

Dangote Cement Plc.

First Glance: Q2-17 PAT; Another Impressive Performance

DANGCEM just released Q2-17 result, growing revenue (34.8% y/y), EBITDA (67.5% y/y), and PAT (45.1% y/y) at the group level. Revenue was ahead of our estimate by 3.9% while PAT lagged by 9.3%. Compared to Q1-17, revenue (-1.8%) and EBITDA (-2.3%) declined while PAT -- owing to lower net finance cost and effective tax rate -- grew by 4.1%.

The revenue growth was underpinned by higher average prices (58% y/y), which more than compensated for the decline in volume (14.6% y/y). Expectedly, the Group volume was dragged by the Nigerian operation, wherein sales fell by 27.5% y/y and 18.2% q/q in response to (1) higher prices (75.1% y/y and 11.5% q/q), (2) the still-weak construction activities nationwide, and (3) long/heavy rain. The non-Nigerian volume grew by 9% y/y but was lower by 11% q/q, amidst 42% y/y and 6% q/q increase in average realized price.

The group gross margin (GM) of 56.1% was ahead of Q2-16's (49.2%), but below the 57.8% recorded in Q1-17. Gross margin in Nigeria remained well-above the previous year's figure, but declined marginally relative to Q1-17, wherein the increase in price was offset by increase in production cost. To be clear, energy cost in Nigeria surprisingly increased by 19.5% q/q. On the other hand, while the Non-Nigerian gross margin improved by 475 bps q/q (owing to higher price and lower production cost), it fell by 225 bps on y/y basis (as higher production cost offset higher prices).

Group opex rose by 3.4% y/y but declined by 7% on q/q basis. In Nigeria, opex was 1.3% higher y/y (-13.7% q/q) while the non-Nigeria opex grew by 6.9% y/y (5.3% q/q). At the group level, both EBITDA (67.5% y/y) and EBITDA margin (959 bps y/y) grew, with Nigerian realized 63.7% EBITDA margin coming above Q2-16 (50.8%) and Q1-17 (62.7%) rates. Notably, both EBITDA and EBITDA margin grew y/y and q/q for the Non-Nigerian operation.

Group net finance cost of N2 billion was reported, comprising pan-African net cost of N26.4 billion (vs. N15 billion in Q1-17) and Nigerian net income of N24.4 billion (vs. N9.1 billion in Q1-17). The Nigerian operation reported forex gain of N21 billion (vs. N5.9 billion in Q1-17) during the period.

Overall, DANGCEM's result is impressive, with EBITDA consistent with management's target. We look for positive investor reaction. Our estimates are under review.

SELL

Target Price (N)*	203.91
Current Price (N)	235.51
Implied Return (%)	-11.85

Company Data

NSE Code	DANGCEM
Bloomberg Code	DANGCEM:NL
Reuters Code	DANGCEM.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	4,013.21
Free Float (%)	8.04

Ratios	Q2-2017	Q2-2016	2016FY
Gross margin	56.1%	49.2%	47.4%
Opex margin	17.1%	22.4%	19.4%
EBITDA margin	49.2%	39.6%	41.8%
EBIT margin	39.2%	27.6%	29.7%
PAT margin	35.9%	33.4%	30.3%
EPS (N)	4.2	3.1	11.3

*Under Review

Price movement (DANGCEM vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Disclosures

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