



Equity Research | Dangote Cement Plc

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Initial View:

9 months ended 30th September, 2015

Rising non-Nigerian footprints: Top-line booster, bottom-line dampener

Recommendation: (₦173.97)

- Dangote Cement Plc (Dangcem) released unaudited results for 9 months ended 30th September 2015 wherein revenues grew 18% YoY to ₦365 billion while PBT and PAT rose 31% and 37% YoY to ₦201 billion and ₦193 billion respectively.

Rising non-Nigerian operation spares Nigerian market blushes...

- Dangcem's Q3 15 revenues rose 22% YoY to ₦123 billion—1% higher than our estimate—on the back of a 45%YoY jump in volumes to 4.9 million tones. Similar to the last two quarters, Dangote's African operations continued to gain traction in Q3 15 with an over five fold jump in sales volume to 1.9MT and a 2% YoY rise in average non-Nigeria prices. Particularly, management noted that the business has already secured ~40% market share of Senegal's ~2.7MTPA cement market with South Africa, Cameroon, Zambia and Ethiopia also gaining traction in the period. Thus, output from other African countries now accounts for 39% of overall group output (vs. 10% in Q3 14). In contrast, volumes in Nigeria fell 1%YoY to 2.98MT (vs. 4%YoY contraction in market demand to 4.9MT). Interestingly, the slower dip in output, relative to industry, shows that Dangcem gained market share in the period (+1ppt QoQ to 59% in Q3 15).

Income Statement Data

	2015- 9M'm	2014 - 9M'm	%chg
Revenue	365,450	310,214	17.8%
PBT	166,914	154,053	8.30%
Tax	8,921	13,576	-34.0%
PAT	157,993	140,477	12.5%

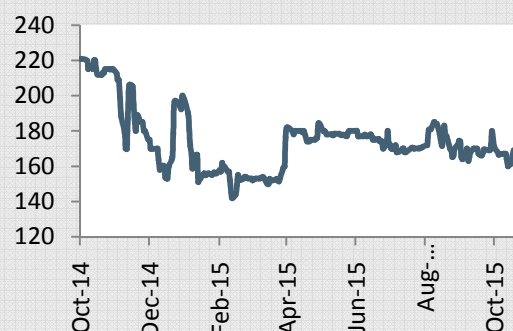
Balance Sheet Data

	2015-Sep 'm	2014 -Dec 'm	%chg
Inventory	52,173	42,688	22.2%
Receivables	17,509	15,640	12.0%
Cash	38,571	20,593	87.3%
Payables	125,091	100,931	23.9%
Net Assets	626,908	591,886	5.9%

Stock Data

Price	₦163.50
52 week range	₦139.10- ₦215.98
Market Cap. (N'T)	2.694
1-month Avg. Vol	878,053
Curr. PE	14.40x
Bloomberg Ticker	DANGCEM:NL
Reuters Ticker	DANGCEM.LG

Dangote Cement Plc- Share Price Trend



Analyst(s)

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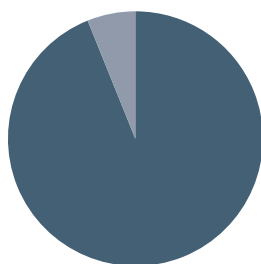
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- Indeed, we had noted, in our 9M 15 earnings update, that Lafarge's delayed response to price cuts by Dangcem led to some loss in market share to the latter. On the flip side, reduction in cement prices (-7%YoY in our estimates) dragged Dangcem's Nigerian revenues ~8% lower YoY to ₦88billion.

Figure 1: Historical contributions to group revenues

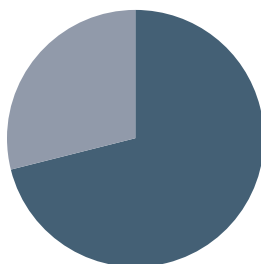
Q3 14

■ Nigeria ■ Non Nigeria



Q3 15

■ Nigeria ■ Non Nigeria



Source: Dangote Cement Plc, ARM Research

... though ramp up of non-Nigerian expenses stoke margin pressures

- However, Q3 15 COGS rose faster than revenues (+54% YoY to ₦54billion), leaving gross profits only 4% higher YoY at ₦69 billion and related margins 9.3pps lower YoY at 56%. Input cost pressures in the quarter was largely driven by rising materials costs which mirrored increases in non-Nigerian production as well as higher depreciation and plant maintenance. Importantly, according to management, input cost pressures would have been higher without significant cost moderation in Nigeria due to

substitution of coal for expensive LPFO.

- Operating expenses rose 20% YoY to ₦20 billion largely reflecting 65% YoY rise in selling and distribution expenses to ₦14billion. According to management, sharp increases in selling and distribution expenses reflects ramp up of administrative and logistical capabilities to support maiden market entry in Ethiopia and Zambia. In addition, the reported acquisition and assembling of 2000 distribution trucks also underpinned OPEX pressures in the quarter. Thus, despite a more than two fold YoY jump in other income to ₦2billion on the back of higher sundry incomes, EBIT grew only 1.3% YoY to ₦51billion. Accordingly, EBIT margin contracted 8.3pps YoY to 41.5%.

Higher interest rate environment aggravates margin compression...

- Dangcem reported a threefold YoY jump in Q3 15 net finance cost to ₦13 billion, mainly reflecting a twofold YoY increase in finance charges to ₦14billion and a 23%YoY decline in finance income to ₦1billion. Management linked the jump in finance expense to increase in interest on domestic debt (+4pps to 14%), rise in debt and eventual recognition of initially capitalized interest charges as expenses in the quarter. Consequently, PBT (₦38billion) and PAT (₦36billion) were 19% and 20% lower YoY with their respective margins declining ~15pps YoY to 31% and 29.4%.

...Earnings pressure to subsist on rising non-Nigerian expenses

- Overall, growing non-Nigerian output continues to offset impact of weak Nigerian volumes—underpinning output growth resilience. With Zambian and Ethiopian plants already gaining traction therefore, we expect overall volume growth to remain strong in the near to medium term. Nevertheless, rising expenses associated with the business' growing footprint across Africa is likely to leave both input cost and operating expenses higher for the rest of 2015—extending margin compression. On other fronts though, significantly benign effective taxes (average of 5.5% in the last three quarters)—in line with management's expectation for the full year—, should slightly taper earnings pressure in the near term. Dangcem trades at 2015 EV/EBITDA of 11.06x relative to 7.5x for Bloomberg EMEA peers. Following net adjustments for the company's 18% price slash and rising capacity utilization across non-Nigerian plants in September 2015, our FVE is now 4% lower at **₦173.97**. We remain **NEUTRAL** on the stock.
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Summary of forecasts

QUARTERLY					
Income Statement ('mln)	Q1 2015A	Q2 2015A	Q3 2015A	Q4 2015E	
Turnover	114,737	127,478	123,235	123,635	
COGS	39,997	44,504	54,193	55,962	
Gross Profit	74,740	82,974	69,042	67,673	
Operating Costs	17,595	19,408	19,770	28,281	
Operating Profit	58,439	63,966	51,130	40,731	
Net Finance costs	11,729	-5,408	-12,942	-10,189	
Profit Before Taxation	70,168	58,558	38,188	30,542	
Taxation	1549	5369	2003	1016	
Profit After Taxation	68,619	53,189	36,185	29,527	
Income Statement ('M)	2014A	2015E	2016E	2017E	
Revenue	391,639	489,085	586,045	643,598	
COGS	143,058	194,656	233,246	238,131	
Gross Profit	248,581	294,429	352,799	405,467	
Operating Cost	65,088	79,721	82,046	70,796	
Operating Profit	187,102	219,599	277,785	343,682	
Finance Income	30,565	35,251	40,993	49,478	
Finance expense	32,978	52,060	38,906	35,094	
PBT	184,689	202,789	279,872	358,065	
Tax	25,187	9,937	12,594	16,113	
PAT	159,501	192,853	267,277	341,953	
Balance Sheet ('M)					
Assets	2014A	2015E	2016E	2017E	
Fixed Assets	747,794	917,376	1,078,252	1,186,250	
Stocks	42,688	52,557	62,976	54,770	
Trade debtors	15,640	15,162	20,512	23,813	
Cash and other bank balances	20,593	(6,252)	(21,946)	54,733	
Total Assets	984,721	1,137,355	1,315,802	1,490,186	
Liabilities					
Trade Creditors	100,930	136,259	160,940	142,879	
Non-current Liabilities	159,886	167,904	175,036	179,621	
Total liabilities	392,834	483,756	582,020	660,657	
Shareholders' fund	591,886	653,599	733,782	829,529	
Key Ratios	2014A	2015E	2016E	2017E	
P/E	17.84	14.40	10.39	8.12	
EV/EBITDA	13.82	11.69	9.56	7.84	
ROA	17%	18%	22%	24%	
ROE	28%	31%	39%	44%	
Net Margins	41%	39%	46%	53%	
EPS	9.36	11.32	15.68	20.07	

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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