

| | |
|-------------------|----------------|
| Price | ₦149.00 |
| 52-week range | ₦136.10-221.50 |
| Market Cap. (₦bn) | 2,539.96 |
| 1-month Avg. Vol | 4,956,791 |
| Curr. PE | 6.6x |

SEPLAT.NL - Share Price Trend



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Dangote Cement Plc. (DANGCEM.NL)

Initial View

Growth in top line smeared by promo expenses and FX loss

- DANGCEM released Q3 19 results today, with reported EPS declining 22% YoY to ₦2.06, to lag our estimate of ₦2.91. While group revenue came largely in line with our expectation, the deviation stemmed from higher than expected FX translation loss on subsidiary obligations worth of ₦7 billion. Beyond the impact of FX loss on the bottom line, operating performance was weak over the quarter as a combination of faster increase in production cost (reflecting higher energy prices, similar to CCNN) and higher sales and distribution expenses, led to contraction in both gross and EBIT margins by 130 bps and 390 bps YoY to 54% and 29% respectively. Intuitively, group revenue (+4.5% higher YoY) remained resilient as stronger growth in Nigeria (9% YoY) more than offset the decline in Pan African sales (3% YoY). Cumulatively, 9M 19 EPS is down 2.5% YoY to ₦9.06.
- Interestingly, the management of DANGCEM announced a share buy-back and reverse share split prior to the release of its Q3 report today. While further details have not been announced, we believe the share action would support valuation and a possible rerating of the stock in the near term. On our numbers, we run a scenario of possible impact the split could have on our forecast EPS, DPS and FVE using the potential impact of a 5%, 10% and 15% reduction in current outstanding shares.

Table 1: Scenario analysis of share buy-back

| | Current | 5% | 10% | 15% |
|---------------------|---------|--------|--------|--------|
| Nos of shares ('Mn) | 17,041 | 16,188 | 15,336 | 14,484 |
| EPS | 13.96 | 14.69 | 15.51 | 16.42 |
| DPS | 11.09 | 11.68 | 12.33 | 13.05 |
| FVE | 240.87 | 253.55 | 267.63 | 283.38 |
| BVPS | 50.27 | 52.91 | 55.85 | 59.14 |
| P/E | 10.68 | 10.14 | 9.61 | 9.08 |
| P/B | 2.96 | 2.82 | 2.67 | 2.52 |

Source: ARM Research, Company filling

- The growth in Nigeria revenue stemmed largely from increase in volumes** (+9% YoY to 3.2MT) while price was nearly flat at ₦43,138 (+0.35% YoY, -1.4% QoQ). To mention, **the growth in Nigeria volume was stunted by the boarder closure** which, according to management, drove exports' contribution to sales from ~5% to 0. Meanwhile, weak demand and increased competition in South Africa and Ghana led to

lower volume (-0.16% YoY) and prices (-3.2% YoY) which drove Pan-Africa revenue lower during the quarter by 3.3% YoY to ₦73 billion. **Meanwhile, there was a faster increase in COGS by 7.5% YoY** which led to a contraction in gross margin by 130 bps YoY to 54.3%. COGS per tonne was up 2% YoY to ₦16,147/ton, owing to pressure from higher energy cost (+10% YoY to ₦5,331/ton).

- As stated earlier, DANGCEM ramped up its promotional activities in Nigeria during the quarter in a bid to salvage market share, which was evident in the increased volumes as well as slight improvement in market share (from 62.6% over H1 19 to 63.2% in 9M 19). As a result, S&D per ton rose 13% YoY to ₦7,339. This put some pressure on EBIT margin which contracted 390 bps YoY to 29%, while EBIT dipped 8% YoY to ₦61 billion.
- The spike in FX loss (₦7 billion) in the quarter was due to depreciation of Pan-African currencies, especially in Ghana and Sierra Leone, as against ₦5 billion FX gain in Q3 18. As a result, net finance cost spiked 4.2x of Q3 18 to ₦18.8 billion. This led to a plunge in PBT by 32% YoY to ₦42 billion, while the blow softened on PAT (-22% YoY to ₦35 billion), owing to a lower effective tax rate (-10 bps YoY to 27%). This is due to the pioneer tax credit 2-year extensions on the Obajana and Ibese lines which was received approval earlier this year.
- Overall, we view the growth in revenue as positive, while the higher S&D and FX loss smeared the performance in bottom line. Our FVE of ₦240.87 holds a potential upside of 61% from current price and translates to a BUY rating. DANGCEM has a forward P/E of 10.7x which is a discount to MENA peer average of 21.9x.

Summary of Results

| Income statement – (₦' million) | Q3 19 | Q3 18 | YoY growth | QoQ growth | 9M 19 | 9M 18 | YoY growth |
|------------------------------------|---------|---------|------------|------------|---------|---------|------------|
| Volume ('000 tons) | 5,678 | 5,407 | 5% | -4% | 17,960 | 17,782 | 1% |
| Price/ton (N) | 37,348 | 37,516 | -0.4% | -2% | 37,850 | 38,558 | -2% |
| Revenue | 212,061 | 202,851 | 5% | -7% | 679,791 | 685,290 | -1% |
| Cost of sales | 96,843 | 90,087 | 7% | 3% | 290,015 | 287,682 | 1% |
| Gross profit | 115,218 | 112,764 | 2% | -14% | 389,776 | 397,608 | -2% |
| OPEX | 55,052 | 48,401 | 14% | 5% | 160,342 | 135,264 | 19% |
| Operating profit | 60,986 | 66,343 | -8% | -26% | 231,482 | 266,860 | -13% |
| Net interest expense | 20,167 | 11,550 | 75% | 155% | -33,802 | -19,496 | 73% |
| PBT | 42,192 | 61,826 | -32% | -45% | 197,680 | 247,364 | -20% |
| PAT | 35,110 | 45,113 | -22% | -40% | 154,350 | 158,277 | -2% |
| EPS | 2.06 | 2.65 | -22% | -40% | 9.06 | 9.29 | -2% |

| Key Ratios | Q3 19 | Q3 18 | Change(pps) | 9M 19 | 9M 18 | Change(pps) |
|--------------------|--------|--------|-------------|--------|--------|-------------|
| Gross margin | 54.33% | 55.59% | -1.26% | 57.34% | 58.02% | -0.68% |
| EBIT margin | 28.76% | 32.71% | -3.95% | 34.05% | 38.94% | -4.89% |
| PBT margin | 19.90% | 30.48% | -10.58% | 29.08% | 36.10% | -7.02% |
| PAT margin | 16.56% | 22.24% | -5.68% | 22.71% | 23.10% | -0.39% |
| Effective tax rate | 16.79% | 27.03% | -10.25% | 21.92% | 36.01% | -14.10% |

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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