

Cement Company of Northern Nigeria Plc.

Strong start to 2018; earnings estimate revised higher

Update: CCNN started 2018 on an impressive note, reporting EPS growth of 111% y/y to NGN0.86, which when annualized, is almost 2x market expectation. The EPS is only 9% below the company's single-quarter best of NGN0.95 recorded in Q4-17. The impressive Q1-18 performance is broad-based, and in our view, is one of the company's best yet, when the significant difference in prices in the recent past quarters is adjusted for.

Better volume, higher price support revenue: Revenue grew by 24% y/y during the three months period, the best we have seen among the quoted companies from Nigerian operations. Compared to Q1-17, industry cement prices are higher by single-digit on average, suggesting that most of CCNN's Q1-18 revenue growth is volume driven. The company achieved 94% utilization rate in 2017FY, despite reported 46% increase in selling price. We remain bullish on volume in 2018E and retain our 5% growth forecast on (1) relatively competitive selling price (disclosed 2017FY price was lower than DANGCEM's by 3% and higher than ASHAKACEM's by only 1%), (2) improved security condition in the North, and (3) the low presence of competitors in the markets – including cross border – where the company supplies cement. We are yet to hear from CCNN's management, but we consider the NGN50/bag price increase recently implemented by DANGCEM (effective April) a tailwind for other smaller cement producers' revenues in 2018.

Another gross margin outperformance on the horizon? Gross margin of 42% was achieved in Q1-18 and is also a major driver of the earnings outperformance in the review period. The gross margin beat our estimate for the quarter by 916 bps and is immune to the energy cost pressure we had expected with the rallying price of crude oil. CCNN's management said it is managing the risk associated with the volatile price of its kiln fuel LPFO (linked to both FX and the price of crude oil, and accounts for 60-65% of production cost) by exploring other alternate energy generation, although without detailed disclosure. We believe the stability of the naira is also supportive of the resilient margin. While we hold our view that gross margin will be tested this year by the surging price of crude oil (+53% y/y energy cost was reported in Q1), we have increased our estimate for 2018E by 300bps to 39%, reflecting (1) mainly the stronger-than-expected Q1 rate, and also, (2) the fact that cement prices have been increased by NGN50/bag in the industry.

Other profitability ratios are equally impressive: Also noteworthy from the result are the 1200 bps average increase each in EBIT and PBT margins and 364% increase in RoAE. Operating expense was lower by 8% y/y while the ratio to revenue decreased by 543 bps y/y.

Balance sheet: An amount of NGN961 million was reported as capex in Q1-18, which annualized, is ahead of last year's record NGN2.6 billion. About 48% of the spending (NGN468 million) was for the addition/repair of trucks, in continuation from the NGN750 million spent in 2017FY – this could be to support distribution.

Earnings estimate and valuation: Compared to our previous estimate, we revise 2018E net profit higher by 16% to reflect the changes on the gross margin line. On 2017FY results, our revised net profit estimate is higher by 13% (previously -3%). On our revised estimates, we have a DCF-based TP of NGN17.82 (previously NGN15.64) for CCNN and maintain SELL. The stock has gained 115 YtD and is trading at forward (2018E) P/E and EV/EBITDA multiples of 7.0x and 4.0x respectively, consistent with its five-year historical averages.

SELL

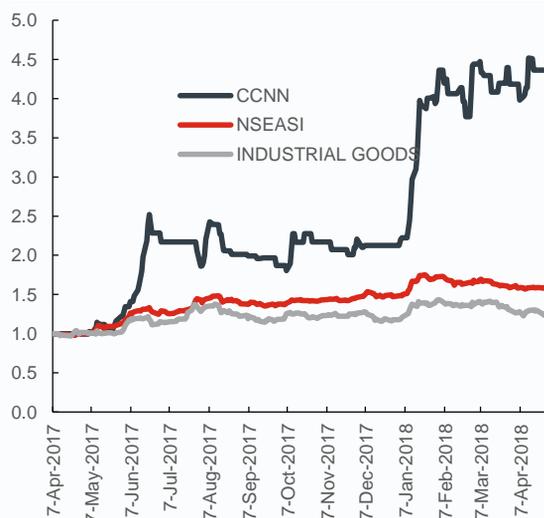
Target Price (NGN)	17.79
Current Price (NGN)	20.45
Implied Return (%)	-12.99

Company Data

NSE Code	CCNN
Bloomberg Code	CCNN:NL
Reuters Code	CCNN.LG
Sector	INDUSTRIAL GOODS
Market Cap. (NGN'bn)	25.70
Free Float (%)	25.01

Ratios	Q1-2018	Q1-2017	2017FY
Gross margin	41.96%	37.49%	27.94%
Opex margin	15.64%	21.07%	16.10%
EBITDA margin	33.67%	20.12%	16.89%
EBIT margin	28.49%	16.71%	12.82%
PBT margin	27.89%	15.74%	12.36%
EPS (NGN)	0.86	0.41	1.00

Price movement (CCNN vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Summary of Quarterly Results.

Income Statement (NGN'bn)	31-Mar-18	31-Mar-17	y/y	q/q	Q4-2017	Q3-2017	Q2-2017
Revenue	5.39	4.35	24.0%	-9.5%	5.96	5.12	4.16
Cost of sales	-3.13	-2.72	15.1%	-12.6%	-3.58	-2.92	-2.76
Gross profit	2.26	1.63	38.8%	-4.9%	2.38	2.20	1.40
Operating expenses	-0.84	-0.92	-8.0%	-28.5%	-1.18	-0.71	-0.68
Other income	0.12	0.01	833.2%	102.7%	0.06	0.03	0.00
Operating profit	1.54	0.73	111.4%	22.3%	1.26	1.52	0.72
Net finance costs	-0.03	-0.04	-24.0%	-135.9%	0.09	-0.03	-0.04
Profit before tax	1.50	0.68	119.7%	11.8%	1.35	1.49	0.69
Taxation	-0.42	-0.17	145.9%	166.7%	-0.16	-0.48	-0.17
Profit after tax	1.08	0.51	110.9%	-8.8%	1.19	1.01	0.52

Ratios	31-Mar-18	31-Mar-17		Q4-2017	Q3-2017	Q2-2017
COS margin	58.0%	62.5%		60.1%	57.0%	66.4%
Gross margin	42.0%	37.5%		39.9%	43.0%	33.6%
Opex margin	15.6%	21.1%		19.8%	13.8%	16.3%
EBIT margin	28.5%	16.7%		21.1%	29.7%	17.4%
PBT margin	27.9%	15.7%		22.6%	29.0%	16.5%
PAT margin	20.1%	11.8%		19.9%	19.7%	12.4%
Tax rate	-28.0%	-25.0%		-11.7%	-32.2%	-25.0%
EBITDA margin	33.7%	20.1%		24.7%	32.9%	21.2%
EPS (NGN)	0.86	0.41		0.95	0.80	0.41

Source: Company Accounts, Cordros Research estimates

Financial Statement (NGN'billion).

Income Statement							Profitability Ratios						
	2014a	2015a	2016a	2017a	2018e	2019e		2014a	2015a	2016a	2017a	2018e	2019e
Revenue	15.12	13.04	14.09	19.59	22.58	22.60	Gross profit margin	33.9%	30.4%	27.9%	38.8%	39.0%	39.0%
Cost of sales	-9.99	-9.08	-10.15	-11.98	-13.77	-13.77	EBITDA margin	21.6%	18.5%	16.9%	25.1%	25.2%	25.2%
Gross profit	5.13	3.96	3.94	7.61	8.81	8.82	Operating profit margin	18.2%	14.5%	12.8%	21.6%	21.7%	21.7%
Operating expenses	-2.40	-2.14	-2.27	-3.48	-4.02	-4.03	PBT margin	16.4%	11.9%	12.4%	21.5%	21.5%	21.6%
Other income	0.02	0.07	0.14	0.10	0.10	0.11	Net profit margin	12.7%	9.2%	8.9%	16.5%	16.1%	16.2%
EBIT	2.75	1.89	1.81	4.23	4.89	4.90	RoAE	21.6%	12.3%	11.6%	24.9%	23.6%	21.0%
Finance charges	-0.34	-0.46	-0.20	-0.13	-0.03	-0.03	RoAA	12.4%	7.3%	6.7%	14.4%	13.8%	12.4%
Profit before tax	2.48	1.55	1.74	4.20	4.86	4.87							
Tax	-0.56	-0.35	-0.49	-0.98	-1.22	-1.22	Liquidity Ratios						
Profit after tax	1.92	1.20	1.25	3.22	3.65	3.66	Working capital (NGN'bn)	3.91	2.81	4.00	5.16	5.89	6.63
							Current ratio	2.1x	1.7x	1.7x	1.7x	1.7x	1.7x
							Quick ratio	0.7x	0.4x	0.8x	0.8x	0.8x	0.8x
							Cash ratio	0.3x	0.2x	0.4x	0.4x	0.4x	0.4x
Financial Position							Investment Ratios						
	2014a	2015a	2016a	2017a	2018e	2019e		2014a	2015a	2016a	2017a	2018e	2019e
PPE	8.37	10.12	10.53	12.32	14.11	15.48	Earnings per share (NGN)	1.53	0.96	1.00	2.57	2.90	2.91
Intangible assets	0.01	0.00	0.00	0.00	0.00	0.00	Dividend per share (NGN)	0.35	0.10	0.00	1.25	1.45	1.45
Non-current assets	8.37	10.12	10.53	12.33	14.11	15.48	Payout	22.9%	10.5%	0.0%	48.7%	50.0%	50.0%
Inventories	5.08	5.50	5.25	6.52	7.46	8.18	Dividend yield	3.4%	1.1%	0.0%	13.2%	7.1%	7.1%
Trade Receivables	1.43	0.51	1.79	2.67	3.06	3.36							
Cash/bank balances	0.90	1.02	2.46	3.13	3.59	3.94	PE	6.8x	9.8x	5.0x	3.7x	7.0x	7.0x
Current assets	7.41	7.02	9.50	12.32	14.11	15.48	EV/EBITDA	4.1x	5.0x	2.1x	1.9x	4.0x	4.0x
TOTAL ASSETS	15.78	17.15	20.03	24.65	28.22	30.96							
Trade and other payables	2.33	3.59	4.90	6.10	6.99	7.53							
Current financial liabilities	0.64	0.29	0.27	0.36	0.41	0.44							
Deferred revenue	-	0.03	0.03	0.04	0.05	0.05							
Provisions	-	0.07	-	-	-	-							
Employee benefits	-	-	-	-	-	-							
Current tax liabilities	0.52	0.24	0.30	0.67	0.76	0.82							
Current Liabilities	3.50	4.21	5.50	7.17	8.22	8.85							
Non-current financial liabilities	0.64	1.08	0.85	0.41	0.48	0.51							
Employee benefits	-	0.78	1.01	1.24	1.42	1.53							
Deferred revenue	-	0.06	0.08	0.03	0.04	0.04							
Provisions	1.45	-	0.05	0.03	0.03	0.03							
Deferred tax	0.75	0.86	1.04	1.36	1.56	1.67							
Non-current liabilities	2.84	2.79	3.03	3.07	3.52	3.79							
TOTAL LIABILITIES	6.33	7.00	8.54	10.24	11.74	12.64							
Net Assets	9.45	10.14	11.49	14.41	16.49	18.32							

Source: Company Accounts, Cordros Research

Disclosures.

Analyst:

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

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