



## Dangote Cement Plc (DANGCEM.NL)

Price	₦217.0
52-week range	₦122.0 - ₦253.4
Market Cap. (₦'bn)	2,896.88
1-month Avg. Vol	452,607
Curr. PE	12.17

### Stock Report

#### Improved volumes and margins buoyed performance

#### WAPCO.NL - Share Price Trend



#### Analyst

**Olayemi Olamofe**

[Olayemi.olamofe@arm.com.ng](mailto:Olayemi.olamofe@arm.com.ng)

- Dangote Cement Plc (DANGCEM) recently released its Q1'21 result which showed strong double-digit YoY growth of 47.8% and 48.1% in PBT and PAT to ₦130.1bn and ₦89.7bn respectfully. The solid performance stemmed largely from improved volumes and margins as well as better cost management during the quarter.
- Taking a closer look at the results, we saw group revenue increase by 33.5% YoY to ₦332.7bn supported by higher average realized prices (+12.4% YoY to ₦44,230/tonne) due to lower discount and increased volumes (+18.7% YoY to 7.5Mt) in both its Nigerian and Pan African markets. The continued recovery from the COVID-19 pandemic was quite supportive of the demand for cement with DANGCEM recording volume growth in 8 out of its 9 Pan African subsidiaries. Furthermore, the recently revamping of its Obajana line 5 also helped garnered more volumes following strong cement demand in the Nigerian market, which began since Q3'20.
- DANGCEM registered a 22.7% increase in cost of sales during the quarter, with the pressure mostly felt on the raw material (+59.2%) and energy (21.4%) cost lines. This may have been driven by the weakness in the Naira and inflationary pressures. Cumulatively, gross profit and margin expanded by 41.3% YoY and 339bps YoY to ₦204.7bn and 61.5% respectively.
- Over the quarter, OPEX grew by 4.8% to ₦56.8bn on the back of a 22.8% surge in administrative expenses. However, OPEX/sales ratio contracted by 467bps to 17.1% supported by the flattish selling and distribution expenses as well as strong growth in topline. This together with robust gross margin led operating margin higher by 878bps YoY to 45.6%. However, the spike in net finance cost to ₦21.6bn (vs ₦3.7bn in Q1'20), mainly due to a foreign exchange loss of ₦10.6bn recorded over the period, moderated the growth in PBT margin (up 377bps YoY to 39.1%). Furthermore, the absence of pioneer tax incentive led to a spike in tax charges (up 47.1% YoY to ₦40.4bn). Consequently, PAT settled at ₦89.7bn, leaving its profit margins at 27.0%.
- On a balance of factors, for the rest of the year, we remain broadly positive on DANGCEM and expect the company to sustain earnings growth, albeit, at a slower pace in H2'21 due to the high base of H2'20. Like 2020, we expect top line to remain volume driven in 2021.

We have a FVE of ~~₹~~257.92 (previously ~~₹~~255.75) on the stock, which implies an OVERWEIGHT rating based on current market price of ~~₹~~217.00.

### Summary of Results

Income Statement (₹'million)	Q1'21	Q1'20	YoY Growth	QoQ Growth
Revenue	332,651	249,182	33.50%	21.96%
COGS	127,996	104,325	22.69%	6.28%
Gross Profit	204,655	144,857	41.28%	34.36%
OPEX	56,823	54,200	338.9bps	3.99%
Operating Profit (EBIT)	<b>151,744</b>	<b>91,779</b>	65.34%	53.29%
Net finance cost	3,722	21,643	481.49%	-950.75%
PBT	<b>130,101</b>	<b>88,057</b>	47.75%	28.13%
Tax	40,391	27,465	47.06%	18.91%
PAT	<b>89,710</b>	<b>60,592</b>	48.06%	32.76%
Key Ratios	Q1'21	Q1'20	YoY Change (pps)	QoQ Change (pps)
Gross margin	61.52%	58.13%	3.39%	5.68%
EBIT margin	45.62%	36.83%	8.78%	9.32%
PBT margin	39.11%	35.34%	3.77%	1.88%
PAT margin	26.97%	24.32%	2.65%	2.19%
Effective Tax rates	31.05%	31.19%	0.14%	2.41%

## 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 other 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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