



Initial View

6 months ended 30th June, 2014**Recommendation: UNDERWEIGHT**

- Dangote Cement Plc (DCP) released financial results for 6 months ended 30th June 2014, wherein revenues rose 5.3% YoY to ₦208.9 billion, while PBT was largely flat (-0.6%) at ₦107 billion and PAT fell 11% YoY to ₦95 billion.

Revenue buoyed by increase in prices ...

- Q2 14 revenues grew 3.6% YoY (-1.7% QoQ) to ₦104 billion, primarily driven by a 10% increase in cement prices in March 2014 which more than offset the ~3% YoY decline in volumes to 3.3 million tons. Particularly, volumes were weaker in the period as utilization at Obajana and Ibese dropped 500bps and 300bps YoY to 75% and 65% respectively, following disruptions to gas supplies. Utilisation at the Gboko, however, rose 18pps YoY to 33%. According to management, the price increase (dubbed quality surcharge), which tapered the effects of weaker volumes, was on the back of the introduction of a 42.5 cement grade (which substituted the previous 32.5 grade) into the market in response to the FGN's new policy on cement quality.

Income Statement Data

	2014 – 6M'm	2013 – 6M'm	%chg
Revenue	208,908	198,463	5.3%
PBT	107,069	107,680	-0.6%
Tax	11,629	-	
PAT	95,439	107,680	-11%

Balance Sheet Data

	2014-Jun 'm	2013-Dec 'm	%chg
Inventory	35,000	38,264	-8.5%
Receivables	8,436	9,885	16%
Cash	36,203	48,702	-14.7%
Payables	118,259	82,847	43%
Net Assets	527,031	475,314	11%

Stock Data

Price	₦228.5
52 week range	₦185.00 – ₦250.02
Market Cap. (₦'b)	3,834,114.17
1-month Avg. Vol	437,734
Curr. PE	19.4x
Bloomberg Ticker	DANGCEM: NL
Reuters Ticker	DANGCEM.LG

CCNN Plc- Share Price Trend**Analyst(s)**

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- Away from Nigeria, revenue from Ghana nosedived 23% YoY to ₦3.4 billion in Q2 14 on account of the 84% YoY contraction in Q2 14 volumes to 35kt and significant currency depreciation that saw the cedi shed ~14.6% to the US dollar in H1 14. Production in other African countries remains largely peripheral with Nigerian and Ghanaian operations accounting for 98% of total H1 14 revenues.

... as epileptic gas supply continues to underline COGS growth

- Indeed, gas shortage at Obajana—which accounts for ~36% of total production—saw utilisation drop 1400bps YoY to 69% and was largely responsible for 10% YoY rise in COGS to ₦37 billion. Adding to the pressures, however, was a 63% increase in sales from Gboko, where the kiln is primarily fired by the more expensive LPFO. Nonetheless, gross profits stayed flat (+0.2% YoY) at ₦66 billion though related margins contracted 2.1pps YoY to 64.2%.

OPEX pressures persist on increasing direct distribution

- Similar to Q1 14, operating expenses rose 17% YoY to ₦13 billion on the back of 18% and 16% YoY increases in admin and distribution expenses to ₦5.9 billion and ₦7.5 billion respectively. The increase in administrative expenses continue to reflect the hike in staff emolument effected late last year, even as investments aimed at expanding DCP's direct delivery service continue to push distribution cost higher. OPEX to sales ratio rose 1.5pps to 13%, 1ppt above the average of the last 8 quarters. However, a fivefold jump in other operating income to ₦54.5 billion on account of write-back of provisions no longer required pared decline in EBIT (-1% YoY to ₦54.5 billion) with related margins shedding 2.4pps YoY to 52.7%.

Surge in taxation crimps earnings

- Interest expense rose 6% YoY to ₦3.2 billion largely reflecting the 58% YoY rise in average debt levels to ₦200 billion in Q2 14 to fund ongoing coal mill projects. Nevertheless, a 41% YoY jump in interest income to ₦1.65 billion moderated the decline, causing PBT to stay flat (-0.4%) YoY at ₦53 billion though related margins contracted 2pps YoY to 51.2%.
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- An effective tax rate of 10.2% (vs. 0.1% in Q2 13) however, drove PAT 10.5% lower YoY to ₦47.6 billion with corresponding margins dropping 7.2pps YoY to 46%. Higher effective tax rate is due to the expiration of concessionary tax status on Obajana (line 1&2) and Gboko.
 - Q2 14 performance was impacted by higher energy cost—which weighed on volumes as well as input cost—and higher tax rate. On the former, management’s near-term plan to import coal—as a temporary substitute in cases of gas outages-- should drive a ramp-up in capacity utilization in Nigeria for the rest of the year. Whilst this implies higher cost—as imported coal is more expensive than gas—it is a cheaper alternative energy source relative to LPFO. To the latter, the expiration of the tax holiday implies tax charges are likely to continue to weigh on earnings in the near-term though expected completion of Obajana line 4 in Q4 14 should drive a moderation in effective tax rate farther out. Following indications that the Ghanaian government is likely to cap cement prices, management have revealed plans to cut volumes, suggesting that contribution from the country will moderate in H2 14. Overall we expect modest volumes growth, though earnings are likely to remain soft over the rest of 2014.
 - The company trades at a current PE of 19.4x relative to peer average of 17.5x. Our FVE estimate of ₦217 is at a 5% discount to the stock’s last trading price. We have an underweight rating on the stock.
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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 reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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