

# Dangote Sugar Refinery Plc.

## First Glance: Q1-17 PAT; Growth As Expected; Management Misses on Margin Target

Dangote Sugar Refinery Plc released Q1-17 result last Friday, recording revenue (82.5% y/y), EBITDA (13.8% y/y), and PAT (42.5% y/y) that are well ahead of Q1-16. Revenue and PAT beat our estimates by 16% and 8% respectively. Annualized, revenue and PAT are above consensus by 30.9% and 1.4% respectively.

The revenue growth was driven by the significantly higher average price (121% y/y), which more than compensated for relatively lower sales volume (17% y/y). Management said it sold 174,981 tonnes of sugar during the period, 7% more than the 164,129 tonnes achieved in Q4-16, and 13% above our estimate. The q/q volume growth is consistent with the encouraging demand the management guided to during the 2016FY conference call. That said, the management's reported average selling price of N17,010/50kg bag is above our computed N16,775/bag, and is not consistent with the N1,000/bag reduction (implemented in March) from the N17,000/bag as at end of 2016.

Also positively impacting PAT was the significant increase in investment income (N971.4 million vs. N7.1 million in Q1-16), enabled by growing cash generation, and consequent investments in short term money market instruments (N40.3 billion). Management said it earned 11.5% (vs. 7% in Q1-16) average interest on its bank deposits. We also note that the yields on shorter maturing T-bills are significantly above Q1-16 (by over 1000 bps).

In addition, an amount of N122.5 million was reported as fair value adjustment on biological assets, compared to -N80.3 million in Q1-16. And while operating expenses increased by 29.1% y/y, it fell by 136 bps y/y as a proportion of revenue.

Income Statement (N'bn)	Q1-17	Q1-16	y/y	Cordros (e)
Revenue	59.53	32.62	82.5%	51.2
Cost of sales	-51.69	-25.85	100.0%	-43.6
Gross profit	7.84	6.77	15.8%	7.5
OPEX	-1.97	-1.52	29.1%	-2.1
Other income	0.07	0.09	-14.5%	0.2
EBIT	5.95	5.33	11.5%	5.6
Investment income	0.97	0.01	13643.0%	0.2
Fair value adjustments	0.12	-0.08	-252.5%	0.7
Financial charges	0.00	-0.15	-100.0%	0.0
Profit before tax	7.04	5.11	37.7%	6.5
Taxation	-2.28	-1.77	28.7%	-2.1
Profit after tax	4.76	3.34	42.5%	4.41

Although gross margin improved from the trough of 7.3% in Q4-16, the 13.2% realized during the period was significantly shy of the 20% guided by management, and lower than our 14.7% estimate. Management had cited the (1) purchase of forex at a relatively lower average rate (compared to Q4-2016) and (2) higher output from Savannah where margins are higher, as the potential enablers of margin recovery.

Overall, DANGSUGAR's Q1-17 PAT is consistent with our strong growth expectation (22%) for 2017F. We look for lower PAT growth in subsequent quarters as narrowing y/y price differential (with sales volume unlikely to improve significantly from current level) forces revenue growth to taper. We maintain HOLD rating on the stock. A conference call for analysts and investors will be held Thursday this week.

The dial-in details are as follows: -

Nigeria: +234 (0)18889001 / +234 (0)18889090, UK: +44 (0) 800 327 7280 / +44 (0) 207 043 4129, USA: +1 866 840 9752 / +1 646 663 7922, South Africa: +27 (0) 800 982 759

## HOLD

Target Price (N)	7.31
Current Price (N)	6.20
Implied Return (%)	17.82

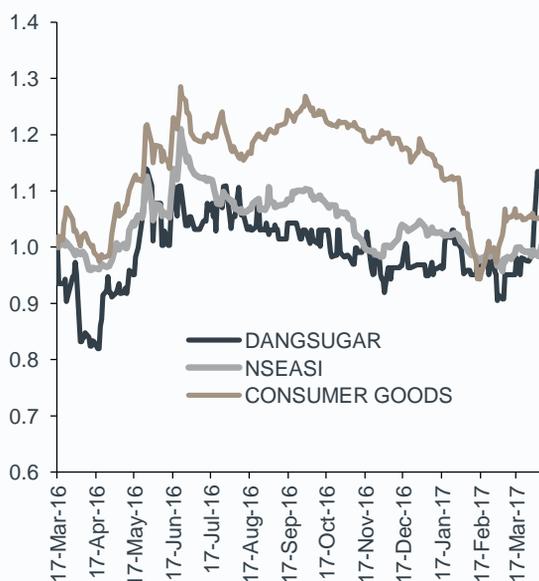
### Company Data

NSE Code	DANGSUGAR
Bloomberg Code	DANGSUGAR:NL
Reuters Code	DANGSUGAR.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	74.40
Free Float (%)	26.90

Ratios	Q4-2016	Q4-2015	2016FY
Gross margin	13.17%	7.00%	13.54%
Opex margin	3.30%	4.67%	4.08%
EBIT margin	9.99%	16.35%	9.90%
PAT margin	7.99%	10.24%	8.48%
RoAE	23.85*	21.77%*	23.24%
EPS (N)	0.40	0.128	1.20

\*Trailing

### Price movement (DANGSUGAR vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

# Financial Statement (N'million).

Income Statement	2014a	2015a	2016a	2017f	2018f	Profitability Ratios	2014a	2015a	2016a	2017f	2018f
Turnover	94.86	101.06	169.72	204.63	208.52	Gross profit margin	19.6%	20.5%	13.5%	14.7%	14.6%
Cost of Sales	-76.23	-80.33	-146.74	-174.48	-178.14	EBITDA margin	19.8%	19.5%	12.1%	13.8%	13.6%
Gross profit	18.63	20.73	22.99	30.15	30.38	Operating profit margin	15.9%	15.7%	12.1%	11.0%	10.7%
Operating expenses	-8.60	-6.21	-6.93	-8.47	-8.74	PBT margin	16.1%	16.4%	11.6%	12.7%	12.5%
Investment income	0.29	0.01	0.60	0.83	0.89	Net profit margin	12.3%	11.4%	8.5%	8.6%	8.5%
Other income	5.07	1.33	0.75	0.75	0.75	RoAE	23.7%	21.1%	23.3%	23.5%	20.2%
Interest expenses	-0.11	-0.66	-0.30	-0.18	-0.18	RoAA	13.2%	11.8%	10.4%	9.3%	8.5%
Profit before tax	15.27	16.55	19.72	25.92	26.16						
Tax expense	-3.64	(5.01)	(5.22)	(8.29)	(8.37)	Liquidity Ratios	2014a	2015a	2016a	2017f	2018f
<b>Profit after tax</b>	<b>11.64</b>	<b>11.54</b>	<b>14.50</b>	<b>17.62</b>	<b>17.79</b>	Working capital (N'bn)	1.5	3.8	11.8	22.6	26.4
						Current ratio	1.0x	1.1x	1.1x	1.2x	1.2x
						Quick ratio	0.6x	0.7x	0.6x	0.7x	0.7x
						Cash ratio	0.2x	0.2x	0.3x	0.4x	0.4x
						Efficiency Ratios	2014a	2015a	2016a	2017f	2018f
						Fixed assets turnover	0.5x	0.5x	0.3x	0.3x	0.3x
						Current assets turnover	0.4x	0.4x	0.7x	0.6x	0.7x
						Total assets turnover	1.0x	1.0x	1.0x	1.0x	1.0x
						Inventory turnover	0.2x	0.2x	0.1x	0.1x	0.1x
						Receivables turnover	0.2x	0.2x	0.1x	0.1x	0.1x
						Payables turnover	0.3x	0.3x	0.2x	0.1x	0.1x
						Days inventory outstanding	60	61	33	28	28
						Days collection/sales outstanding	75	72	43	36	35
						Days payable outstanding	121	128	220	192	199
						Cash conversion cycle	14	6	-143	-128	-136
						Investment Ratios	2014a	2015a	2016a	2017f	2018f
						Earnings per share (N)	1.0	1.0	1.2	1.5	1.5
						Dividend per share (N)	0.4	0.5	0.6	0.8	0.8
						Payout	41.3%	52.0%	49.7%	52.0%	52.0%
						Dividend yield	4.5%	8.3%	9.8%	12.5%	12.6%

Financial Position	2014a	2015a	2016a	2017f	2018f
PPE	50.47	54.80	54.80	61.94	66.71
Other assets	0.19	0.00	0.00	0.00	0.00
Biological assets	1.12	1.55	-	-	-
Deferred tax assets	2.49	2.97	10.10	11.42	12.30
Intangible assets	0.26	0.14	0.01	0.01	0.02
<b>Total Non-current assets</b>	<b>54.54</b>	<b>59.46</b>	<b>64.92</b>	<b>73.37</b>	<b>79.02</b>
Inventories	15.10	15.55	47.41	53.58	57.71
Biological assets	0.68	1.89	3.01	3.40	3.66
Trade debtors/other debtors	14.01	14.70	17.73	20.04	21.59
Other assets	1.41	1.17	9.43	10.65	11.47
Held for sale investment in subsidiary	0.86	0.86	0.00	0.00	0.00
Bank/cash balances	6.20	8.99	35.02	39.58	42.63
<b>Total current assets</b>	<b>38.26</b>	<b>43.17</b>	<b>112.60</b>	<b>127.25</b>	<b>137.06</b>
<b>Total assets</b>	<b>92.80</b>	<b>102.62</b>	<b>177.52</b>	<b>200.62</b>	<b>216.08</b>
Trade and other payables	25.23	28.09	88.28	91.79	97.17
Retirement benefit obligation	1.53	1.08	1.03	1.07	1.13
Current tax liabilities	5.94	5.54	6.60	6.86	7.26
Borrowings	2.39	2.50	2.04	2.04	2.04
Other liabilities	1.70	2.11	2.81	2.92	3.09
<b>Total current liabilities</b>	<b>36.78</b>	<b>39.33</b>	<b>100.75</b>	<b>104.68</b>	<b>110.70</b>
Deferred taxation	4.61	5.15	11.48	11.93	12.63
<b>Total non-current liabilities</b>	<b>4.61</b>	<b>5.15</b>	<b>11.48</b>	<b>11.93</b>	<b>12.63</b>
<b>Total Liabilities</b>	<b>41.39</b>	<b>44.48</b>	<b>112.23</b>	<b>116.69</b>	<b>123.53</b>
<b>EQUITY</b>	<b>51.41</b>	<b>58.15</b>	<b>66.15</b>	<b>83.93</b>	<b>92.55</b>

Source: Company Accounts, Cordros Research

# Disclosures

**Analyst:**

**Christian Orajekwe** (*christian.orajekwe@cordros.com*)

**Analyst's Certification and Disclaimer**

The research analyst(s) whose name(s) appear(s) on the cover of this report certifies (y) that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers;
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report; and
- (3) all analysis made by the analyst(s) were in good faith and the views expressed reflect their opinion, without undue influence or any intervention.

**Rating Summary & Definitions**

Cordros Capital uses the following rating system:

**BUY (OVERWEIGHT)** - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

**HOLD (NEUTRAL)** - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

**SELL (UNDERWEIGHT)** - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

**Important Disclosure**

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.