Dangote Cement Plc.

Improved Earnings Outlook; Hold Rating Retained

We have raised DANGCEM's 2017 EBITDA and PAT slightly higher to N329.9 billion (previously N323.8 billion) and N212.7 billion (previously N209.7 billion) respectively, following (1) significant decline in Nigerian energy cost in Q4-2016 which came earlier than expected, (2) additional price adjustment also in Nigeria, and (3) likely resolution of fuel challenges in Tanzania**. Consequently, we have increased target price by 8% to N187.52, while retaining HOLD recommendation on 16.83% upside. Altogether, we like DANGCEM's forward-looking approach, and continue to rate the company high in our universe of cement companies. The stock has lost 7.8% YtD and trades at 11% discount to SSA peers on 11.2x FPE.**

In Nigeria, we forecast EBITDA to grow by 28% in 2017 to N296.4 billion (58% margin) primarily on energy cost improvement, pricing, and stable FX rates. Beyond 2017, we retain the modest 8% average growth forecast over 2018-2020. Per tonne energy cost dropped from the peak of N7,902 in Q3-2016, to N5,138 in the fourth quarter around which we have modeled our assumptions. With coal facilities fully commissioned across all the local plants, and Nigeria's gas situation expected to improve into the year, we have significantly reduced expectation for LFPO utilization in the fuel mix. On pricing, management guided to additional adjustment of N150/50kg bag at the start of this quarter and N250/50kg VAT-inclusive, in February. Feedback from our routine check is that Dangote Cement is currently sold at ex-factory VAT-inclusive price of N2,585 (N51,700/tonne) in the West, representing about 65% increase over 2016 average national price, VAT adjusted. That said, the latest price hike amidst the modest macro recovery prospect has increased the case for lower sales volume (we forecast 11% decline to 13.2MTs), besides the expected loss of market share to BUA cement (a new entrant) and LAFARGE (rejuvenated production after 2016 crisis). Below the EBITDA line, we expect PAT to decline in this market on higher effective tax and importantly, significantly lower net foreign exchange gain on stable naira value.

Our EBITDA scenarios in Nigeria range from (1) N296.4 billion on -11% volume and N38,855/tonne price, (2) N257.7 billion on -23% volume and N38,855/tonne price, (3) N284.1 billion on +8% volume and N32,000/tonne price, (4) N270.7 billion on +3% volume and N32,000/tonne price, and finally (5) N277.4 billion on +6% volume and 32,000/tonne price. **12-month target price under these scenarios ranges from N166.19-N187.52, representing 3.5%-16.83% upside from market value.**

Weak quarter-on-quarter Pan-African sales volume observed since Q2-2016 is suggestive of low room for growth over 2017. DANGCEM has invested significantly on logistics in the newly entered markets, helping to strengthen product reach to consumers ahead of competitors. But having already claimed visible market shares within a short period, and given a less aggressive African cement consumption outlook, we forecast volume to grow by only 9% to 9.2MTs in this category, supported by Sierra Leone and Congo coming on stream, as well as export opportunities. We forecast EBITDA to reach N33.6 billion (vs. N26.4 billion in 2016) on (1) less disruptive energy issues in Tanzania where resolution will likely be reached with the government over gas pricing, (2) stable average price, and (3) volume growth. Below the EBITDA line, we forecast post-tax loss to reduce to N33.5 billion on significantly lower net forex loss.

Income Statement (N'bn)	Q1-2017	Q2-2017	Q3-2017	Q4-2017
Revenue	169.42	182.86	180.73	208.59
Cost of sales	(84.03)	(90.69)	(89.64)	(103.46)
Gross profit	85.39	92.17	91.09	105.13
Operating expenses	(32.91)	(35.52)	(35.11)	(40.52)
Other income	2.09	2.09	2.09	2.09
Operating profit	54.57	58.74	58.08	66.71
Net forex gain/(loss)	0.32	0.32	0.32	0.32
Interest income	8.69	8.69	8.69	8.69
Finance costs	(11.41)	(11.41)	(11.41)	(11.41)
Profit before tax	52.17	56.33	55.67	64.30
Income tax expense	(3.62)	(3.90)	(3.86)	(4.46)
Profit after tax	**48.55**	**52.43**	**51.81**	**59.84**

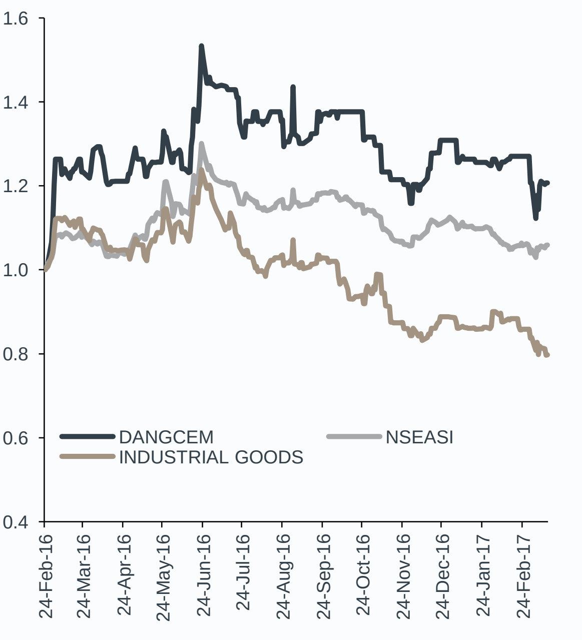
HOLD

Target Price (N)	187.52
Current Price (N)	160.50
Implied Return (%)	16.83

Company Data	
NSE Code	DANGCEM
Bloomberg Code	DANGCEM:NL
Reuters Code	DANGCEM.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	2,735.00
Free Float (%)	8.04

Ratios	Q4-2016	Q4-2015	2016FY
Gross margin	46.7%	50.0%	47.4%
Opex margin	15.80%	23.2%	19.4%
EBITDA margin	45.2%	39.0%	41.8%
EBIT margin	34.8%	27.2%	29.7%
PAT margin	30.7%	18.5%	30.3%
EPS (N)	3.2	1.1	11.3

Price movement (DANGCEM vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Financial Statement (N'billion).

Income Statement	2014a	2015a	2016a	2017f	2018f
Turnover	391.64	491.73	615.10	741.60	804.31
Cost of Sales	(143.06)	(201.81)	(323.82)	(367.81)	(396.72)
Gross Profit	248.58	289.92	291.29	373.78	407.59
Net Opex	(28.82)	(31.42)	(44.59)	(52.05)	(56.31)
Other Operating Income/Expenses	3.61	3.95	10.54	8.36	8.41
EBITDA	223.37	262.45	257.24	330.08	359.68
Depreciation	(36.27)	(54.63)	(74.75)	(92.00)	(99.85)
EBIT/ Operating Income	187.10	207.82	182.49	238.09	259.84
Finance income	30.57	34.82	2.66	34.76	39.78
Finance costs	(32.98)	(54.35)	(45.38)	(45.65)	(41.55)
Profit Before Tax	184.69	188.29	180.93	228.46	259.61
Taxation	(25.19)	(6.97)	5.70	(15.83)	(18.56)
Profit After Tax	**159.50**	**181.32**	**186.62**	**212.63**	**241.05**

Profitability Ratios	2014a	2015a	2016a	2017f	2018f
Revenue growth	1.4%	25.6%	25.1%	20.6%	8.5%
Gross margin	63.5%	59.0%	47.4%	50.4%	50.7%
EBITDA growth	-2.6%	17.5%	-2.0%	28.3%	9.0%
EBITDA margin	57.0%	53.4%	41.8%	44.5%	44.7%
RoAE	27.9%	29.3%	25.9%	26.7%	28.7%
RoAA	17.5%	17.3%	14.1%	12.6%	12.5%
Interest cover	567.4%	382.4%	402.1%	521.5%	625.4%

Investment Ratios	2014a	2015a	2016a	2017f	2018f
Earnings per share (N)	9.36	10.64	10.95	12.48	14.15
Dividend per share (N)	6.0	8.0	8.5	9.4	10.6
Dividend payout	64.1%	75.2%	77.6%	75.0%	75.0%
Dividend yield	3.0%	4.7%	4.9%	5.8%	6.6%
Gross opex margin	-16.62%	-17.50%	19.40%	19.42%	19.42%

Financial Position	2014a	2015a	2016a	2017f	2018f
PPE	747.79	917.21	1,155.71	1,288.61	1,398.49
Inventories	42.69	53.12	82.90	97.74	106.37
Trade debtors/receivables	15.64	11.54	26.28	30.51	33.10
Prepayment/other current assets	58.18	60.53	78.29	92.91	101.28
Bank and Cash	20.59	40.79	115.69	251.61	287.48
Total Assets	**984.72**	**1,110.94**	**1,527.91**	**1,839.36**	**2,011.24**
Trade and other payables	100.93	127.60	268.97	384.62	418.83
Current income tax	2.48	1.29	4.67	6.57	7.09
Financial debt	110.64	47.28	220.30	208.71	191.75
Other current liabilities	18.90	24.54	18.31	25.91	28.04
Financial debt	131.94	208.33	152.48	173.83	175.61
Long term provisions	4.01	3.28	3.34	4.77	5.11
Deferred revenue	1.39	0.98	1.07	149.16	209.69
Retirement benefits obligation	2.07	3.99	-	-	-
Long term payables	-	24.44	17.73	26.43	29.54
Deferred tax liabilities	20.47	24.50	43.70	61.31	65.95
Total Liabilities	**392.83**	**466.22**	**730.56**	**1,041.33**	**1,131.62**
Net assets	**591.89**	**644.72**	**797.35**	**798.04**	**879.62**

Liquidity Ratios	2014a	2015a	2016a	2017f	2018f
Working capital (N'bn)	(95.84)	(34.72)	(209.08)	(153.06)	(117.49)
Current ratio	0.59x	0.83x	0.59x	0.76x	0.82x
Quick ratio	0.41x	0.56x	0.43x	0.60x	0.65x
Cash ratio	0.09x	0.20x	0.23x	0.40x	0.45x

Source: Company accounts, Cordros research estimates

Disclosures.

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