



Quarterly EPS	Q1	Q2	Q3	Q4
<b>2015 A</b>	4.03	3.12	2.12	1.37
<b>2016 A</b>	3.10	2.97	1.77	3.12
<b>2017 A</b>	4.14	4.31	2.88	-

Stock Data	
<b>Price</b>	₦220.00
<b>52-week range</b>	₦149.26 - ₦245.17
<b>Market Cap. (N't)</b>	3.749
<b>1-month Avg. Vol</b>	882,018
<b>Curr. PE</b>	15.18x

#### Dangote Cement Plc- Share Price Trend



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## Dangote Cement Plc. (DANGCEM.NL)

### Initial View

- Earnings maintain strong momentum despite tax shock.**

In line with expectation, Dangote Cement Plc. (DANGCEM) recorded another strong performance in Q3 17, with EPS 63% higher YoY at ₦2.88. That said, in sync with seasonality of cement operations in Nigeria, current quarter's EPS was 33% and 30% lower than in Q2 17 and Q1 17 respectively. Cumulatively, the company reported EPS of ₦11.33 over the first nine months of 2017 (~100% of FY 16 EPS and 1.1x that of FY 15).
- Going by breakdowns, the company's result got the greatest boost from sizably higher prices in the Nigerian operation (+55% YoY to ₦44,943 in Q3 17) which more than made up for weaker volumes (-12% YoY to 2.8MT). Away from Nigeria, volumes were however stronger (+2% YoY to 2.3MT) as Congo and Sierra Leone jointly contributed to output in the period. Consequent on the mentioned, and pass-through from currency translation, group revenue printed 27% higher YoY at ₦190 billion—missing our estimate by only 4.6%.
- Elsewhere, we observed signs of life from the business' energy flexibility investment with input cost decelerating faster than volumes in Q3 17. For evidence, management reported a 27pps YoY decline in proportion of LPFO used in the business' Nigerian operations to 2% by end of 9M 17 with coal and gas usage now assuming greater importance amidst a relatively stable exchange rate and production environment.

- Gross profit was therefore 89% higher YoY at ₦109 billion with related margin at 56.9%—its highest level since Q2 15. Other highlights from the result came in form of a slight rebound in operating expense (+14% YoY to ₦41 billion). Even then, the company's operating profit was over two-fold higher YoY at ₦70 billion (vs. ₦73 billion in our forecast) with related margin coming in 20.3pps higher YoY at 36.5%.
- Although the overall positives from prices, currency translation, and improved energy mix translated to strong growth at the PBT level (actual: +171% YoY to ₦65 billion; forecast: ₦71 billion), an unexpected surge in effective tax rate to 24% in Q3 17 (vs. 6.1% in Q2 17, 8.7% in Q1 17, and tax credit in Q3 16) slightly tapered earnings momentum. With only Obajana line 3 earmarked for expiration of tax concession in 2017, we will be seeking clarity from management on the recent development.
- On balance, DANGCEM's Q3 17 was very strong and reflected gains from robust price and currency gains as well as better cost management. Going forward, we expect pass-through from price gains to gradually wane in Q4 17 due to the high base implied by major Q4 16 price increase. That said, the momentum built over the first three quarters of the year as well as the now obvious energy flexibility gain should leave FY 17 earnings in good shape.
- Further analysis to follow.

## Summary of Results

Income statement – (N'million)	Q3 17	YoY growth	QoQ growth	Deviation from forecast	9M 17	9M 16	YoY growth
<b>Revenue</b>	<b>190,899</b>	27%	-7%	-4%	<b>603,575</b>	<b>442,092</b>	37%
<b>Cost of sales</b>	<b>82,305</b>	-11%	-8%	-4%	<b>259,854</b>	<b>231,684</b>	12%
<b>Gross profit</b>	<b>108,594</b>	89%	-5%	-5%	<b>343,721</b>	<b>210,408</b>	63%
<b>OPEX</b>	<b>40,657</b>	14%	16%	1%	<b>113,497</b>	92,005	23%
<b>Operating profit</b>	<b>69,641</b>	186%	-13%	-6%	<b>233,139</b>	<b>122,366</b>	91%
<b>Net interest expense</b>	<b>(5,040)</b>	-58%	154%	-296%	<b>(12,957)</b>	<b>(28,015)</b>	-54%
<b>PBT</b>	<b>64,601</b>	171%	-17%	-10%	<b>220,182</b>	<b>148,716</b>	48%
<b>PAT</b>	<b>49,092</b>	63%	-33%	-26%	<b>193,136</b>	<b>133,521</b>	45%

Key Ratios	Q3 17	Q3 16	Change(pps)	9M 17	9M 16	Change(pps)
Gross margin	56.9%	38.3%	18.6	56.9%	47.6%	9.4
EBIT margin	36.5%	16.2%	20.3	38.6%	27.7%	10.9
PBT margin	33.8%	15.9%	17.9	36.5%	33.6%	2.8
PAT margin	25.7%	20.1%	5.6	32.0%	30.2%	1.8
Effective tax rate	24.0%	N/A	N/A	12.3%	10.2%	2.1

Source: ARM Research \*unless otherwise stated