

Dangote Sugar Refinery Plc.

First Glance: Q3-17 PAT; Strong Performance Delivery

DANGSUGAR released Q3-17 result yesterday, showing revenue declined 1% y/y while EBITDA (226% y/y) and PAT (244% y/y) grew strongly. **Continued stronger gross margin and tamed opex, primarily, in addition to higher investment income, was the lever for earnings growth.** Annualized, the revenue and PAT reported over 9M-17 are above consensus by 1.2% and 36% respectively.

The decline in revenue, DANGSUGAR's first since Q4-15, was driven by lower sales volume (we estimate average of 23% y/y and q/q), which more than offset the relatively higher price. Compared to 2016, sales volume has closed lower in all three quarters this year in response to the sharp increase in price (+75% in 9M-17 vs. 9M-16). The management reduced the per bag price of sugar by N1,000, effective in April, to help support sales.

Gross margin increased by 68 bps q/q to 32.9% in Q3-17, but compared to the same period last year, gross margin was higher by 2,153 bps. The significant appreciation of the naira at the autonomous markets (where DANGSUGAR used to source most of its FX during the crisis period), increased access to cheaper USD from the CBN, and yet, the still elevated selling prices, have sustained margins. We would also refer to possible gain from better fuel mix, as management had guided (at the Q2 analysts call) to improved availability of gas.

Opex was lower by 1.5% y/y while the margin was flattish. Compared to Q2-17, however, opex margin was higher by 185 bps, given the relatively lower revenue. Also impacting earnings positively was the 291% y/y increase in investment income on higher amount in short term deposits (N30.1 billion in 9M-17 vs. N12.1 billion in 9M-16) and interest rate on such deposits (currently 13.5% p.a vs. 7% in 2016).

Overall, DANGSUGAR's Q3-17 PAT is solid and adds to the strong growth delivered over H1. YtD, PAT is already well-above 12 months 2016 level and slightly ahead of our 2017F estimate. The stock gained maximum point in yesterday's trading and we expect the rally will continue today. 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	163.03	115.25	41.5%	44.35	-1.0%	-25.0%
Cost of sales	-121.56	-96.25	26.3%	-29.77	-25.0%	-25.8%
Gross profit	41.48	19.00	118.3%	14.59	187.0%	-23.4%
OPEX	-5.31	-4.64	14.3%	-1.90	-1.5%	32.2%
Other income	0.19	0.36	-47.2%	0.06	-74.1%	17.9%
EBIT	36.36	14.72	147.0%	12.75	275.0%	-27.8%
Investment income	2.37	-0.31	669.2%	0.71	291.0%	3.3%
Fair value adjustments	0.95	0.68	38.8%	0.67	-3.7%	312.8%
Financial charges	-0.43	-0.40	8.1%	-0.13	14.4%	-58.3%
Profit before tax	39.25	15.32	156.2%	14.00	236.2%	-23.1%
Taxation	-12.73	-5.20	144.8%	-4.58	220.8%	-22.0%
Profit after tax	26.52	10.12	162.1%	9.42	244.3%	-23.7%

HOLD

Target Price (N)*	13.69
Current Price (N)	15.84
Implied Return (%)	-13.60

Company Data

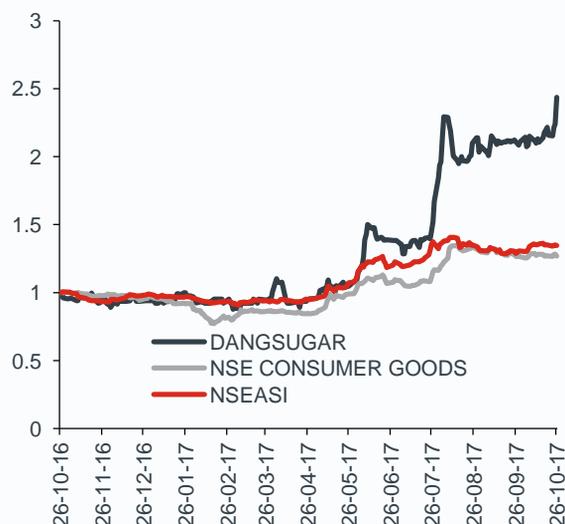
NSE Code	DANGSUGAR
Bloomberg Code	DANGSUGAR:NL
Reuters Code	DANGSUGAR.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	190.08
Free Float (%)	26.90

Ratios	Q3-2017	Q3-2016	2016FY
Gross margin	32.88%	11.35%	13.54%
Opex margin	4.29%	4.31%	4.08%
EBIT margin	28.74%	7.59%	9.90%
PAT margin	21.23%	6.11%	8.48%
RoAE**	29.72%	19.15%	23.24%
EPS (N)	0.79	0.23	1.20

*Under Review

** Trailing

Price movement (DANGSUGAR vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Disclosures

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