

Dangote Cement Plc.

Still strong performance, despite increasing tax burden; upgrade to HOLD

Update: DANGCEM published Q2-18 result last week, showing Group revenue grew 18% y/y, while net profit was lower by 24% y/y. Revenue beat our estimate by 2% while net profit was much lower (52% variance), on higher (Nigeria) effective tax rate. Following changes to our tax rate assumption, we revise 2018-2019E EPS estimates lower by 17% average, whilst noting possible upside in the event that the Group receives the pending approval for pioneer tax incentive in Nigeria. However, the impact of the EPS cut on target price is offset by the significant cut to our 2018-2019E capex estimates (25% average) following the very low outturn (-37% vs. H1-17) over H1-18.

EBITDA revised higher on strong Nigerian performance: We revise 2018 Group EBITDA estimate higher by 3% to NGN472.1 billion (2017FY: NGN388.1 billion), equating to 49.7% margin (2017FY: 48.2%). That reflects mainly the upward revision of (1) volume estimate to 24Mts (previously 23.7Mts) and (2) gross margin to 58% (previously 57%), both representing c.8% and 79 bps increases over 2017FY. Our view of the Nigerian operation remains constructive. Following the better-than-expected sales in H1-18 (+14% y/y), we now expect the local market to deliver 14.9Mts volume (2017FY:12.7Mts) in 2018E, whilst retaining gross and EBITDA margin estimates at 73% (2017FY: 71%) and 65% (2017FY: 63%) respectively, on continued energy efficiency gain and stable exchange rate. Elsewhere, we cut our Non-Nigerian volume (-4% y/y in H1-18) estimate further by 6% to 9.1Mts (2017FY: 9.2Mts), reflecting our more conservative view of outputs from Congo, Ethiopia, South Africa, and Tanzania. We model full year Non-Nigerian gross and EBITDA margins at 25% (2017FY:24%) and 16% (2017FY: 15%) respectively.

Significant increase in effective tax rate assumption: Effective tax rate further increased to 47% in Q2, which management had said it expected to receive the awaiting approval for pioneer tax incentive in Nigeria. Consequently, our 2018-2019E tax rate estimate is now higher at 28% average (previously 14%), on the assumption that the tax incentive fails to come through. That said, we should also guide to potential strong re-rating of EPS and TP in the event that the tax incentive comes through in H2-18. Our 33% tax rate assumption beyond 2019 is unchanged, in line with earlier guidance provided by management for possible 30% rate in Nigeria when all plants exit tax holidays.

Valuation: We revise our DCF-based target price higher to NGN216.00 (previously NGN195.58) – as we cut 2018-2019E capex by 25% average and reduce risk free rate to 13.6% (previously 14.1%) – and upgrade rating to HOLD (previously SELL). On our estimates, DANGCEM's stock trades at forward (2018E) P/E and EV/EBITDA multiples of 16.8x and 8.9x respectively, below its five-year historical averages of 19.3x and 13.7x.

Risks: These include (1) significant price cut in Nigeria, (2) exchange rate crisis in Nigeria, and (3) renewed unrest in Ethiopia and other Non-Nigeria operations (e.g. Cameroon).

Estimates	2015a	2016a	2017a	2018e	2019e
Revenue (NGN'bn)	491.73	615.10	805.58	950.09	1,015.00
EBITDA (NGN'bn)	262.45	257.24	388.15	472.08	503.59
Net profit	181.32	142.86	204.25	239.52	272.82
EPS (NGN)	10.64	8.38	11.99	14.06	16.01
DPS (NGN)	8.0	8.5	10.5	12.0	13.6
P/E	15.98x	20.75x	19.65x	16.79x	14.74x
EV/EBITDA	11.86x	12.52x	10.90x	8.95x	8.39x

Source: Company Accounts

HOLD

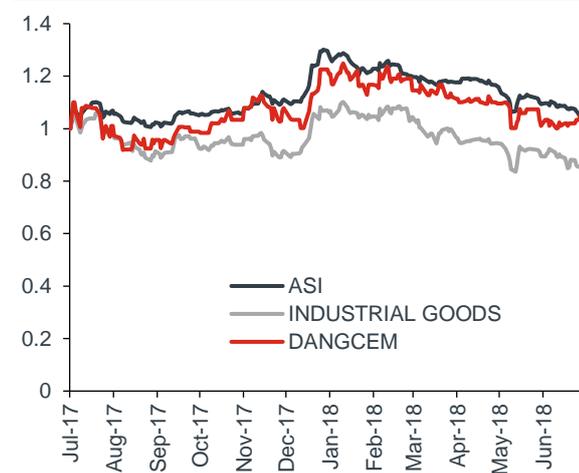
Target Price (NGN)	216.00
Current Price (NGN)	236.00
Implied Return (%)	-8.47

Company Data

NSE Code	DANGCEM
Bloomberg Code	DANGCEM:NL
Reuters Code	DANGCEM.LG
Sector	INDUSTRIAL GOODS
Market Cap. (NGN' bn)	4,021.56
Free Float (%)	8.04

Ratios	Q2-2018	Q2-2017	2017FY
Gross margin	58.3%	56.1%	47.4%
Opex margin	18.9%	17.1%	19.4%
EBITDA margin	50.0%	49.2%	41.8%
EBIT margin	40.2%	39.2%	29.7%
PAT margin	17.1%	26.3%	30.3%
EPS (NGN)	2.4	3.0	11.3

Price movement (DANGCEM vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (NGN'billion).

Statement of Comprehensive Income	2015a	2016a	2017a	2018e	2019e	Profitability Ratios	2015a	2016a	2017a	2018e	2019e
Turnover	491.73	615.10	805.58	950.09	1,015.00	Revenue growth	25.6%	25.1%	31.0%	17.9%	6.8%
Cost of Sales	(201.81)	(323.82)	(351.29)	(399.35)	(427.07)	Gross margin	59.0%	47.4%	56.4%	58.0%	57.9%
Gross Profit	289.92	291.29	454.29	550.74	587.93	EBITDA growth	17.5%	-2.0%	50.9%	21.6%	6.7%
Net Opex	(31.42)	(44.59)	(71.36)	(83.94)	(89.69)	EBITDA margin	53.4%	41.8%	48.2%	49.7%	49.6%
Other Operating Income/Expenses	3.95	10.54	5.21	5.28	5.35	RoAE	29.3%	19.8%	26.0%	29.6%	31.1%
EBITDA	262.45	257.24	388.15	472.08	503.59	RoAA	17.3%	10.8%	12.8%	13.1%	13.0%
Depreciation	(54.63)	(74.75)	(83.94)	(97.65)	(104.93)	Interest cover	3.82x	4.02x	5.77x	7.27x	6.56x
EBIT/ Operating Income	207.82	182.49	304.21	374.42	398.67						
Finance income	34.82	2.66	9.14	16.93	21.00	Investment Ratios	2015a	2016a	2017a	2018e	2019e
Finance costs	(54.35)	(45.38)	(52.71)	(51.48)	(60.82)	Earnings per share (NGN)	10.64	8.38	11.99	14.06	16.01
Profit Before Tax	188.29	180.93	289.59	338.05	377.02	Dividend per share (NGN)	8.0	8.5	10.5	11.9	13.6
Taxation	(6.97)	(38.07)	(85.34)	(98.54)	(104.20)	Dividend payout	75.2%	101.4%	87.6%	85.0%	85.0%
Profit After Tax	181.32	142.86	204.25	239.52	272.82	Dividend yield	4.7%	4.9%	4.5%	5.1%	5.8%
						Gross opex margin	-17.50%	-19.40%	-19.28%	-19.11%	-19.17%
Financial Position	2015a	2016a	2017a	2018e	2019e	Liquidity Ratios	2015a	2016a	2017a	2018e	2019e
PPE	917.21	1,155.71	1,192.14	1,313.21	1,431.61	Working capital (NGN'bn)	(34.72)	(209.08)	(110.18)	(241.64)	(255.14)
Inventories	53.12	82.90	94.59	108.08	117.89	Current ratio	0.83x	0.59x	0.79x	0.67x	0.68x
Trade debtors/receivables	11.54	26.28	30.16	32.89	35.85	Quick ratio	0.56x	0.43x	0.61x	0.53x	0.54x
Prepayment/other current assets	60.53	78.29	115.50	167.85	183.67	Cash ratio	0.20x	0.23x	0.32x	0.26x	0.26x
Bank and Cash	40.79	115.69	168.39	190.65	207.93						
Total Assets	1,110.94	1,527.91	1,659.27	2,004.02	2,187.68	P/E	15.98x	20.75x	19.65x	16.79x	14.74x
Trade and other payables	127.60	268.97	270.72	342.51	380.51	EV/EBITDA	11.86x	12.52x	10.90x	8.95x	8.39x
Current income tax	1.29	4.67	63.90	151.49	168.23						
Financial debt	47.28	220.30	144.78	183.16	183.16						
Other current liabilities	24.54	18.31	41.07	65.97	70.77						
Financial debt	208.33	152.48	242.89	210.33	227.14						
Long term provisions	3.28	3.34	3.42	4.42	4.88						
Deferred revenue	0.98	1.07	0.84	45.32	70.73						
Retirement benefits obligation	3.99	-	-	-	-						
Long term payables	24.44	17.73	-	-	-						
Deferred tax liabilities	24.50	43.70	116.90	158.28	170.48						
Total Liabilities	466.22	730.56	884.52	1,161.47	1,275.91						
Net assets	644.72	797.35	774.75	842.54	911.78						

Source: Company Accounts, Cordros Research estimates

Disclosures.

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