

## Dangote Cement Plc. (DANGCEM.NL)

Rating	<b>BUY</b>
Price	₦146.90
FVE	<b>₦201.05</b>
52-week range	₦116.00- ₦201.60
Market Cap. (₦bn)	2,503
1-month Avg. Vol	2,341,312
Curr. 12M T. PE	11.7

### Stock report

#### *Facing COVID tides with additional capacity*

- **We met with Dangcem management yesterday** and the crux of the meeting was the surprise announcement of a new 3MT Obajana line, which increases the Nigeria production capacity to 16.3MT. This came much sooner than expected, as we had earlier been told the new line, together with another 3MT in Okpella were scheduled for completion in 2021/22. Interestingly, the increase in spare capacity comes at a time where commitment to shareholders – via the ₦16 dividend and proposed 10% share buyback both estimated at ~₦528 billion – have placed strains on the company's cashflows, with only FCFE of ~₦495 billion as at FY 19. However, we believe some of that gap could be filled with the ₦300 billion bond purchase programme, of which ₦100 billion was issued in Q1 20 at 12.5%.

- **On the proposed 10% share buyback** of outstanding shares, management announced that the final approvals have been secured from SEC. Other than that, details on the buyback remain blur. Instead, management stated that the timing of the buyback will be dependent on timing of stock market turnout and the company's liquidity. In our view, we think it is unlikely the entire 10% buy back is carried out, given the strain on cashflow. Thus, in our model we have assumed that 5% buyback could be done this year, while another 2% is done next year<sup>1</sup>.

- **Going into the rest of 2020, we estimate EPS could drop 22% YoY to ₦9.24<sup>2</sup>.** The major pressure points on earnings are likely to stem from (1) the decline in revenue, which we estimate could drop 2% YoY to ₦876 billion, (2) increased production costs owing to impact of the naira depreciation (especially on gas and imported gypsum) and the resultant decline in gross margin (-150 bps YoY to 56%), (3) increase in net finance cost (+31% to ₦58 billion), as lower market yields and cash push interest income (-24%) lower while a more expensive mix and increase in the debt book increases finance cost(+31%); (4) the absence of pioneer tax credit, as the allowances on the Obajana lines 4 and Ibese line 3&4lines were used up last year.

- **DANGCEM remains our best pick.** A culmination of our adjustments brings **Dangcem's FVE to ₦201.05** (previously ₦240.87) which is a 46% upside from current market price. Dangcem's 2020E and 2021E forward P/E of 15x and 11.5x are a premium to Lafarge's of 11.3x and 8.4x, while MENA peer average print at 14x and 13x. Dangcem continues to deliver superior ROE (23%) and margins relative to WAPCO's 4% ROE, and as such Dangcem remains our preferred pick of the two players. We are currently re-initiating our coverage on BUA.

### DANGCEM.NL - Share Price Trend



### Analyst

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<sup>1</sup> SEC rules allow for a 12-month duration from the date of shareholder approval to carry out the buyback,

<sup>2</sup> This incorporates our assumption of a 5% share buyback. Ex impact of the share buyback, 2020EPS could drop 25% to ₦8.78.

- ***The increased capacity to serve export market via new export terminals.*** We believe the new Obajana plant was set up to serve the export market over 2020, as the company is soon to commission the new export terminals in Apapa and Onne in Q2. We expect the recovery in export (+68% YoY to 756kT) – especially after the low base from the border closure last year -- will make up for some of the loss in domestic sales (-5% YoY) owing to COVID, albeit insufficient. Thus, we forecast a decline in Nigeria volumes by 3% YoY to 13.7Mt in 2020E. On prices, we forecast revenue per ton will inch up 4% YoY to ₦44,640, reflecting impact of the 2% increase in VAT as well as the company's wound down rebates to distributors. Overall, we forecast growth in Nigeria revenue by 2% YoY to ₦613 billion.

For the Pan-Africa businesses, we expect impact of the COVID-19 lock down to weigh on volumes, especially in Q2. Beyond COVID, economic challenges in Zambia and South Africa, as well as newly developed technical issues in Tanzania tamed our expectations of a recovery in those regions in H2. Thus, we estimate a 10% YoY decline in volumes across Pan-Africa (PA), while we estimate a 3% increase in prices, as costs build up. We forecast a 7% decline in revenue to ₦263 billion across PA businesses.

**Overall, we estimate group revenue could drop by 2% YoY to ₦876 billion.**

## Summary of Results and Forecasts - ₦'000

ANNUAL								
Income Statement (₦'million)	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Volume (Million tonnes)								
Nigeria Volume	12.7	14.2	14.1	13.7	15.0	16.4	17.7	19.4
Rest of Africa Volume	9.2	9.4	9.6	8.6	10.0	10.5	11.0	11.5
	<b>21.9</b>	<b>23.6</b>	<b>23.7</b>	<b>22.4</b>	<b>25.0</b>	<b>27.0</b>	<b>28.7</b>	<b>30.8</b>
Nigeria Price (N'000)	45.6	43.6	43.2	44.6	46.0	45.7	45.5	46.0
Rest of Africa Average Price (N'000)	29.7	30.2	29.6	30.4	31.0	30.9	30.7	31.0
<b>Revenue</b>								
Nigeria	580,151	618,303	610,247	613,488	689,485	752,428	807,385	889,591
Rest of Africa	251,289	283,262	282,710	262,908	311,496	325,065	337,538	355,990
Intercompany	25,857	352	-	-	-	-	-	-
	<b>805,582</b>	<b>901,213</b>	<b>891,671</b>	<b>876,396</b>	<b>1,000,980</b>	<b>1,077,492</b>	<b>1,144,922</b>	<b>1,245,582</b>
<b>COGS</b>	<b>351,290</b>	<b>383,311</b>	<b>379,989</b>	<b>387,572</b>	<b>428,349</b>	<b>456,152</b>	<b>479,655</b>	<b>508,275</b>
<b>Gross Profit</b>	454,292	517,902	511,682	488,824	572,632	621,341	665,268	737,307
<b>Operating Cost</b>	<b>155,297</b>	<b>189,426</b>	<b>214,769</b>	<b>211,513</b>	<b>229,819</b>	<b>246,422</b>	<b>260,715</b>	<b>277,412</b>
<b>Operating Profit</b>	304,208	338,698	299,893	280,589	346,353	378,671	408,455	463,876
<b>Finance Income</b>	35,926	11,323	7,610	5,816	4,011	3,571	5,433	6,495
<b>Finance expense</b>	<b>52,711</b>	<b>49,778</b>	<b>44,192</b>	<b>57,784</b>	<b>71,020</b>	<b>71,082</b>	<b>65,594</b>	<b>62,433</b>
<b>PBT</b>	289,590	300,806	250,479	213,792	270,446	303,152	341,087	401,452
<b>Tax</b>	<b>85,342</b>	<b>-89,519</b>	<b>49,958</b>	<b>64,138</b>	<b>81,134</b>	<b>90,946</b>	<b>102,326</b>	<b>120,436</b>
<b>PAT</b>	<b>204,248</b>	<b>390,325</b>	<b>200,521</b>	<b>149,655</b>	<b>189,312</b>	<b>212,207</b>	<b>238,761</b>	<b>281,016</b>
<b>Balance Sheet (₦'million)</b>								
<b>Fixed Assets</b>	1,192,140	1,171,864	1,206,749	1,224,335	1,245,479	1,262,075	1,272,018	1,272,018
<b>Stocks</b>	94,594	106,998	114,806	106,831	117,642	124,822	130,774	138,069
<b>Trade debtors</b>	30,155	44,468	30,001	35,179	41,083	41,242	45,591	49,466
<b>Cash and other bank balances</b>	168,387	166,896	123,903	49,849	115,924	127,554	168,644	260,805
<b>Total Assets</b>	1,665,883	1,694,463	1,741,351	1,669,281	1,788,292	1,832,850	1,901,974	2,016,898
<b>Trade Creditors</b>	270,721	230,970	284,739	285,753	315,389	335,404	352,206	372,713
<b>Non-current Liabilities</b>	364,047	212,344	212,620	529,976	579,854	520,244	471,891	432,512
<b>Total liabilities</b>	884,523	707,850	843,414	1,013,621	1,118,240	1,111,507	1,122,245	1,159,099
<b>Shareholders' fund</b>	781,360	986,613	897,937	655,660	670,053	721,344	779,729	857,798
<b>Key Ratios</b>								
<b>P/E (x)</b>	19.2	11.4	11.7	14.9	11.5	10.3	9.1	7.74
<b>EV/EBITDA (x)</b>	10.7	7.6	6.6	7.1	5.9	5.4	4.9	4.21
<b>ROA</b>	13%	23%	12%	9%	11%	12%	13%	14%
<b>ROE</b>	26%	44%	21%	19%	29%	31%	32%	34%
<b>EBIT Margin</b>	38%	38%	34%	32%	35%	35%	36%	37%
<b>Tax burden</b>	71%	130%	80%	70%	70%	70%	70%	70%
<b>Interest burden</b>	95%	89%	84%	76%	78%	80%	84%	87%
<b>Asset Turnover</b>	0.50	0.54	0.52	0.51	0.58	0.60	0.61	0.64
<b>Equity Multiplier</b>	2.13	1.72	1.94	2.55	2.67	2.54	2.44	2.35
<b>Gross margin</b>	56%	57%	57%	56%	57%	58%	58%	59%
<b>Net margin</b>	25%	43%	22%	17%	19%	20%	21%	23%
<b>EBIT margins</b>	38%	38%	34%	32%	35%	35%	36%	37%
<b>PBT margins</b>	36%	33%	28%	24%	27%	28%	30%	32%
<b>EPS (N)</b>	12.0	16.0	11.8	9.2	11.9	13.4	15.1	17.7
<b>Effective Tax rates</b>	29%	-30%	20%	30%	30%	30%	30%	30%
<b>Debt to Equity</b>	49.6%	35.1%	41.0%	79.5%	85.9%	73.0%	63.4%	56%
<b>Debt to Assets</b>	23.3%	20.4%	21.1%	31.2%	32.2%	28.7%	26.0%	24%
<b>Interest coverage (X)</b>	5.8	6.8	5.2	3.9	4.3	4.8	5.6	6.7
<b>BVPS (N)</b>	45.9	57.9	52.7	40.5	42.3	45.5	49.2	54.1

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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