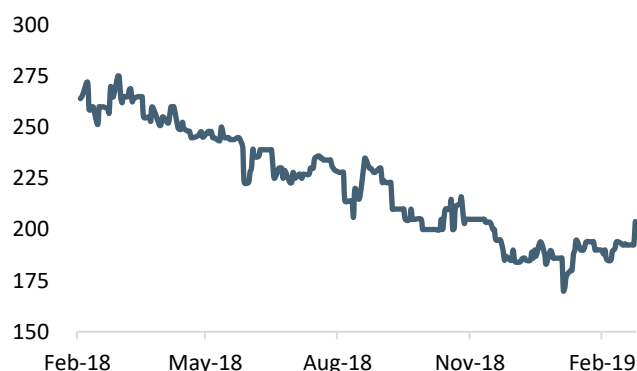


Quarterly EPS	Q1	Q2	Q3	Q4
<b>2016 A</b>	3.10	2.97	1.77	3.12
<b>2017 A</b>	4.14	4.31	2.88	0.65
<b>2018A</b>	4.23	2.41	2.65	13.62

Stock Data	
<b>Price</b>	₦192.50
<b>FVE</b> (last communicated)	₦253.03
<b>52-week range</b>	₦170.0 - ₦275.0
<b>Market Cap. (N't)</b>	3.28
<b>1-month Avg. Vol ('000)</b>	1,694
<b>Current PE</b>	8.08x

#### Dangote Cement Plc- Share Price Trend



#### Analyst(s)

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## Dangote Cement Plc. (DANGCEM.NL)

### Initial View

#### Earnings braced by Taxes

- Dangote Cement Plc (Dangcem) full-year 2018 (FY 18) earnings was far ahead of our expectation with the cement front-runner reporting EPS of ₦22.91 (+91% YoY) relative to our expectation of ₦13.52. In terms of the variance, Dangcem got the much-awaited tax holiday in the 4<sup>th</sup> quarter which was sizably higher than our expectation. We note that PBT of ₦300 billion (+4% YoY) was in line with our estimate of ₦303 billion reflecting mild expansion in gross margin, higher operating expenses and expansion in net finance cost. Dangcem declared dividend per share of ₦16.0 (₦10.5), which translates to a yield of 8.3%.
- The tax credit originated from the final approval of extension of pioneer tax status on the Ibese line 3 & 4 and Obajana line 4 plants in the final quarter valued at ₦179 billion. Thus, while we had expected the company to only reverse ₦16 billion in taxes booked up till nine-months 2018 with expected tax charge of ₦72.2 billion, the company reversed ₦133 billion from taxes booked in 2017 and got a tax credit of ₦56 billion on this year's taxes with overall tax credit of ₦89 billion. Adjusted for reversal of prior year's tax over provisions, actual effective tax rate for the year is 15% with EPS expanding modestly by 25.6% YoY to ₦15.06.
- Focusing on core operations, we note that Dangcem faced a highly competitive environment in Nigeria over 2018 which resulted in price cuts of ₦1,076 per tonne during the year. That said, the price cut in Nigeria supported 11.4% YoY growth in

volume to 14.2MT (revenue growth of 11.9% YoY to ₦618 billion). For the Rest of Africa, sales volume was impacted by civil unrest in Ethiopia, economic slow-down in South Africa which necessitated a 6.4% decline in volumes in that market and delays in the installation of gas turbines in Tanzania all of which limited growth in volume for the Rest of Africa. However, despite the flat sales volume in the Rest of Africa of 9.3MT, the relatively higher price per tonne across markets (+13.7% YoY) – owing to translation impact of the increased exchange rate from ₦331/\$ to ₦359/\$ -- necessitated a 9.6% YoY growth in revenue (+9.6% YoY to ₦283 billion) with group volume expanding 7.4% YoY to 23.5mt and related revenue by 11.9% YoY to ₦901 billion.

- Meanwhile, over FY 18, higher operating expenses led to slower EBIT growth of 11% (to ₦338 billion) compared to 67% last year. The group's EBITDA margin also improved slightly by 1 bp to 48.3%, as the margins in Pan-African business (+2.5 ppts to 17.3%) offset the decline in Nigeria (-1 ppts to 64.3%). Furthermore, a surge in net finance cost by 129% to ₦38.5 billion, thanks to a forex loss of ₦8.11 billion as opposed to a forex gain of ₦26.8 billion in 2017, drove a much slower growth in PBT (Q4 18: +4%, Q4 17: +60%) to ₦300 billion.

#### ***Q4 18 earnings pressured by FX losses***

- In the fourth quarter, revenue expanded by 6.9% YoY to ₦215.9 billion, thanks to increase in group volume to 5.8MT (+6.7% YoY) as overall price was relatively flat at ₦37,447/tonne compared to same period last year. Elsewhere, total production costs in Q4 18 increased at a slower pace of 4.6% YoY to ₦95.6 billion, translating to gross margin expansion of 55.7% (Q4 17: 54.7%).
- Further placing a strain on earnings during the quarter was the 30% YoY increase in operating expenses, stemming from a surge in selling and distribution expenses (+38% YoY). Increased haulage expenses in Nigeria, following increased export sales from Nigeria, drove the S&D expenses higher by ₦10.2 billion which makes up 72% of the total haulage cost increase in the period. To mention, haulage cost per tonne was up 11% from Q4 17. Consequently, operating profit in the quarter was slightly higher by 1.1%, while EBIT margin was down 1.91 ppts to 33.3% from Q4 17- opex to sales ratio in Q4 18 printed higher at 25.1% (Q4 17: 20.7%).
- Further down, net finance cost expanded by 3.95x to ₦18.7 billion (Q4 17: ₦3.8 billion) reflecting foreign exchange loss of ₦7.9 billion from a gain of ₦5.9 billion last year. Excluding FX losses, net finance cost will be lower by 9.2% to ₦8.8 billion.

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- Given the foregoing, PBT dropped significantly by 23% YoY to ₦53 billion, while PAT spiked 3623% YoY thanks to the ₦178 billion tax credit. In all, EPS in Q4 printed at ₦13.62 – the highest on record. Overall, save for the tax credit which salvaged the DANGCEM's earnings, the cement leader's performance in Q4 18 was not very impressive. However, the declared dividend per share of ₦16.00/s (2017: ₦10.5/s) translates to an attractive yield of 8.3%.
  - DANGCEM trades at a P/E and EV/EBITDA of 8.1x and 7.7x compared to Bloomberg Middle and East Africa Peers at 9.9x and 11.0x respectively. Our last communicated FVE of ₦253.03 translates to a BUY rating on the stock. Our model is under review.

## Summary of Results

Income statement – (N'million)	Q4 18	YoY growth	QoQ growth	Deviation from forecast	FY 18	FY 17	YoY growth	Deviation from forecast
<b>Volumes (mt)</b>								
Nigeria	3,422	11%	16%	6%	14,178	12,724	11%	1%
Pan Africa	2,344	0%	-5%	-5%	9,370	9,365	0%	-1%
<b>Prices (N)</b>								
Nigeria	42,948	-2%	-1%	-3%	43,610	42,411	3%	-1%
Pan Africa	29,418	4%	-4%	19%	30,231	26,597	14%	4%
Revenue	215,923	7%	6%	6%	901,213	805,582	12%	1%
Cost of sales	95,629	5%	6%	7%	383,311	351,290	9%	2%
Gross profit	120,294	9%	7%	5%	517,902	454,292	14%	1%
OPEX	54,162	30%	12%	5%	189,426	155,297	22%	1%
Operating profit	71,838	1%	8%	11%	338,698	304,208	11%	2%
Net interest income	-18,959	395%	320%	109%	-38,455	-16,785	129%	35%
PBT	53,442	-23%	-14%	-4%	300,806	295,079	2%	-1%
PAT	232,048	1989%	414%	222%	390,325	204,248	91%	69%

Key Ratios	Q4 18	Q4 17	Change(pps)	FY 18	FY 17	Change(pps)
Gross margin	56%	55%	1.97%	57.47%	56.39%	1.07%
EBIT margin	33%	35%	2.88%	37.58%	37.76%	-0.18%
PBT margin	25%	34%	7.63%	33.38%	35.95%	-2.57%
PAT margin	107%	5%	2.95%	43.31%	25.35%	17.96%
Effective tax rate	-334%	84%	5.72%	-29.76%	29.47%	-59.23%

Source: ARM Research \*unless otherwise stated

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ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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