

# Dangote Cement Plc.

## Tax cracks on earnings outlook

**Update:** We update on DANGCEM, following the surprise effective tax rates (ETRs) of c.30% and 84% reported in 2017FY and Q4-17. On net, we increase our estimate for group ETR for 2018-2019E to 14% (previously 11%) and for 2020E and beyond to 33% (previously 12%). Net impact is a 3% average cut in 2018-2019E net profit, and 28% cut on average, for the rest of our forecast period. On our revised estimates, we have a DCF-based TP of NGN187.42 (previously NGN218.56) for DANGCEM and maintain SELL rating. The stock has shed 4% since the release of the result and is trading at forward (2018E) P/E and EV/EBITDA multiples of 14.7x and 9.5x respectively, below its the five-year historical averages of 19.3x and 13.7x.

**Tax assumptions:** In arriving at the 2017FY ETRs, management said it made a provision against the pioneer tax benefit in respect of Ibese lines III & IV and Obajana line IV, for which application has been made to the NIPC, but approval is pending. Management has however assured that the approval would be obtained. Realized 2018 ETR may be lower than our estimate, notably, as management has said it will take any reversals from the provisions as a tax credit in a single year and treated as an exceptional gain. We raised ETR beyond 2019 to 33% by accounting for Nigeria, wherein management provided guidance for possible 30% rate, when all operations exit tax holidays.

**Optimistic volume outlook for 2018:** Management said it targets 7-10% volume growth in 2018. Stable cement prices and broadly better economic and infrastructure spending outlook in Nigeria are enablers. Outside Nigeria, Ethiopia, Senegal (+10% in 2017FY), and Cameroon (+8% in 2017FY) are expected to continue to perform strongly, and importantly, utilization rate in Tanzania is expected to average 45-50% (vs. 25% in 2017FY), as the plant starts running on gas from May. Whilst acknowledging pressure from competition, management said it expect its Pan Africa prices to be stable from last year and will likely raise prices, specifically in Ethiopia, to offset the impact of last year's devaluation on prices. We estimate group sales volume of 24.5 million tones (+9.8% y/y), comprising 14 million tonnes in Nigeria and 10.5 million offshore.

**Earnings estimates revised lower; but remain broadly strong:** Compared to our previous estimates, we revise 2018E EBITDA lower by 4% to NGN450 billion and net profit by 3% to NGN272.3 billion. On 2017FY results, our estimates are higher by 16% and 33% respectively. Our EBITDA estimate is premised on broadly stable price outlook across the markets, and importantly, both volume recovery and continued energy savings from coal substitution in the biggest market, Nigeria. On our estimates, we have group EBITDA margin of 49.2%, vs. 48.2% in 2017FY. In line with the latest payout ratio of 88%, our net profit estimate equates to 2018E per share dividend of NGN13.60, representing 5% yield on current price.

Income Statement (NGN'bn)	31-Dec-17	31-Dec-16	y/y Δ	Q4-17	Q4-17 y/y	Q4-17 q/q
Revenue	805.58	615.10	31.0%	202.01	16.8%	5.8%
Cost of sales	-351.29	-323.82	8.5%	-91.44	-0.8%	11.1%
Gross profit	454.29	291.29	56.0%	110.57	36.7%	1.8%
Operating expenses	-155.30	-119.34	30.1%	-41.80	52.9%	2.8%
Other income	5.21	10.54	-50.6%	2.30	-65.1%	34.9%
Operating profit	304.21	182.49	66.7%	71.07	18.2%	2.1%
Finance income	35.93	43.82	-18.0%	8.97	-175.4%	-14.4%
Finance costs	-52.71	-45.38	16.2%	-12.79	-20.2%	-17.5%
Share of associate profit	2.17					
Profit before tax	289.59	180.93	60.1%	69.41	115.5%	7.4%
Income tax expense	-85.34	-38.07	124.2%	-58.30	-379.1%	275.9%
Profit for the period	204.25	142.86	43.0%	11.11	-79.1%	-77.4%

Source: Company Account

## SELL

Target Price (NGN)	187.67
Current Price (NGN)	255.00
Implied Return (%)	-26.41

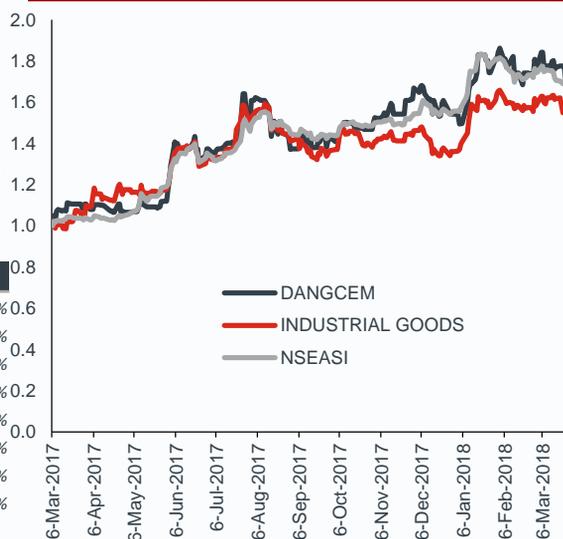
### Company Data

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

### Ratios

	Q4-2017	Q4-2016	2017FY
Gross margin	54.7%	46.7%	47.4%
Opex margin	20.7%	15.8%	19.4%
EBITDA margin	46.5%	45.2%	41.8%
EBIT margin	35.2%	34.8%	29.7%
PAT margin	5.5%	30.7%	30.3%
EPS (NGN)	0.35	3.2	11.3

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



Source: NSE, Bloomberg, Cordros research

# Financial Statement (NGN'billion).

Statement of Comprehensive Income	2014a	2015a	2016a	2017a	2018e	2019e	Profitability Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Turnover	391.64	491.73	615.10	805.58	914.47	974.60	Revenue growth	1.4%	25.6%	25.1%	31.0%	13.5%	6.6%
Cost of Sales	-143.06	-201.81	-323.82	-351.29	-389.05	-412.99	Gross margin	63.5%	59.0%	47.4%	56.4%	57.5%	57.6%
Gross Profit	248.58	289.92	291.29	454.29	525.42	561.61	EBITDA growth	-2.6%	17.5%	-2.0%	50.9%	15.8%	6.9%
Net Opex	-28.82	-31.42	-44.59	-71.36	-81.06	-86.36	EBITDA margin	57.0%	53.4%	41.8%	48.2%	49.2%	49.3%
Other Operating Income/Expenses	3.61	3.95	10.54	5.21	5.28	5.35	RoAE	27.9%	29.3%	19.8%	26.0%	34.9%	36.1%
EBITDA	223.37	262.45	257.24	388.15	449.64	480.59	RoAA	17.5%	17.3%	10.8%	12.8%	15.5%	15.2%
Depreciation	-36.27	-54.63	-74.75	-83.94	-96.26	-102.85	Interest cover	5.67x	3.82x	4.02x	5.77x	6.47x	6.74x
EBIT/ Operating Income	187.10	207.82	182.49	304.21	353.38	377.75							
Finance income	30.57	34.82	2.66	9.14	13.37	17.26	Investment Ratios	2014a	2015a	2016a	2017a	2018e	2019e
Finance costs	-32.98	-54.35	-45.38	-52.71	-54.60	-56.04	Earnings per share (NGN)	9.36	10.64	8.38	11.99	15.98	17.35
Profit Before Tax	184.69	188.29	180.93	289.59	318.18	345.01	Dividend per share (NGN)	6.0	8.0	8.5	10.5	13.6	14.7
Taxation	-25.19	-6.97	-38.07	-85.34	-45.85	-49.35	Dividend payout	64.1%	75.2%	101.4%	87.6%	85.0%	85.0%
<b>Profit After Tax</b>	<b>159.50</b>	<b>181.32</b>	<b>142.86</b>	<b>204.25</b>	<b>272.32</b>	<b>295.66</b>	Dividend yield	3.0%	4.7%	4.9%	4.5%	5.8%	6.3%
							Gross opex margin	-16.62%	-17.50%	-19.40%	-19.28%	-19.39%	-19.41%

Financial Position	2014a	2015a	2016a	2017a	2018e	2019e	Liquidity Ratios	2014a	2015a	2016a	2017a	2018e	2019e
PPE	747.79	917.21	1155.71	1192.14	1369.71	1481.36	Working capital (NGN'bn)	-95.84	-34.72	-209.08	-110.18	-174.77	-190.28
Inventories	42.69	53.12	82.90	94.59	107.54	116.85	Current ratio	0.59x	0.83x	0.59x	0.79x	0.72x	0.72x
Trade debtors/receivables	15.64	11.54	26.28	30.16	34.74	37.53	Quick ratio	0.41x	0.56x	0.43x	0.61x	0.55x	0.56x
Prepayment/other current assets	58.18	60.53	78.29	115.50	120.73	136.26	Cash ratio	0.09x	0.20x	0.23x	0.32x	0.30x	0.30x
Bank and Cash	20.59	40.79	115.69	168.39	191.95	208.32							
<b>Total Assets</b>	<b>984.72</b>	<b>1110.94</b>	<b>1527.91</b>	<b>1659.27</b>	<b>1854.47</b>	<b>2030.34</b>	P/E	21.37x	15.98x	20.75x	19.65x	14.74x	13.57x
Trade and other payables	100.93	127.60	268.97	270.72	348.11	387.18	EV/EBITDA	16.25x	11.86x	12.52x	10.90x	9.53x	8.94x
Current income tax	2.48	1.29	4.67	63.90	68.55	74.65							
Financial debt	110.64	47.28	220.30	144.78	175.51	187.17							
Other current liabilities	18.90	24.54	18.31	41.07	39.43	42.28							
Financial debt	131.94	208.33	152.48	242.89	287.83	304.89							
Long term provisions	4.01	3.28	3.34	3.42	4.27	4.73							
Deferred revenue	1.39	0.98	1.07	0.84	18.64	41.94							
Retirement benefits obligation	2.07	3.99	0.00	0.00	0.00	0.00							
Long term payables	0.00	24.44	17.73	0.00	0.00	0.00							
Deferred tax liabilities	20.47	24.50	43.70	116.90	125.50	136.67							
<b>Total Liabilities</b>	<b>392.83</b>	<b>466.22</b>	<b>730.56</b>	<b>884.52</b>	<b>1067.83</b>	<b>1179.52</b>							
<b>Net assets</b>	<b>591.89</b>	<b>644.72</b>	<b>797.35</b>	<b>774.75</b>	<b>786.64</b>	<b>850.82</b>							

Source: Company Accounts, Cordros Research

# Disclosures

**Analyst:**

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

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