



Initial View

12 months ended 31st December, 2014**Recommendation: NEUTRAL (₦164)****Dangote Cement Plc FY 14**

- Dangote Cement Plc (Dangcem) reported marginal growth (+1% YoY) in revenues to N392 billion for 12 months ended December 2014 (9M 14: +7.3% YoY to N310 billion). PBT was 3% lower YoY at N185 billion (9M 14: +1.5% to N154 billion) while PAT was 21% lower (9M 14: -10% to N140 billion) at N160 billion.
- Dangcem proposed a dividend of N5.52 which implies a payout ratio of 59% (FY 13: 59.3%).

Q4 14 revenue decline on lower volumes and prices

- Dangcem's Q4 14 revenues declined 16.2% YoY (-19.6% QoQ) to N81 billion, weighed down by 14.5% YoY decline in production volumes to 3MT as well as 9% price decrease in September 2014 in the Nigerian business. Similar to the situation in 9M 14, management attributed the decline in production volumes to energy supply challenges across the country. We note that these volume shortfalls were principally at Obajana and Gboko. In particular, whilst production volumes rose a marginal 4.2% YoY to 1MT at Ibese in Q4 14, that at Obajana declined 7.2% YoY to 1.9MT due to a reduction in gas availability. To the latter point, gas utilization at Ibese and Obajana were 89% and 76% (vs. 98% and ~92% respectively, as at Q4 13) in the quarter. At Gboko, production volumes fell 66% YoY to 0.2MT following the mothballing of the plant in October 2014. On the price front, management had attributed the

Income Statement Data

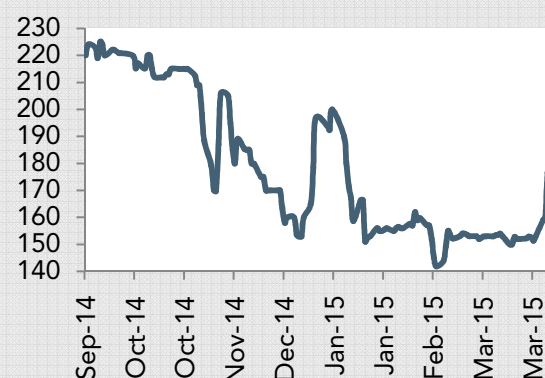
	2014 - 12M'm	2013 - 12M'm	%chg
Revenue	391,639	386,177	1.00%
PBT	184,689	190,761	-3.00%
Tax	25,187	(10,437)	
PAT	159,501	201,198	-21.0%

Balance Sheet Data

	2014-Dec 'm	2013-Dec 'm	%chg
Inventory	42,688	27,667	54.43%
Receivables	15,640	10,266	52.34%
Cash	20,593	70,502	-70.79%
Payables	100,929	82,215	22.76%
Net Assets	591,886	550,093	7.60%

Stock Data

Price	₦180.00
52 week range	₦139.10 - ₦250.02
Market Cap. (N'm)	3,067,291.33
1-month Avg. Vol	1,310,894
Curr. PE	19.10x
Bloomberg Ticker	DANGCEM:NL
Reuters Ticker	DANGCEM.LG

Dangote Cement Plc- Share Price Trend**Analyst(s)**

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price reductions in Q4 14 to excess supply pressures.

- In addition to this though, we believe that a desire to price-out a growing competitive force – Lafarge Africa, may have further influenced the decision.

Base effects mute impact of USDNGN devaluation on gross margins

- Despite 8% USDNGN devaluation during the quarter, COGS declined faster than revenues (-24% YoY to N33billion) largely reflecting base effects from 2014 when Dangcem reported highest quarterly COGS of N43 billion. Consequently, whilst gross profits declined 10% YoY to N49 billion, related margins firmed up 4.2pps YoY to 60%. Nonetheless, QoQ analysis reveals that FX pressures were evident with COGS contracting 7.3% QoQ vs. 19.6% moderation in top-line which management attributes to impact of devaluation on pricing of dollar denominated gas contracts and coal and LPFO imports during the quarter.
- Q4 14 operating expenses declined slower relative to revenues (-3.6% YoY to N15 billion) which reflects the offsetting impact of wage linked increases to admin expenses (+11% YoY to N11billion) on moderation in selling and distribution expense (-30% YoY contraction in N4billion). Notwithstanding the opex pressures, gross margin gains filtered through with EBIT margins up 2.1pps YoY to 42.3%. (EBIT: -11.7% YoY to N34billion)

Re-appearance of tax charge offsets FX driven finance income gains

- Dangcem reported net finance income of N6 billion (vs. N41 million in Q4 13), mirroring gains in finance income which rose five-folds to N26billion. Management attributes these gains to exchange rate gains from assets denominated in foreign currency. The FX gains neutered the impact of four-fold jump in finance expense to N20billion. The spike in finance costs reflects Dangcem's sizable share of dollar debt (FY 2014: 28% of total debt).
 - Consequently, the net finance income reversed weakness at operating profit level, leading PBT 3.5% higher YoY to N40 billion, with related margins expanding 9.5pps YoY to 49.6%. Nevertheless, following the re-appearance of tax charges in Q4 14 (vs.
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tax credit of N6 billion in similar period of 2013) on the back of the expiration of tax concessionary status at Obajana lines 1&2 and Gboko, PAT declined 36% YoY to N29 billion with margins down 11pps YoY (-9.1pps QoQ) to 35.4%.

Tepid volume growth outlook, impact of USDNGN devaluation underpins compression in FVE

- Clearly, the company's Q4 14 results were marred by dwindling production as well as the double price slashes in Q4 14. Whilst we view the company's late December 2014 price reversal as positive for its business, we note that volume growth should be negatively impacted by FGN's significant reduction in capital expenditure and the company's continued energy supply challenges. We expect this to lead to a mild 3.6% YoY revenue growth to N406billion in 2015E. In addition, given the second round of devaluation in Q1 15 and Dangcem's currency exposures (of ~ 70% of its COGS component via dollar pricing on gas supply contracts), we see scope for gross margin compression over FY 15. Furthermore, as more tax holidays lapse, earnings pressures at PAT level are likely to subsist. However, the effect of these charges on earnings is expected to gradually taper as the company prepares to bring Obajana line 4 on stream by H1 15. Incorporating the foregoing concerns into our models and raising our risk free rate to capture upswing in sovereign yields drives our FVE 14% lower to **N164**. Dangcem trades at a current PE of 14.62x relative to peer average of 14.7x for EMEA with last trading price at a 9% discount to our FVE, implying a neutral rating on the stock.
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Summary of forecasts

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Source: Company financials, ARM Estimates

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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