

Price	₦170.00
52-week range	₦136.10-215.00
Market Cap. (₦bn)	2,897
1-month Avg. Vol	1,350,383
Curr. PE	14.42x

DANGCEM.NL - Share Price Trend



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Dangote Cement Plc. (DANGCEM.NL)

Initial View

Depressed FY earnings but an appealing dividend

- DANGCEM released FY 19 result after the close of market yesterday, showing a decline in EPS by 49% YoY to ₦11.77. The steep decline was largely due to the ₦134 billion tax credit posted last year. **Excluding the tax credit last year, EPS would have printed lower by 21%.** DANGCEM's FY 19 PAT of ₦201 billion prints lower than our forecast of ₦238 billion. The deviation from our estimate stemmed largely from the spike in FX losses by 66% following depreciation of the FCFA, leone and cedi used by countries in the Pan-Africa business. Revenue, meanwhile, printed 3% lower than we estimated at ₦891 billion. **The FY 19 result was a parade of lower revenue, higher S&D expenses, higher net finance cost and a tax charge vs the tax credit last year. Nonetheless, DANGCEM declared a whopping ₦16/share dividend (same as last year) in a bid to appease shareholders, yielding 9.5%.** The trailing P/E prints at 14.4x, a discount to MENA peers of 23.2x.
- For the first time on record, DANGCEM posted a decline in FY revenue,** dropping 1% YoY. DANGCEM faced tough market plays in both Nigerian and Pan African businesses leading to declines in their respective top lines by 1.3% and 0.2%. Total volume was up slightly by 0.6% YoY to 24MT, thanks to volume growth in Pan-Africa business (+1.9%), particularly Tanzania, Sierra Leone and Senegal. Nigerian volumes, on the other hand, dropped 1.3% YoY to 14.5MT, following the dual impact of BUA's new 4.5MT capacity added during the year and the boarder closure enforced since Q3 19 which drove exports down 41% YoY to 0.45MT (FY 18: 0.8MT). Unsurprisingly, prices were depressed in both Nigeria and Pan-Africa segments, following pent up competition across markets.
- On the cost leg,** a nearly flat COGS line kept margins flat at 57%. Meanwhile, a 17% spike in S&D expenses, driven by the 'Bag of Goodies' promo in Q3 and elevated haulage costs pushed Opex up 13% YoY. S&D per ton rose 17% YoY to ₦6,783. As a result, EBIT dropped 12% and related margin 390bps lower to 34%. **Asides the spike in FX loss, the final hit to the FY bottom line was the tax charge** of ₦50 billion, compared to the tax credit of ₦90 billion in FY 18. This was widely expected; as you will recall Dangcem got approval for a ₦134 billion pioneer tax credit (for 2015-2017) on Ibese 3&4 and Obajana 4 last year. Dangcem still enjoyed some tax incentives in 2019, after getting approval for a two-year extension pioneer tax credits on their respective plant lines. This brought effective

tax rate (ETR) for the Nigerian business to 17% (vs statutory 30%). Overall ETR printed at 20%.

- Taking a quick look at the Q4 19 numbers**, group revenue was down 1.9% on the year to ₦212 billion owing to depressed sales in Nigeria (-3.5% YoY) depicting lingering impact of the border closure. Volumes dipped 3.5% on the year, while price was nearly flat (+0.4% YoY) at ₦43,103/tonne. Meanwhile, in the Pan-African business, revenue was up only 0.8% as 3% volume growth offset the 1.9% dip in price. A faster decline in COGS (-6% YoY) – thanks to lower raw materials and energy costs – gave necessary boost to gross margin (+182 bps YoY) to 58%. S&D expenses in the quarter tapered from the spike in Q3 19, dropping 7.2% QoQ and 2.8% YoY. Overall, PBT printed slightly lower by 1.2% YoY to ₦53 billion while PAT plunged 80% YoY to ₦46 billion, again, highlighting impact of the tax credit in 2018.
- Overall, DANGCEM's performance came in lower than we expected, with earnings depressed right from the top line. Our current FVE of ₦240.87 translates to a 41% upside from current pricing.

Our estimates are under review.

Summary of Results

Income statement – (N'million)	Q4 19	Q4 18	YoY growth	QoQ growth	FY 19	YoY growth	Deviation from forecast
Volumes (mt)							
Nigeria	3.30	3.42	-3%	3%	14.12	0%	
Pan Africa	2.42	2.36	3%	-2%	9.56	2%	
Prices (N)							
Nigeria	43,103	42,948	0%	-1%	43,222	-1%	
Pan Africa	28,735	29,281	-2%	-3%	29,563	-2%	
Revenue	211,880	215,923	-2%	0%	891,671	-1.1%	-3%
Cost of sales	89,974	95,629	-6%	-7%	379,989	-0.9%	0%
Gross profit	121,906	120,294	1%	6%	511,682	-1.2%	-5%
S&D expense	38,663	39,773	-3%	-7%	160,645	17.3%	-6%
OPEX	54,427	54,162	0%	-1%	214,769	13.4%	-5%
EBIT	68,411	71,838	-5%	12%	299,893	-11.5%	-6%
Net interest expense	-16,261	-18,959	-14%	-13%	-50,063	30.2%	53%
PBT	52,799	53,442	-1%	25%	250,479	-16.7%	-13%
PAT	46,171	232,048	-80%	32%	200,521	-48.6%	-16%
EPS	2.71	13.62	-80%	32%	11.77	-48.6%	-16%

Key Ratios	Q4 19	Q4 18	Change (pps)	FY 19	FY 18	Change (pps)
Gross margin	57.5%	55.7%	1.8%	57.4%	57.5%	-0.1%
EBIT margin	32.3%	33.3%	-1.0%	33.6%	37.6%	-3.9%
PBT margin	24.9%	24.8%	0.2%	28.1%	33.4%	-5.3%
PAT margin	21.8%	107.5%	-85.7%	22.5%	43.3%	-20.8%
Effective tax rate	12.6%	-334.2%	346.8%	19.9%	-29.8%	49.7%
FCFE/share				28.94	27.33	5.9%
FCFF/share				16.42	18.53	-11.4%
ROE				22.6%	39.9%*	-17.3%
ROA				11.7%	23.2%*	-11.6%

Source: ARM Research *Ex tax credit, ROE was 26% and ROA was 15% in 2018.

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