



Dangote Cement Plc. (DANGCEM.NL)

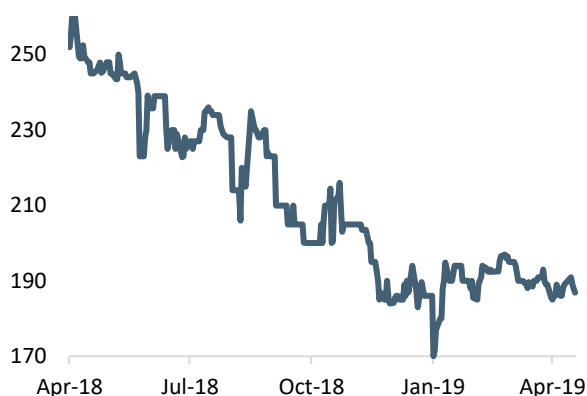
Initial View

Mounting competition, margin erosion, declining earnings.

- In our stock update released in March (See Report: *Competition caps earnings growth*), we had guided that the increased competition in the cement space with onboarding of additional capacity of 1.5 million tons by CCNN in the North West and 3 million tons by BUA Group in Obu Edo State will limit volume upside in Nigeria over 2019, with price play being the new game for volume accretion. For the Rest of Africa, we mentioned that the graduated competition in Cameroun (with the entrance of a new competitor), South Africa and capacity max-out in Senegal suggests slower volume growth over our forecast period.
- Dangote Cement Plc (Dangcem) Q1 2019 result released over the weekend validated our postulations, with the group revenue declining 0.8% YoY to ₦240 billion (in line with our forecast of ₦238 billion), largely emanating from Nigeria. Meanwhile, surprises in the opex and finance income lines pushed PBT (-27.2% YoY) much lower than we expected to ₦78.9 billion. However, the high base of effective tax rate in the prior year, resulted in much softer decline for EPS – printed at ₦3.54 (-16.5% YoY) from ₦4.23 in Q1 18.
- Competition dwarf volume growth.* As mentioned above, the group revenue slipped marginally in Q1 19 following price erosion by 3% YoY (or ₦1,165 per ton) as competition more than offset gains from improved cementitious consumption. In Nigeria, Dangcem grew volume by less than 1% YoY, which is expected, however, alarming when compared with the hefty volumes sold by CCNN over the same period. Coupled with the decline in price by 2.9% YoY (CCNN: -2% YoY), Nigeria revenue came in lower by 2.3% YoY. This resulted in a decline in Dangcem's market share to ~64% from 66% in Q1 18 and 65% as at FY 18.

Stock Data	
Price	₦186.9
FVE (last communicated)	₦248.14
52-week range	₦170.0 - ₦258.0
Market Cap. (N't)	3.185
1-month Avg. Vol ('000)	659,319.5
Current PE	8.43x

Dangote Cement Plc- Share Price Trend



Analyst(s)

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- For the rest of Africa, volumes grew by only 5% following tough market play in Cameroon (-10% YoY), South Africa (-18.3% YoY) and persisting logistical issues in Ghana (-39% YoY), all of which offset stronger growth in Congo (+49% YoY), Ethiopia (+19% YoY), Sierra Leone (+76% YoY), Tanzania (+128% YoY) and Zambia (+12% YoY) that impressed better than we expected¹. Similar to Nigeria, prices across Pan-African market was also down 2.2% to ₦29,941/ton, with revenue rising by just 2.5% YoY. Overall, total group volume was up 2.1% to 6.3mt, while overall average revenue per ton (-3% YoY) printed at ₦37,892/ton.
- **Price war taking a toll on margin.** Contrary to the decline in revenue, COGS was up 2.2% YoY to ₦99 billion in the quarter due to lower cost absorption and increase in staff costs. This led to a 121bps YoY contraction in gross margin to 58.6%. Going by breakdown, manufacturing cost in Nigeria was 5% higher YoY, while it remained flat in the Rest of Africa despite the higher volumes. As a result, Nigeria gross margin contracted 211 bps to 71%, while it expanded 178 bps to 29% in the Rest of Africa.
- **Higher diesel cost and increased fleet magnify opex.** Operating cost rose by 28% YoY, weighed mostly by a sharp jump in distribution expenses (+34% YoY). In a bid to push volumes, there was an increase in truck fleets, which coupled with the relatively higher diesel prices (+7.9% YoY) translated to higher haulage costs. However, volumes growth failed to match the increase in costs, thus pushing the S&D per ton higher to ₦6,250 from ₦4,760 in Q1 18. Admin expense grew at a softer pace of 12% to ₦13.2 billion, with cost to income ratio rising 49 bps YoY to 22%.
- At the group level, EBITDA margin contracted 11% to 46.5% from 52% in Q1 last year. Both Nigeria and Pan Africa business posted contraction in EBITDA margins by 61% and 17% (from 66% and 19% in Q1 18) respectively.
- Further putting pressure on earnings is a net finance cost of ₦9.4 billion posted in the quarter from a net finance income of ₦4.6 billion recorded in Q1 18. The income last year was largely due to forex gain of ₦12.5 billion, which reversed to a loss of ₦3.1 billion this year. Excluding FX impact, net finance cost was lower at ₦6.3 billion in Q1 19, from ₦7.9 billion in Q1 18.
- DANGCEM trades at a P/E and EV/EBITDA of 8.43x and 6.26x compared to Bloomberg Middle and East Africa Peers at 9.9x and 11.0x respectively. Our last communicated FV of ₦248. translates to a BUY rating on the stock. Our model is under review.

¹ Following resolution of the energy issues in Tanzania with the new gas plant, and settlement of the civil unrest in Ethiopia.

Summary of Results

Income statement – (N'million)	Q1 19	Q1 18	YoY growth	Q4 18	QoQ growth	Deviation from forecast
Volume (MT)						
Nigeria	3,991	3,969	1%	3,422	17%	
Pan Africa	2,347	2,239	5%	2,344	0%	
Price (N/ton)						
Nigeria	42,567	43,816	-3%	42,948	-1%	
Pan Africa	29,941	30,620	-2%	29,418	2%	
Revenue	240,157	242,116	-1%	215,923	11%	1%
Cost of sales	99,478	97,352	2%	95,629	4%	10%
Gross profit	140,679	144,764	-3%	120,294	17%	-4%
OPEX	52,834	41,419	28%	54,162	-2%	19%
Operating profit	88,382	103,787	-15%	71,838	23%	-14%
Net interest expense	(9,422)	4,616	-304%	(18,959)	-50%	259%
PBT	78,960	108,403	-27%	53,442	48%	-21%
PAT	60,254	72,123	-16%	232,048	-74%	-34%
EPS	3.54	4.23	-16%	13.62	-74%	-34%

Key Ratios	Q1 19	Q1 18	YoY (bps)	Q4 18	Change(bps)
Gross margin	58.6%	59.8%	-1%	55.7%	60%
EBIT margin	36.8%	42.9%	-6%	33.3%	43%
PBT margin	32.9%	44.8%	-12%	24.8%	45%
PAT margin	25.1%	29.8%	-5%	107.5%	30%
Effective tax rate	23.7%	33.5%	-10%	-334.2%	33%

Source: ARM Research *unless otherwise stated

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