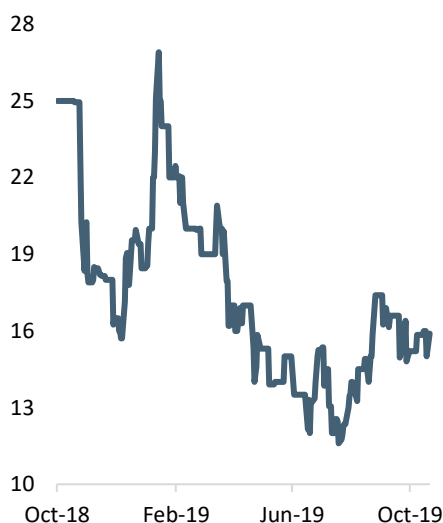


Price	₦15.00
52-week range	₦10.8-27.50
Market Cap. (₦bn)	197,152
1-month Avg. Vol	171,969
Curr. PE	10.5x

CCNN.NL - Share Price Trend



Analyst

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Cement Company of Northern Nigeria Plc. (CCNN.NL)

Initial View

Border closure muddies 9M 2019 earnings

- CCNN released Q3 19 results after close of trading on Friday showing EPS of ₦0.11, which is a miss from our forecast of ₦0.21. The deviation from our estimates stemmed from lower than expected sales recorded in the quarter, which came in 26% below our forecast at ₦10.4 billion. Management alluded the lower sales to limited export sales due to the border closure, which further espoused the impact of the historically raining season in Q3.
- For context, while no data is available on export sales so far this year, the proportion of total sale is likely to exceed the 9% posted in FY 18, given the new capacities which came on board at the start of the year. Cement volume came in below the belt at 239,243 tons in the quarter, which translates to a utilization rate of only 48% (vs. Forecast of 68%) – the lowest CCNN has posted on record. Interestingly, revenue per ton printed 2% higher QoQ but was obviously insufficient to make up for the lost volumes.
- On cost, COGS per ton printed 9% ahead of our forecast and 13% higher QoQ at ₦26,231. Energy cost per ton (57% of COGS) eased from the elevated levels in Q2 to ₦13,938, far ahead of Q1 19 level of ₦12,151. The sticky energy prices fail to reflect impact of the cheaper coal fuel used in the new plant, as it prints above the 3-year average of ₦13,770 (ex-irregular 2018), when LPFO (2.8x gas price vs. coal: 0.7x of gas) was the sole fuel source. We will seek clarity on reason for the elevated prices, but we suspect this could be due to high transportation cost of coal which was highlighted during our last meeting with management. As a result, gross margin contracted 3ppts YoY to 40%. On the other hand, Opex to sales printed 6ppts higher than similar period last year at 20%, reflecting impact of the lower sales. As a result, EBIT margin dropped 9ppts YoY to 20% in the quarter.
- Overall, we found the Q3 result disappointing, smeared by impact of the border closure and heavy rainfall. CCNN's current P/E prints at 10.5x, a premium to domestic peer average of 9.6x. That said, CCNN still holds potential to maximise the capacities of its new plant and its cement leadership in the North, albeit downtrodden by impact of the border closure. Our FVE on CCNN prints at ₦20.14 which is a premium to current market price of ₦15 and translates to a **BUY** rating.

Summary of Results

Income statement – (N'million)	Q3 19	Q3 18	YoY growth	QoQ growth	Deviation from forecast	9M 19	9M 18	YoY growth
Volume ('000 tons)	239.24	176.61	35%	-35%	-30%	1,020	450	127%
Price/ton (N)	43.33	42.39	2%	5%	5%	41.70	43.49	-4%
Revenue	10,366	7,487	38%	-32%	-26%	42,514	19,572	117%
Cost of sales	6,276	4,323	45%	-27%	-23%	24,035	10,942	120%
Gross profit	4,090	3,165	29%	-39%	-30%	18,479	8,630	114%
OPEX	2,114	1,097	93%	-13%	-10%	6,831	2,889	136%
Operating profit	2,020	2,067	-2%	-54%	-43%	11,777	5,740	105%
Net interest expense	-47	2	-2266%	2244%	46%	92	-29	-420%
PBT	1,973	2,069	-5%	-55%	-44%	11,869	5,729	107%
PAT	1,480	1,407	5%	-59%	-47%	2,921	1,719	70%
EPS	0.11	1.12	-90%	-59%	0%	8,948	4,010	123%

Key Ratios	Q3 19	Q3 18	Change(pps)	9M 19	9M 18	Change(pps)
Gross margin	39.46%	42.27%	-2.81%	43.47%	44.09%	-0.63%
EBIT margin	19.48%	27.61%	-8.13%	27.70%	29.33%	-1.63%
PBT margin	19.03%	27.64%	-8.60%	27.92%	29.27%	-1.4%
PAT margin	14.28%	18.79%	-4.52%	21.05%	20.49%	0.6%
Effective tax rate	25.00%	32.00%	-7.00%	24.61%	30.00%	-5.39%
CFO margin	34.97%	11.89%	23.08%	0.34	11.51%	22.81%
FCF/s	20.15%	5.30%	14.85%	0.52	-5.17%	57.62%
FCF yield	1.34%	0.21%	1.13%	0.03	-0.20%	3.70%

Source: ARM Research *unless otherwise stated

ARM ratings and recommendations

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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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