

Quarterly EPS	Q1	Q2	Q3	Q4
2015 A	4.03	3.12	2.12	1.37
2016 A	3.10	2.97	1.77	3.12
2017 A	4.14	4.31	2.88	0.65

Stock Data	
Price	₦265.00
52-week range	₦158.99 - ₦290.00
Market Cap. (N't)	4.516
1-month Avg. Vol	90,616
Curr. PE	22.8x

Dangote Cement Plc- Share Price Trend



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Dangote Cement Plc. (DANGCEM.NL)

Initial View

Improved Margins but growth momentum cools off

- Dangote Cement (Dangcem) reported full-year 2017 result showing a 43% YoY growth in EPS to ₦11.65 (2017E: ₦16.11) on the back of improved margins, which more than offset the impact of lower finance income and bill to the taxman, to drive earnings below estimates. For context, while operating profit tracked higher by 67% YoY to N304 billion, the duo of higher net-finance charge (+973% YoY to ₦16.8 billion) and higher taxes (124% YoY to ₦85.3 billion) moderated earnings growth. The company reported dividend of ₦10.50/share (pay-out ratio: 87%) which translates to 4% dividend yield based on current pricing.
- Going by the breakdown, much of the margin expansion in Q4 stemmed from higher prices in the Nigerian business (+7% YoY to ₦43,411/tonne) which more than made up for weaker volumes (-4% YoY to 3.1MT). Away from Nigeria, volumes were however stronger (+7% YoY to 2.3MT) as volumes in Cameroun, Ethiopia and Senegal jointly contributed to robust volumes in the period. Consequent on the mentioned, and pass-through from still high per tonne price in Nigeria, group revenue printed higher 17% YoY at ₦202 billion – missing our estimate by only 4.5%.
- Elsewhere, energy efficiency improved over the quarter with cost of sales decelerating by 80bps YoY to ₦91.4 billion. For evidence, management reported lower usage of LPFO in the period to 2% and 1% of energy usage in Obajana and Ibese respectively (2016:

29% and 16%) as local coal and gas usage assumed greater prominence. Thus, gross profit was 37% higher YoY to ₦110 billion with related margin at 54.7%, below Q1 – Q3 2017 levels. Other highlights from the result came in form of a surge in operating expenses (53% YoY to ₦41.8 billion), which we allude to higher haulage cost and professional fees. The combination of higher opex and lower ‘other income’ (-65% YoY to ₦2.3 billion) moderated growth in operating profit (+18% YoY to ₦71 billion) with related margin coming in 43bps higher YoY at 35.2%.

- A feed through of the overall positives from higher volumes, currency translation, and improved energy mix translated to a 2.3x YoY PBT growth to ₦74.8 billion (forecast: ₦84 billion). However, the unexpected surge in tax provisions of ₦58 billion (effective tax rate of 78% in Q4 17), significantly pressured earnings with PAT at the lowest level of ₦11 billion (-79% YoY). On the tax provision, management submitted that the earlier tax benefits of ₦28 billion and ₦44 billion taken in 2015 and 2016 respectively on the Ibese 3&4 and Obajana line 4 assumed that it qualifies for a pioneer status incentive. However, given the delay on the approval of the status by Nigerian Investment Promotion Commission (NIPC), management decided to make provision for the year and at the same time reversed previous benefits booked in 2016.
- On balance, save for the unexpected tax provision (which management guided to a reversal), DANGCEM’s Q4 17 was very strong and reflected gains from robust price, currency translation gains of Pan-African operations, and the improved energy flexibility (with FX exposure at the lowest level with the used of locally mined coal).
- Management gave the following update at its conference call yesterday (March 21st, 2018).
 - Issuance of ₦50 billion bond in Q2 2018 aimed at expanding capacity in its Nigerian operations. Specifically, management cited refurbishment of the Kogi plant as well as new plant in Ogun and Edo state. Management also noted a possible dollar-denominated bond, though timing and size of issuance was not stated. Currently awaiting approval from regulators.
 - Also, on the pricing, they submitted that an upward review of prices would be in response to any sudden shocks in the broader business environment, while any downward revision to prices, if any, would be moderate.
- DANGCEM trades at a P/E and EV/EBITDA of 22.8x and 12.2x compared to Bloomberg Middle and East Africa Peers at 20.9x and 11.3x respectively. Our last communicated FVE of ₦282 translates to a **NEUTRAL** rating on the stock. Our model is under review.

Summary of Results

Income statement – (N'million)	Q4 17	YoY growth	QoQ growth	Deviation from forecast	FY 17	FY 16	YoY growth
Revenue	202,007	17%	6%	5%	805,582	615,103	31%
Cost of sales	91,436	-1%	11%	11%	351,290	323,816	8%
Gross profit	110,571	37%	2%	0%	454,292	291,287	56%
OPEX	41,800	53%	3%	54%	155,297	119,336	30%
Operating profit	71,069	18%	2%	-21%	304,208	182,493	67%
Net interest expense	-3,828	-114%	-24%	-16%	-16,785	-1,564	973%
PBT	74,897	133%	16%	-12%	295,079	180,929	63%
PAT	11,107	-79%	-77%	-86%	204,248	142,858	43%

Key Ratios	Q4 17	Q4 16	Change(pps)	FY 17	FY 16	Change(pps)
Gross margin	54.74%	46.75%	8.0%	56.39%	36.16%	20.2%
EBIT margin	35.18%	34.75%	0.4%	37.76%	22.65%	15.1%
PBT margin	37.08%	18.62%	18.5%	36.63%	22.46%	14.2%
PAT margin	5.50%	30.69%	-25.2%	25.35%	17.73%	7.6%
Effective tax rate	77.84%	-0.6484959	142.7%	29.47%	21.04%	8.4%

Source: ARM Research *unless otherwise stated

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