

Cement Company of Northern Nigeria Plc.

Upward Revision to Estimates on Strong 9M-17 Results

We revise forecasts for CCNN following impressive 9M-17 results, and roll forward estimates and valuation to 2018. On net, we raise our TP for the stock by 28% to NGN9.52/share and upgrade rating to HOLD. The revision to our estimates was driven by improved EBITDA and EBITDA margin (+113% and +774 bps respectively in 9M-17) on (1) higher realized sales volume and stronger selling price and (2) improved energy cost (-10% YtD and -35% q/q cost/tonne in Q3). On net, we raise our EBITDA and net profit forecasts by 33% and 38% respectively for 2017F, and by 14% and 16% average respectively for 2018-2019F. CCNN's annualized 9M-17 EBITDA and net profit are 38% and 36% ahead of Bloomberg's consensus' 12-month estimates.

We increase sales volume and price forecasts for 2017 by 6% and 9% respectively, equating to -16% (previously -20%) and +58% (previously 44%) from 2016. The revised volume estimate follows strong growth in Q3 (we estimate +26% q/q and +13% y/y) achieved on the back of lower prices (by N50/bag compared to Q2-17, using ASHAKACEM's prices as proxy). Discount on cement sold by CCNN in Q3-17 alone was NGN580 million, compared to NGN332.9 million in H1-17. **Following the contraction in 2017, we forecast sales volume will grow by 2% in 2018 and flattish in 2019 on estimated 85% plant utilization rate.** Compared to 2017, outlook for national cement consumption is modestly optimistic. Our estimated utilization rate also considers less production disruption from better energy availability on significantly reduced demand from the bigger players and less volatile prices on stable FX. Those said, CCNN's lower volume growth estimate compared to the industry (+9% average), reflects the capacity constraint challenge facing the company. At 9M-17 run-rate, we estimate CCNN's 0.5Mts/year plant capacity is already running at 83% utilization for 2017F.

Notwithstanding the expected modest recovery of consumption, the outlook for cement selling prices remains positive. **The market leaders have repeatedly communicated intent to maintain stable prices, and the nature of the Nigerian cement market makes this realizable.** More positive for CCNN is that the current NGN45,997/tonne selling price (vs. NGN43,705/tonne in 9M-17), assuming unchanged next year, translates to 2% gain over our estimated 2017 average of NGN44,920/tonne.

Compared to Q2-17, we estimate that CCNN achieved 35% decline in per tonne energy cost in Q3-17. This, in our view, was significant in the surprised 938 bps q/q gross margin expansion achieved during the period. **Outlook for the price of CCNN's type of energy is positive, on significantly reduced demand from the bigger consumers in the cement industry and positive feed-through from stronger one-year naira outlook.** Downside risk, however, is the potential increase in the unregulated LPFO price, on rising crude oil price; hence, our EBITDA margin estimates of 23% average for 2018-2019F (albeit above 5-year average of 17%), vs. 27% for 2017F (on the backdrop of the 33% margin achieved in Q3).

Media reports have recently quoted top management member of CCNN reiterating progress on expansion work (additional 1.5Mts/year to increase capacity to 2Mts/year) in Sokoto and guiding to delivery in 2018. While noting the significance of the delivery of additional volume on EBITDA formation going forward, we are still reluctant to factor the expansion into our model, given that the company's recent financials (balance sheet and cash flow statements) are yet to capture the movement of capital to support management's claim.

Income Statement (NGN'bn)	Q1-17a	Q2-17a	Q3-17a	Cordros q4-17e	Q4-16a	Q4-17e y/y
Revenue	4.35	4.16	5.12	5.11	4.86	5%
Cost of sales	-2.72	-2.76	-2.92	-3.07	-3.40	-10%
Gross profit	1.63	1.40	2.20	2.05	1.46	41%
Operating expenses	-0.92	-0.68	-0.71	-0.77	-0.93	-18%
Other income	0.01	0.00	0.03	0.03	0.10	-70%
Operating profit	0.73	0.72	1.52	1.31	0.62	110%
Net finance income/(cost)	-0.04	-0.04	-0.03	-0.04	0.06	-165%
Profit before tax	0.68	0.69	1.49	1.27	0.68	87%
Taxation	-0.17	-0.17	-0.48	-0.21	-0.15	43%
Profit after tax	0.51	0.52	1.01	1.06	0.53	99%

HOLD

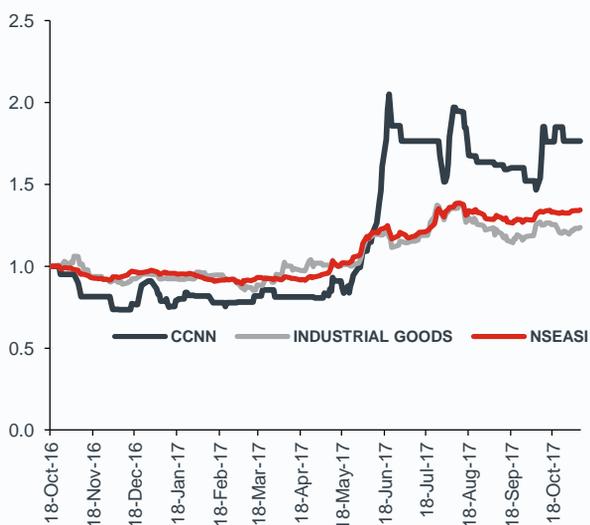
Target Price (NGN)	9.52
Current Price (NGN)	9.70
Implied Return (%)	-1.81

Company Data

NSE Code	CCNN
Bloomberg Code	CCNN:NL
Reuters Code	CCNN.LG
Sector	INDUSTRIAL GOODS
Market Cap. (NGN'bn)	12.19
Free Float (%)	25.01

Ratios	Q3-17	Q3-16	2016FY
Gross margin	42.96%	21.67%	27.94%
Opex margin	13.84%	17.03%	16.10%
EBITDA margin	32.87%	10.50%	16.89%
EBIT margin	29.69%	5.20%	12.82%
PBT margin	29.03%	2.29%	12.36%
EPS (NGN)	0.80	0.05	1.00

Price movement (CCNN vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (NGN'billion).

Income Statement	2014a	2015a	2016a	2017e	2018e	2019e	Profitability Ratios	2014a	2015a	2016a	2017e	2018e	2019e
Revenue	15.12	13.04	14.09	18.74	19.57	19.60	Gross profit margin	33.9%	30.4%	27.9%	38.8%	35.0%	35.0%
Cost of sales	-9.99	-9.08	-10.15	-11.47	-12.72	-12.74	EBITDA margin	21.6%	18.5%	16.9%	26.9%	23.1%	23.1%
Gross profit	5.13	3.96	3.94	7.27	6.85	6.86	Operating profit margin	18.2%	14.5%	12.8%	22.8%	19.1%	19.1%
Operating expenses	-2.40	-2.14	-2.27	-3.07	-3.21	-3.22	PBT margin	16.4%	11.9%	12.4%	22.0%	18.3%	18.3%
Other income	0.02	0.07	0.14	0.07	0.09	0.10	Net profit margin	12.7%	9.2%	8.9%	16.5%	13.7%	13.7%
EBIT	2.75	1.89	1.81	4.28	3.73	3.74	RoAE	21.6%	12.3%	11.6%	23.7%	17.0%	14.9%
Finance charges	-0.34	-0.46	-0.20	-0.15	-0.16	-0.16	RoAA	12.4%	7.3%	6.7%	14.1%	10.1%	8.7%
Profit before tax	2.48	1.55	1.74	4.13	3.57	3.58							
Tax	-0.56	-0.35	-0.49	-1.03	-0.89	-0.90							
Profit after tax	1.92	1.20	1.25	3.10	2.68	2.69							
Financial Position	2014a	2015a	2016a	2017e	2018e	2019e	Liquidity Ratios	2014a	2015a	2016a	2017e	2018e	2019e
PPE	8.37	10.12	10.53	12.24	14.66	16.63	Working capital (NGN'bn)	3.91	2.81	4.00	5.21	5.84	6.69
Intangible assets	0.01	0.00	0.00	-	-	-	Current ratio	2.1x	1.7x	1.7x	1.8x	1.7x	1.7x
Non-current assets	8.37	10.12	10.53	12.24	14.66	16.63	Quick ratio	0.7x	0.4x	0.8x	0.8x	0.8x	0.8x
Inventories	5.08	5.50	5.25	6.21	7.43	8.44	Cash ratio	0.3x	0.2x	0.4x	0.3x	0.3x	0.3x
Trade Receivables	1.43	0.51	1.79	3.72	4.46	5.06							
Cash/bank balances	0.90	1.02	2.46	1.86	2.23	2.53							
Current assets	7.41	7.02	9.50	11.79	14.12	16.03							
TOTAL ASSETS	15.78	17.15	20.03	24.03	28.78	32.66							
Trade and other payables	2.33	3.59	4.90	5.34	6.72	7.58							
Current financial liabilities	0.64	0.29	0.27	0.25	0.31	0.35							
Deferred revenue	-	0.03	0.03	0.03	0.04	0.04							
Provisions	-	0.07	-	-	-	-							
Employee benefits	-	-	-	-	-	-							
Current tax liabilities	0.52	0.24	0.30	0.97	1.22	1.37							
Current Liabilities	3.50	4.21	5.50	6.58	8.28	9.34							
Non-current financial liabilities	0.64	1.08	0.85	0.62	0.78	0.88							
Employee benefits	-	0.78	1.01	1.03	1.30	1.46							
Deferred revenue	-	0.06	0.08	0.09	0.11	0.12							
Provisions	1.45	0.00	0.05	0.03	0.03	0.04							
Deferred tax	0.75	0.86	1.04	1.09	1.38	1.55							
Non-current liabilities	2.84	2.79	3.03	2.86	3.60	4.06							
TOTAL LIABILITIES	6.33	7.00	8.54	9.44	11.88	13.40							
Net Assets	9.45	10.14	11.49	14.59	16.90	19.26							

Source: Company Accounts, Cordros Research

Disclosures

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