

# Dangote Sugar Refinery Plc.

## Rating Upgraded to BUY on Upward Revision to 2018-2019F Estimates

Despite cuts to sales estimates, we raise DANGSUGAR's 2017F EBITDA and net profit by 50% each, and for 2018-2019F by 55% and 56% respectively. The upward revision follows better margin outlook on declining per tonne production cost (see below), which we expect will offset price cuts. Our revised estimates translate to EBITDA and net profit growth of 158% (+131% in 9M-17) and 155% (+162% in 9M-17) respectively in 2017F, and 3% and 5% average growth in 2018-2019F. On net, we raise TP for the stock by 39% to NGN19.03/share and upgrade our rating to BUY. We roll forward our estimates and valuation by one year.

We cut revenue estimates for 2017-2019F by 10% average, on downwardly revised volume (for 2017F only) and selling price estimates. Sales volume (-17% in 9M-17) has been hit by weakened demand, and more recently, by both the influx of smuggled sugar and the terrible condition of the road to the Apapa factory. And since reaching N17,010 average per bag in Q1, we estimate that average selling price is down by 12% based on Q3-17 price of NGN14,912/bag. Compared to 2017F, we estimate DANGSUGAR's selling price over 2018-2019F will be lower by 4% average as management focuses on market share growth (we estimate average 7% volume growth), having more than surpassed the gross margin target of 20% (by 120 bps) between Apr-Sep 2017 following significant decline in per tonne production cost. While retaining average growth of 10% in freight income, net impact is for 2% growth in gross revenue over our forecast period.

We raise gross margin estimate for 2017F by 983 bps to 27%, following the significant formation over 9M-17 (+895 bps vs. 9M-16), particularly the last two quarters (33% average). We also raise estimates for 2018-2019F by about 1,000 bps average, on the assumption that the expected cut in selling price will trail decline in per tonne production cost. Upside risks to our per tonne production estimate (down consistently q/q to -34% between Q3-17 and Q4-16) include (1) better energy efficiency and stronger exchange rate, (2) stable outlook of global raw sugar prices, and (3) positive mix from growing contribution of higher margin Savannah. Downside risks to our margin estimate include (1) deeper-than-expected cut in selling price and (2) an upturn in global prices of raw sugar (sugar prices for 2019 delivery are higher by 4% for November contracts).

DANGSUGAR's share price has gained 6% QtD and 138% YtD, and we estimate the stock is trading on 2018F P/E of 4.5x, a material discount to both its five-year historical average P/E of 7.7x, and Bloomberg's MEA 1-year forward peer average of 14x.

Income Statement (NGN'bn)	Q1-17a	Q2-17a	Q3-17a	Q4-17e	q4-16a	q4-17e y/y
Revenue	59.5	59.1	44.4	48.6	54.5	-11%
Cost of sales	-51.7	-40.1	-29.8	-34.0	-50.5	-33%
Gross profit	7.8	19.0	14.6	14.6	4.0	266%
Opex	-2.0	-1.4	-1.9	-2.4	-2.3	6%
Other income	0.1	0.1	0.1	0.1	0.4	-83%
EBIT	5.9	17.7	12.7	12.2	2.1	486%
Investment income	1.0	0.7	0.7	1.2	0.3	306%
Fair value adjustments	0.1	0.2	0.7	1.4	1.8	-24%
Financial charges	0.0	-0.3	-0.1	-0.1	0.1	-228%
Profit before tax	7.0	18.2	14.0	14.7	4.3	242%
Taxation	-2.3	-5.9	-4.6	-4.5	0.0	26785%
Profit after tax	4.76	12.34	9.42	10.15	4.28	137.2%

## BUY

Target Price (NGN)	19.03
Current Price (NGN)	14.55
Implied Return (%)	30.80

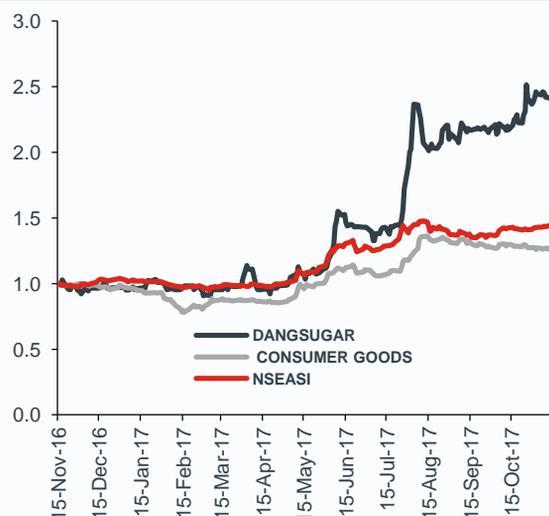
### Company Data

NSE Code	DANGSUGAR
Bloomberg Code	DANGSUGAR:NL
Reuters Code	DANGSUGAR.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	174.60
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 (NGN)	0.79	0.23	1.20

\*12 months

### Price movement (DANGSUGAR vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

# Financial Statement (NGN'billion).

Income Statement	2015a	2016a	2017e	2018e	2019e	Profitability Ratios	2015a	2016a	2017e	2018e	2019e
Turnover	101.06	169.72	211.65	215.65	219.78	Gross profit margin	20.5%	13.5%	26.5%	26.9%	27.0%
Cost of Sales	-80.33	-146.74	-155.59	-157.69	-160.35	EBITDA margin	19.8%	12.7%	26.3%	26.7%	26.8%
Gross profit	20.73	22.99	56.06	57.96	59.43	Operating profit margin	15.7%	9.9%	23.0%	23.3%	23.4%
Operating expenses	-6.21	-6.93	-7.74	-8.00	-8.28	PBT margin	16.4%	11.6%	25.5%	26.3%	26.8%
Other income	1.33	0.75	0.26	0.26	0.26	Net profit margin	11.4%	8.5%	17.3%	17.9%	18.2%
Operating profit	15.85	16.81	48.58	50.21	51.41	RoAE	21.1%	23.2%	44.7%	35.7%	31.1%
Investment income	0.01	0.60	3.56	4.09	4.61	RoAA	11.8%	10.3%	18.4%	16.3%	14.8%
Fair value adjustments	1.35	2.50	2.33	2.69	3.02						
Interest expenses	-0.66	-0.30	-0.55	-0.18	-0.18	Liquidity Ratios	2015a	2016a	2017e	2018e	2019e
Profit before tax	16.55	19.61	53.92	56.81	58.86	Working capital (NGN'bn)	3.8	11.8	35.6	45.8	56.8
Tax expense	-5.01	-5.22	-17.26	-18.18	-18.84	Current ratio	1.1x	1.1x	1.3x	1.4x	1.4x
<b>Profit after tax</b>	<b>11.54</b>	<b>14.40</b>	<b>36.67</b>	<b>38.63</b>	<b>40.02</b>	Quick ratio	0.7x	0.6x	0.9x	1.0x	1.0x
						Cash ratio	0.2x	0.3x	0.4x	0.4x	0.4x
Financial Position	2015a	2016a	2017e	2018e	2019e	Efficiency Ratios	2015a	2016a	2017e	2018e	2019e
PPE	54.80	54.80	64.60	74.33	83.63	Fixed assets turnover	1.84x	3.10x	3.28x	2.90x	2.63x
Other assets	0.00	0.00	0.07	0.08	0.09	Current assets turnover	2.34x	1.51x	1.47x	1.30x	1.18x
Biological assets	1.55	-	-	-	-	Total assets turnover	0.98x	0.96x	0.96x	0.85x	0.77x
Investment property	-	-	-	-	-	Inventory turnover	0.2x	0.1x	0.1x	0.1x	0.1x
Deferred tax assets	2.97	10.10	11.84	13.63	15.33	Receivables turnover	0.2x	0.1x	0.1x	0.1x	0.1x
Intangible assets	0.14	0.01	0.01	0.01	0.01	Payables turnover	0.3x	0.2x	0.1x	0.1x	0.1x
<b>Total Non-current assets</b>	<b>59.46</b>	<b>64.92</b>	<b>76.51</b>	<b>88.05</b>	<b>99.06</b>	Days inventory outstanding	61	33	32	31	31
Inventories	15.55	47.41	41.98	48.31	54.35	Days collection/sales outstanding	72	43	35	34	33
Biological assets	1.89	3.01	3.81	4.39	4.93	Days payable outstanding	128	220	214	233	248
Trade debtors/other debtors	14.70	17.73	35.74	41.13	46.27	Cash conversion cycle	6	-143	-147	-168	-184
Other assets	1.17	9.43	16.81	19.35	21.76						
Held for sale investment in subsidiary	0.86	-	1.01	1.17	1.31	Investment Ratios	2015a	2016a	2017e	2018e	2019e
Bank/cash balances	8.99	35.02	44.60	51.33	57.75	Earnings per share (NGN)	1.0	1.2	3.1	3.2	3.3
<b>Total current assets</b>	<b>43.17</b>	<b>112.60</b>	<b>143.96</b>	<b>165.66</b>	<b>186.37</b>	Dividend per share (NGN)	0.5	0.6	1.5	1.6	1.7
<b>Total assets</b>	<b>102.62</b>	<b>177.52</b>	<b>220.47</b>	<b>253.71</b>	<b>285.43</b>	Payout	52.0%	50.0%	50.0%	50.0%	50.0%
Trade and other payables	28.09	88.28	91.02	100.64	108.83	Dividend yield	8.3%	9.8%	10.5%	11.1%	11.5%
Retirement benefit obligation	1.08	1.03	-	-	-						
Current tax liabilities	5.54	6.60	14.99	16.58	17.93						
Borrowings	2.50	2.04	2.04	2.04	2.04						
Other liabilities	2.11	2.81	0.34	0.59	0.80						
<b>Total current liabilities</b>	<b>39.33</b>	<b>100.75</b>	<b>108.38</b>	<b>119.84</b>	<b>129.59</b>						
Deferred taxation	5.15	11.48	12.93	14.30	15.46						
Borrowings	-	-	1.11	1.23	1.33						
Employees' gratuities/provisions	-	-	-	-	-						
<b>Total non-current liabilities</b>	<b>5.15</b>	<b>11.48</b>	<b>14.05</b>	<b>15.53</b>	<b>16.80</b>						
<b>Total Liabilities</b>	<b>44.48</b>	<b>112.23</b>	<b>122.43</b>	<b>135.37</b>	<b>146.39</b>						
<b>EQUITY</b>	<b>58.15</b>	<b>66.15</b>	<b>98.04</b>	<b>118.33</b>	<b>139.04</b>						

Source: Company Accounts, Cordros Research

# Disclosures

**Analyst:**

**Christian Orajekwe** (*christian.orajekwe@cordros.com*)

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