in finance cost (9.4% YoY to ₦10.5 billion) resulted in a net finance income of ₦4.6 billion.
- A feed through of the overall positives translated to a 40.2% YoY PBT growth to ₦108.4 billion (forecast: ₦89 billion). However, the impact of the change in tax treatment on the Ibese 3&4 and Obajana line 4 (hitherto assumed as qualified for a pioneer status incentive) resulted in a surge in tax provisions to ₦36.3 billion (effective tax rate of 33.5% in Q1 18 vs. 27.7% in Q1 17) which significantly dampened the aforementioned gains, with PAT rising 2.2% YoY to ₦72.1 billion (forecast: ₦73.0 billion).
- On balance, for the rest of the year, we remain broadly positive on DANGCEM and expect the company to sustain earnings growth, albeit at a much slower pace than 2017. Specifically, we see volume induced revenue growth – specifically in Nigeria – and lower energy as key drivers of earnings in FY 18, relative to the price-induced growth story in the prior year.
- DANGCEM trades at a P/E and EV/EBITDA of 21.4x and 11.5x compared to Bloomberg Middle and East Africa Peers at 18.0x and 11.5x respectively. Our last communicated FVE of ₦256.85 translates to a NEUTRAL rating on the stock. Our model is under review.

Summary of Results

Income statement – (N'million)	Q1 18	YoY growth	QoQ growth	Deviation from forecast	FY 17	FY 16	YoY growth
Revenue	242,116	16%	20%	5%	805,582	615,103	31%
Cost of sales	97,352	11%	6%	1%	351,290	323,816	8%
Gross profit	144,764	20%	31%	9%	454,292	291,287	56%
OPEX	41,419	10%	-1%	8%	155,297	119,336	30%
Operating profit	103,787	25%	46%	9%	304,208	182,493	67%
Net interest income	4,616	-178%	-221%	-174%	-16,785	-1,564	973%
PBT	108,403	40%	56%	22%	295,079	180,929	63%
PAT	72,123	29%	549%	-1%	204,248	142,858	43%

Key Ratios	Q1 18	Q1 17	Change(pps)	FY 17	FY 16	Change(pps)
Gross margin	59.79%	57.82%	1.97%	56.39%	36.16%	20.20%
EBIT margin	42.87%	39.99%	2.88%	37.76%	22.65%	15.10%
PBT margin	44.77%	37.14%	7.63%	36.63%	22.46%	14.20%
PAT margin	29.79%	26.84%	2.95%	25.35%	17.73%	7.60%
Effective tax rate	33.47%	27.7%	5.72%	29.47%	21.04%	8.40%

Source: ARM Research *unless otherwise stated

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