

Dangote Cement Plc.

First Glance: Q3-17 PAT; Below Expectation, But Strong

DANGCEM just released Q3-17 result, showing revenue (27.4% y/y), EBITDA (95.1% y/y), and PAT (63.1% y/y) all grew strongly at the Group level. Revenue was below our estimate by 6% while EBITDA (on lower other incomes) and PAT (on significantly higher tax charge) lagged by 12% and 16% respectively. Compared to Q2-17, decline was recorded across all line items – revenue (-6.7%), EBITDA (-10%), and PAT (-33%).

The revenue growth was underpinned by higher average prices (40% y/y), which more than compensated for the decline in volume (9% y/y). Compared to Q2-17, volume was lower by 12% while price increased by 6%. Expectedly, the Group volume was dragged mainly by the Nigerian operation, wherein sales fell by 11.8% y/y and 10% q/q on (1) still higher prices (55% y/y, but -0.3% q/q), (2) weak construction activities nationwide, and (3) longer rainy days. The non-Nigerian volume fell by 5% y/y and c.15% q/q, amidst 19% increase (y/y and q/q apiece) in average realized prices.

The Group gross margin (GM) of 56.9% – consistent with our estimate – was ahead of Q3-16's (38.3%), and slightly improved from the 56.1% reported in Q2-17. Gross margin in Nigeria remained well-above the previous year's figure, but declined marginally relative to Q2-17, on lower price and slightly higher per tonne production cost. To be specific, raw materials cost in Nigeria increased by 30% q/q. On the other hand, Non-Nigerian gross margin increased by more than 800 bps y/y and q/q apiece, as higher price more than offset the marginal increase (5% y/y and q/q each) in per tonne production cost.

Group opex rose by 14% y/y and 16% q/q. In Nigeria, opex remained well contained while sharp increases (27% y/y and 51% q/q) were recorded overseas. At the Group level, the EBITDA margin of 47.5% was higher by 1649bps y/y, with Nigerian realized 62.4% EBITDA margin coming above Q3-16 (38.5%) but lower than Q2-17 (63.7%) rates. Notably, both EBITDA and EBITDA margin grew y/y and q/q for the Non-Nigerian operation.

Group net finance cost of N5 billion was reported, comprising pan-African net cost of N12.5 billion (vs. N26.4 billion in Q2-17) and Nigerian net income of N7.4 billion (vs. N24.4 billion in Q2-17). The Nigerian operation reported forex gain of N5.4 billion (vs. N21 billion in Q2-17) during the period. The Group finance income and cost items reflect the movement in the naira exchange rate from N245/USD average in 9M-16 to N314/USD in 9M-17.

A tax charge of N15.5 billion was reported by the Group during the three months period, from a credit of N6.3 billion the previous year. This equates to an effective rate of 24%, the Group's highest since Q2-16, and is linked to the Nigerian business, wherein effective tax rate was c.18% (highest since Q4-14), from 5% in Q2-17. Management had guided to a higher Nigerian ETR over 2017 (with some plants having come out of pioneer status), but the rate reported during the review period is surprising.

Notwithstanding the lower-than-expected Q3 earnings, DANGCEM's performance over the nine months of 2017 was very strong, and consistent with the broadly expected impressive year for the Group. We look for positive investor reaction to the result. Our estimates are under review.

Income Statement (N'bn)	30-Sep-17	Q3-17	Cordros est.	Nig. Q3 %	RoA Q3
Revenue	603.6	190.9	203.2	37%	12.6%
Cost of sales	-259.9	-82.3	-87.6	-21%	-0.6%
Gross profit	343.7	108.6	115.6	101%	53.4%
Gross opex	-113.5	-40.7	-42.6	3%	27.2%
Other income	2.9	1.7	2.6	134%	-60.0%
Operating profit	233.1	69.6	75.6	183%	285.0%
Finance income	27.0	10.5	-2.1	-150%	-90.4%
Finance costs	-39.9	-15.5	-12.9	-110%	-1393.7%
Profit before tax	220.2	64.6	63.1	-7%	-82.5%
Income tax expense	-27.0	-15.5	-4.4	-280%	95.1%
Profit for the period	193.1	49.1	58.7	-30.0%	-79.0%

Source: Company Account, Cordros research estimate
RoA: rest of Africa

HOLD

Target Price (N)*	221.34
Current Price (N)	220.00
Implied Return (%)	0.61

Company Data

NSE Code	DANGCEM
Bloomberg Code	DANGCEM:NL
Reuters Code	DANGCEM.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	3,748.91
Free Float (%)	8.04

Ratios

	Q3-2017	Q3-2016	2016FY
Gross margin	56.9%	38.3%	47.4%
Opex margin	21.3%	23.8%	19.4%
EBITDA margin	47.5%	31.0%	41.8%
EBIT margin	36.5%	16.2%	29.7%
PAT margin	25.7%	20.1%	30.3%
EPS (N)	2.9	1.9	11.3

*Under Review

Price movement (DANGCEM vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Disclosures

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