

Cement Company of Northern Nigeria Plc.

First Glance: Q3-17 PAT; A Bang!

CCNN just released Q3-17 result, showing revenue (86.1% y/y), EBITDA (553% y/y), and PAT (1,500% y/y) all grew strongly. Compared to Q2-17, strong double-digit growth was also recorded across all line items – revenue (23%), EBITDA (90%), and PAT (95%).

We assume that price increase during the quarter entirely accounted for the surprised strong q/q growth in revenue. And driving our assumption are (1) the usually slack demand for cement during the Jul-Sep period of the year, (2) faster increase in revenue over COGS, and (3) the significant increase in gross margin. **Indeed, a major competitor confirmed to us that realized average cement prices were higher in the far North in Q3, compared to the rest of the country.** Relative to 2016 however, in addition to pricing, CCNN appears to be dispatching more cement this year. At the current run rate, 2017FY revenue is ahead of our estimate by 12%.

At 43% (+2,100 bps y/y and +900 bps q/q), the gross margin reported over the three months period was a positive surprise. Again, pending otherwise guidance from management, we assume that pricing was significant in achieving the margin growth. The q/q margin expansion also point, from the notes to the account, to improved energy (-17% q/q) and presumably, other production costs.

Group opex rose by 51.3% y/y and 4.8% q/q. As a proportion of revenue, opex was down by 319 bps and 241 bps respectively y/y and q/q. **In addition to lower opex margins, also having positive impact on earnings were (1) 94.5% y/y and 808% q/q increase in other income and (2) 32% y/y and 7% q/q decline in net finance cost.**

At N3.55 billion and N2.04 billion, CCNN's EBITDA and net profit as at 9M-17 are only 7% and 9% short of our 12-months forecasts respectively but are 3.4% and 2.3% ahead of consensus'. We look for positive investor reaction to the result on likely upward revisions of both 2017 and 2018 earnings forecasts. Our estimates are under review.

Income Statement (N'bn)	30-Sep-17	30-Sep-16	y/y	Q3-17	Q3 y/y	Q3 q/q
Revenue	13.63	9.23	47.7%	5.12	86.1%	23.0%
Cost of sales	-8.40	-6.75	24.5%	-2.92	35.5%	5.6%
Gross profit	5.23	2.48	111.0%	2.20	268.9%	57.4%
Operating expenses	-2.30	-1.34	72.1%	-0.71	51.3%	4.8%
Other income	0.05	0.04	10.6%	0.03	94.7%	807.5%
Operating profit	2.97	1.18	151.4%	1.52	962.9%	110.0%
Net finance costs	-0.11	-0.12	-8.8%	-0.03	-32.4%	-6.9%
Profit before tax	2.86	1.06	170.1%	1.49	1504.7%	116.2%
Taxation	-0.82	-0.34	141.9%	-0.48	1514.8%	178.5%
Profit after tax	2.04	0.72	183.4%	1.01	1499.9%	95.4%

Source: Company Account, Cordros research

SELL

Target Price (N)*	7.47
Current Price (N)	9.68
Implied Return (%)	-22.86

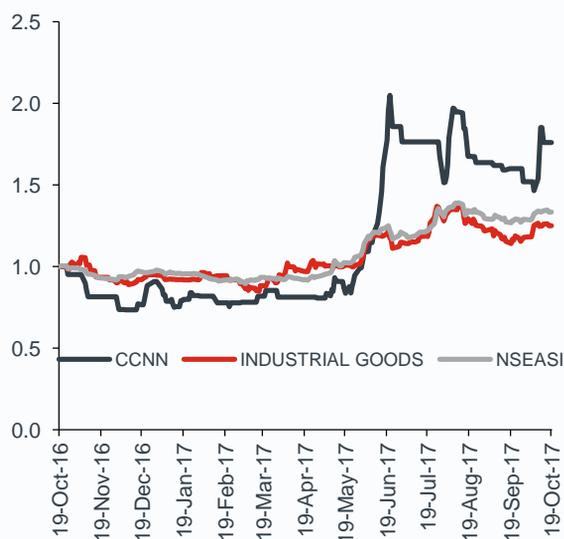
Company Data

NSE Code	CCNN
Bloomberg Code	CCNN:NL
Reuters Code	CCNN.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	12.16
Free Float (%)	25.01

Ratios	Q3-2017	Q3-2016	2016FY
Gross margin	43.0%	21.7%	27.9%
Opex margin	13.8%	17.0%	16.1%
EBITDA margin	33.2%	9.5%	16.9%
EBIT margin	29.7%	5.2%	12.8%
PAT margin	19.7%	2.3%	8.9%
EPS (N)	0.8	0.1	1.0

*Under Review

Price movement (CCNN vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Disclosures

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