

Dangote Cement Plc.

Strong Q3-17 Result. Slight Downward Revision of Estimates

Following Q3-17 results, we revise both DANGCEM's 2017 and 2018-2019 EPS slightly downward by 1% and 0.5% respectively relative to previous estimates. While we look for continued strong margins on stable Nigerian prices and energy efficiency (including the eventual resolution of power challenges in Tanzania), we see the gain being slightly offset by lower volumes (than previously expected) and higher effective tax rate. On net, we reduce TP for the stock by 1.3% to NGN215.56/share. Over the medium term, we continue to see value in DANGCEM and maintain HOLD rating.

We cut group sales volume forecast for 2017 by 2%, and over 2018-2019 by 1.7% average, primarily on the back of expected lower output in Nigeria. Amidst continued high selling prices, we believe the recovery of private sector cement consumption will be very modest. And we are in a wait-and-see mode on public sector demand which has failed to make an impact in two years of Nigeria's huge infrastructure budget. Specifically for DANGCEM, we are mindful of the impact of competition, (1) upon delivery of the speculated BUA's 1.5Mts capacity in Sokoto next year and (2) with LAFARGE likely to experience less production challenges.

We left volume forecast for Rest of Africa (RoA) unchanged, having previously factored Congo into our model. Broadly in this segment, selling prices (+19% q/q in Q3-17) have also been increasing (both directly and through reduced discounts, as confirmed by management) and utilization rate is above 70% in more than half of the markets. Overall, we forecast Group sales volume will decline 5.2% in 2017 and grow by 7% average over 2018-2019. Over the latter period, we forecast volume will grow in mid single-digits of 8% and 5% respectively in Nigeria and RoA.

At the Q3-17 analysts call, management guided to Nigerian effective tax rate of 10% and Group ETR of 12% for 2017F, vs. 2.5% and 0.3% average in the last two years. Tax over H1-17 was under-reported and subsequently reviewed higher in Q3-17 while concession on Obajana line 3 will be expiring in the current year, according to management. We have consequently revised ETR over 2018-2019 higher to 11.1% average, from 7.4% previously.

On net, we forecast net profit of N258.8 billion in 2017F (previously NGN261.4 billion), and NGN281.3 billion and NGN311.11 billion in 2018 and 2019 respectively (previously NGN283.4 billion and NGN312 billion).

Income Statement (N'bn)	9M-17	Q3-17	Cordros Q3.	Cordros Q4e	2017F
Revenue	603.6	190.9	203.2	215.02	818.59
Cost of sales	-259.9	-82.3	-87.6	-91.24	-351.09
Gross profit	343.7	108.6	115.6	123.78	467.50
Gross opex	-113.5	-40.7	-42.6	-45.46	158.96
Other income	2.9	1.7	2.6	2.44	5.36
Operating profit	233.1	69.6	75.6	80.75	313.89
Finance income	27.0	10.5	-2.1	1.45	29.85
Finance costs	-39.9	-15.5	-12.9	-13.44	-53.36
Profit before tax	220.2	64.6	63.1	70.2	290.39
Income tax expense	-27.0	-15.5	-4.4	-4.56	-31.61
Profit for the period	193.1	49.1	58.7	65.64	258.78

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

HOLD

Target Price (N)*	218.56
Current Price (N)	227.50
Implied Return (%)	-3.93

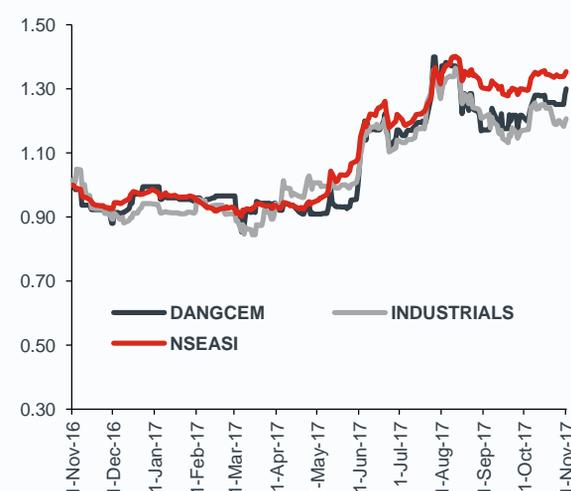
Company Data

NSE Code	DANGCEM
Bloomberg Code	DANGCEM:NL
Reuters Code	DANGCEM.LG
Sector	INDUSTRIAL GOODS
Market Cap. (N'bn)	3,876.72
Free Float (%)	8.04

Ratios	Q3-2017	Q3-2016	2017F
Gross margin	56.9%	38.3%	57.11%
Opex margin	21.3%	23.8%	19.4%
EBITDA margin	47.5%	31.0%	50.9%
EBIT margin	36.5%	16.2%	38.4%
PAT margin	25.7%	20.1%	31.6%
EPS (N)	2.9	1.9	15.2

*Under Review

Price movement (DANGCEM vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Financial Statement (N'billion).

Statement of Comprehensive Income						Profitability Ratios					
	2015a	2016a	2017e	2018e	2019e		2015a	2016a	2017e	2018e	2019e
Turnover	491.73	615.10	818.59	899.03	970.43	Revenue growth	25.6%	25.1%	33.1%	9.8%	7.9%
Cost of Sales	(201.81)	(323.82)	(351.09)	(375.44)	(402.51)	Gross margin	59.0%	47.4%	57.1%	58.2%	58.5%
Gross Profit	289.92	291.29	467.50	523.59	567.92	EBITDA growth	17.5%	-2.0%	62.1%	12.1%	8.5%
Net Opex	(31.42)	(44.59)	(55.84)	(61.56)	(66.33)	EBITDA margin	53.4%	41.8%	50.9%	52.0%	52.3%
Other Operating Income/Expenses	3.95	10.54	5.36	5.41	5.46	RoAE	29.3%	25.9%	31.5%	31.7%	31.7%
EBITDA	262.45	257.24	417.01	467.44	507.05	RoAA	17.3%	14.1%	15.7%	15.1%	14.9%
Depreciation	(54.63)	(74.75)	(103.12)	(113.66)	(122.80)	Interest cover	3.82x	4.02x	5.88x	6.37x	6.72x
EBIT/ Operating Income	207.82	182.49	313.89	353.78	384.25						
Finance income	34.82	2.66	8.85	14.03	19.54	Investment Ratios					
Finance costs	(54.35)	(45.38)	(53.36)	(55.51)	(57.18)	Earnings per share (N)	10.64	10.95	15.19	16.51	18.26
Profit Before Tax	188.29	180.93	290.39	315.96	350.27	Dividend per share (N)	8.0	8.5	11.4	12.4	13.7
Taxation	(6.97)	5.70	(31.61)	(34.62)	(39.15)	Dividend payout	75.2%	77.6%	75.0%	75.0%	75.0%
Profit After Tax	181.32	186.62	258.78	281.34	311.11	Dividend yield	4.7%	4.9%	4.8%	5.3%	5.8%
						Gross opex margin	-17.50%	-19.40%	-19.42%	-19.49%	-19.49%

Financial Position						Liquidity Ratios					
	2015a	2016a	2017e	2018e	2019e		2015a	2016a	2017e	2018e	2019e
PPE	917.21	1,155.71	1,237.13	1,386.29	1,517.22	Working capital (N'bn)	(34.72)	(209.08)	(257.56)	(268.47)	(281.91)
Inventories	53.12	82.90	91.85	103.00	113.44	Current ratio	0.83x	0.59x	0.60x	0.61x	0.63x
Trade debtors/receivables	11.54	26.28	25.72	28.84	31.63	Quick ratio	0.56x	0.43x	0.45x	0.47x	0.47x
Prepayment/other current assets	60.53	78.29	128.93	144.66	160.52	Cash ratio	0.20x	0.23x	0.21x	0.22x	0.22x
Bank and Cash	40.79	115.69	134.49	150.55	164.61						
Total Assets	1,110.94	1,527.91	1,758.38	1,973.49	2,201.04						
Trade and other payables	127.60	268.97	315.00	359.53	403.84						
Current income tax	1.29	4.67	4.56	5.17	5.78						
Financial debt	47.28	220.30	286.02	293.45	300.70						
Other current liabilities	24.54	18.31	32.96	37.36	41.79						
Financial debt	208.33	152.48	162.57	183.86	204.61						
Long term provisions	3.28	3.34	3.68	4.21	4.73						
Deferred revenue	0.98	1.07	2.17	36.78	71.85						
Retirement benefits obligation	3.99	-	-	-	-						
Long term payables	24.44	17.73	25.61	29.67	33.62						
Deferred tax liabilities	24.50	43.70	80.61	91.01	101.56						
Total Liabilities	466.22	730.56	913.19	1,041.04	1,168.49						
Net assets	644.72	797.35	845.19	932.45	1,032.56						

Source: Company accounts, Cordros research estimates

Disclosures

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SELL (UNDERWEIGHT) - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

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