

# Dangote Sugar Refinery Plc.

## First Glance: Strong Finishing From a Troubled 2016

Dangote Sugar Refinery Plc (DANGSUGAR) released its Q4 and full year 2016 results this afternoon. 94.5% y/y revenue and PAT growth apiece, in the final quarter, summed up an impressive year for the company, wherein top-line grew by 67.9% while post-tax profit increased by 29.2%. The Board is recommending N0.60 dividend per share (vs. N0.50 in 2015, and in line with our estimate).

### Q4-2016 – The Hand of Price and Fair Value Adjustments

The revenue growth of 94.5% y/y reported during the fourth quarter was ahead of our estimate of 77% y/y, on higher-than-expected sales volume (+14% ahead of our forecast). The volume sold during the period (164k tonnes), though ahead of our estimate, was expectedly at record low level considering the magnitude of price increase (+34%) implemented during the period. Compared to other FMCG companies in our coverage, DANGSUGAR implemented about the highest (+70% average) price increase over 2016 to prevent the severe NGN depreciation and raw materials price increases experienced during the year from eroding margins.

Gross margin fell sharply (403bps q/q) to 7.3%, as the price increase mentioned above trailed the 39% increase in cost per tonne. Raw materials cost (+46% q/q per tonne) was the biggest driver of the increase in per tonne cost, reflecting both the increase in the international price of raw sugar from the third quarter and the continued slippage of the Naira exchange rate at the alternative markets. A significant surge in depreciation charge (the highest during the year) was also responsible for the shrinkage in gross margin.

Operating expenses was down 0.5% y/y, but was the highest – consistent with the historical trend – in all quarters of the year. But thanks to the huge price-driven revenue growth, the opex/revenue ratio was maintained at 4%.

Below the EBIT line, fair value adjustments came in at N1.82 billion, similar to Q4-15, and had a major positive impact on PBT (84.8% y/y and 3.2% q/q). The fair adjustments relate to the revaluation of the sugar cane plantations. Below PBT, a significantly lower effective tax rate of 0.4% (vs. 34% average in 9M-16 and 5% in Q4-15) had positive feed-through to PAT.

The management claims to have had a strong start to 2017, capturing market share from competitors and smugglers. It expressed optimism in the ability of the strengthening Naira to eliminate the challenges of sourcing FX. Risk, however, is that raw sugar prices remain volatile in the international market and subsequent appreciation could more than offset gain from a stable Naira exchange rate.

### CONFERENCE CALL DETAILS

A conference call for analysts and investors will be held on Wednesday, 5th April, 2017, at 3:00pm Lagos time. The dial-in details are as follows: -

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Speakers: **Abdullahi Sule (Acting Group Managing Director) and Etim Bassey, (Acting Chief Financial Officer)**

# BUY

Target Price (N)*	8.31
Current Price (N)	6.52
Implied Return (%)	27.41

### Company Data

NSE Code	DANGSUGAR
Bloomberg Code	DANGSUGAR:NL
Reuters Code	DANGSUG.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	78.24
Free Float (%)	26.90

Ratios	Q4-2016	Q4-2015	2016FY
Gross margin	7.32%	7.00%	13.54%
Opex margin	4.20%	8.21%	4.08%
EBIT margin	3.83%	2.67%	9.90%
PAT margin	7.86%	7.85%	8.48%
RoAE	21.97**	20.79**	23.24%
EPS (N)	0.36	0.18	1.20

\*Under Review

\*\* Trailing

Income Statement (N'bn)	2016 C	2016A	Q4-16C	Q4-16A
Turnover	164.76	169.72	49.51	54.47
Cost of Sales	(136.86)	-146.74	-40.61	-50.48
Gross profit	27.90	22.99	8.90	3.99
Operating expenses	(5.22)	-2.17	-2.88	0.16
Other income	2.19	0.75	1.83	0.38
EBITDA	24.87	21.56	7.84	4.53
Depreciation	(3.48)	-4.75	-1.18	-2.45
EBIT/operating income	21.39	16.81	6.66	2.09
Investment income	0.32	0.60	0.01	0.29
Fair value adjustments	-	2.50	-0.68	1.82
Finance costs	(0.51)	-0.30	-0.12	0.10
Profit before tax	21.19	19.61	5.87	4.30
Income tax expense	(6.78)	-5.22	-1.58	-0.02
<b>Profit for the year</b>	<b>14.41</b>	<b>14.40</b>	<b>4.29</b>	<b>4.28</b>

Source: Company Account, Cordros Research estimates

A: Actual

C: Cordros estimates

# Disclosures

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**Rating Summary & Definitions**

Cordros Capital uses the following rating system:

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