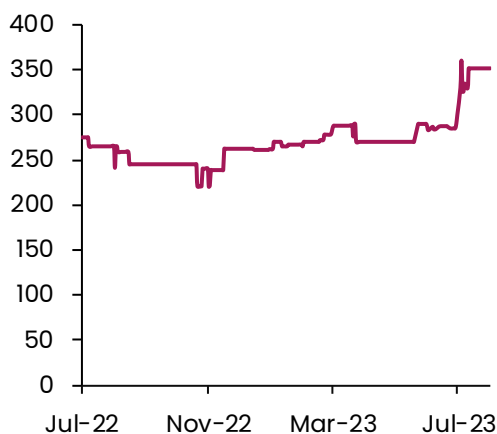


**DANGCEM | Industrial Goods | H1:2023**

Price	NGN352
52-week range	NGN219.2-NGN360.7
TP	NGN348.34
Rating	UNDERWEIGHT
Market Cap	NGN5.99trn

DANGCEM-Share Price Trend**Analyst**

Oyinkansola Aregbesola

oyinkansola.aregbesola@arm.com.ng**DANGOTE CEMENT PLC. (DANGCEM.NL)****Earnings Note: H1:2023****FX Devaluation Erodes Bottom-Line Performance****Higher Revenue Riding on Pricing Strategy**

Dangote Cement Plc. recently released its H1:2023 financial results, depicting a 17.67% YoY growth in revenue to NGN950.83bn. This is amid a decline (-5.53% YoY to 13.4Mt) in sales volume during the period. We opine that the increase in revenue is associated with a strategic upward price review by the company's management.

We believe the management will sustain revenue growth through strategic pricing and improved sales volume.

Production Costs Soar on the Back of Higher Energy Costs

Production Cost of Sales (adjusted for depreciation) grew by 18.21% YoY to NGN332.03bn in H1:2023. This was on the back of surging fuel and power costs (+20.82% YoY to NGN157.02bn) and other production expenses (+79.01% YoY to NGN10.17bn) in the period. Notably, the spike in fuel and power costs can be attributed to rising energy costs in the period, particularly in June 2023, when premium motor spirit (PMS) subsidy was removed. Hence, fuel and power costs surged 34.71% YoY to NGN100.34bn in Q2:2023 (vs. NGN74.49bn in Q2:2022).

We expect the full effect of the PMS subsidy removal to reflect over the next two quarters. This would likely contribute to burgeoning production expenses, limiting overall 2023FY performance.

OPEX Surge with Elevated Staff Related Costs and Haulage Expenses

Administrative expenses (adjusted for depreciation) surged 30.21% YoY to NGN40.01bn in H1:2023. We attribute the increase to higher salaries and related staff costs (+23.51% YoY to NGN12.87bn), bank charges (+150.21% YoY to NGN3.50bn) and general administrative expenses (+49.78% YoY to NGN5.16bn) in the period. Selling and Distribution expenses (adjusted for depreciation) increased by 16.77% to NGN146.53bn in H1:2023. This is following higher haulage expenses in the period (+14.77% YoY to NGN128.37bn) and staff related costs (+32.72% YoY to NGN13.20bn). Overall, Operating Expenses (ex-dep) rose 19.41% to NGN186.54bn.

Reiterating our earlier expectations, we expect haulage expense to remain elevated with surging energy prices given the recent PMS subsidy removal.

Net Finance Cost Remains Elevated

Net Finance cost surged 164.17% YoY to NGN33.22bn on account of declining finance income (-26.34% YoY to NGN16.21bn) and higher finance cost (+42.95% YoY to NGN49.42bn) in H1:2023. We allude the higher finance cost in the period to the elevated interest rate environment in Nigeria and its implication on borrowing cost.

Net Exchange Loss on Foreign Denominated Transactions Erodes Profits

Net Exchange loss on foreign denominated transactions spiked 179.47% YoY to NGN113.63bn in H1:2023 (vs. NGN40.66bn in H1:2022). This is following the FX liberalization policy enacted by the new administration in Nigeria. For context, its Q2:2023 stand-alone financial statement revealed a 362.79% YoY Jump in net exchange loss on foreign denominated transactions to NGN103.84bn in Q2:2023. Consequently, Profit Before Tax (PBT) declined by 9.45% YoY to NGN239.86bn in H1:2023

while Profit After Tax (PAT) grew marginally by 3.78% YoY to NGN178.60bn in H1:2023.

Barring any further significant Naira devaluations, Dangote Cement would continue to keep posting decent performance. Hence, we maintain our target price of NGN348.34.

Summary of Results

Item Lines (Millions of Naira)	H1:2023	H1:2022	% Change
Revenue	950,832	808,037	17.67%
Production Cost of sales (ex-dep)	(332,032)	(280,873)	18.21%
Gross profit	618,800	527,164	17.38%
Administrative expenses (ex-dep)	(40,012)	(30,729)	30.21%
Selling and distribution expenses (ex-dep)	(146,532)	(125,493)	16.77%
EBITDA	432,256	370,942	16.53%
Depreciation and Amortization	(63,219)	(54,772)	15.42%
EBIT	369,037	316,170	16.72%
Other income	11,057	1,601	590.63%
Impairment of financial assets	(58)	350	-116.57%
Net Finance Cost	(33,217)	(12,574)	164.17%
Net exchange loss on foreign denominated transactions	(113,626)	(40,657)	179.47%
Gain/(loss) on net monetary positions	6,670	0	
Profit before tax	239,863	264,890	-9.45%
income tax	(61,260)	(92,786)	-33.98%
Profit after Tax	178,603	172,104	3.78%
Balance Sheet Extract	H1:2023	H1:2022	% Change
Total Asset	3,188,074	2,237,339	42.49%
Shareholders fund	1,312,377	775,880	69.15%
Long-term Liability	560,408	446,729	25.45%
Short-term Liability	1,315,289	1,014,730	29.62%
Ratios	H1:2023	H1:2022	% Change
Gross Margin	65.08%	65.24%	-0.16%
EBITDA Margin	45.46%	45.91%	-0.45%
Operating Margin	38.81%	39.13%	-0.32%
Net Margin	18.78%	21.30%	-2.52%
Return on Asset	5.60%	7.69%	-2.09%
Return on Equity	13.61%	22.18%	-8.57%
EPS	10.39	10.10	2.87%

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%	N/A	
SELL	<-5%		

RECOMMENDATION	
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	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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