26 October 2018

Dangote Cement Plc.

Still strong, even as we look for lower volume growth

Update: Following the September 30 result wherein sales volume in Q3 was lower than our expectation, we revise our 2018E EBITDA and PBT estimates for DANGCEM lower by 6% and 11% respectively to NGN444 billion and NGN300.7 billion. Our new estimates are now higher by 14% (previously 22%) and 4% (previously 17%) respectively vs. 2017FY. We also cut estimates for 2019-2020E by 4% and 9% respectively on average. **Our view is that continued low economic growth in the group's biggest market (Nigeria), combined with high utilization rates – with increasing competition – in the rest of Africa (RoA), does not suggest that the group will sustain volume growth at the high single-digit achieved YtD in 9M-2018. And while we expect cement prices to be fairly stable in both Nigeria and the RoA markets in the short term, we note that risk to the outlook is somewhat stronger than at the beginning of the year.**

Our volume growth forecast is rightly conservative: We revise our group volume growth forecast for 2018E lower to 8% (previously c.10%), and maintain 5% growth forecast for 2019-2020E (2012-2017 CAGR: 17%). For 2019-2020E, we forecast volume to grow by 6% average in Nigeria (2012-2017 CAGR: 5%) and for RoA by 5% (2013-2017 CAGR: 91%). **We are not alone on the cautionary view about the growth of the Nigerian cement market, as one the biggest producers in the country also confirmed this view in a recent analysts' call.**[1] And while noting the strong demand for cement especially in East Africa, the (1) already high utilization rates in Senegal (97%), Cameroon (79%), Ghana (83%), South Africa (72%), Ethiopia (82%), and Zambia (81%), accounting for 68% of RoA volume and (2) growing competition with new plant commissions[2], suggest the group's volume has little legs to run in the region.

But energy efficiency gains will be supportive: All kilns in Nigeria are now running on locally sourced fuel, cheaper than imports, and eliminates both FX volatility risk and the need for LPFO. Management said that up to 90% of the coal it uses is sourced from the relatively cheaper (vs. gas and imported coal) mine operated by a related company. For the RoA operation, the completion of power switch to gas in Tanzania in Q4-2018 is expected to strengthen margin via reduction of costs (which management guided to about USD25/tonne) and improvement in output (which management guided to about 300kts, from about 180kts average in 9M-2018).

The implication of tax concession: Management said at the recent call that it is awaiting receipt of the pioneer tax certificate by the end of October 2018 to enable it enjoy tax concession in Nigeria. **According to management, the tax concession will reduce the effective tax rate for the group from 28% as at 9M-2018 to 15% by end-2018, and by implication, +20% and +16% 2018E and 2019E net profit compared to our current estimates, respectively.**

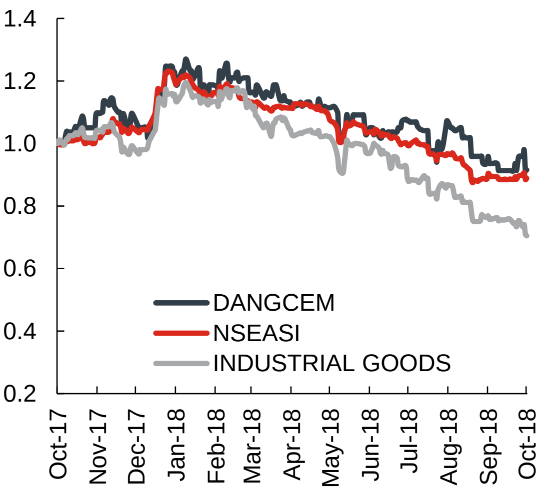
Valuation: On our DCF-derived TP of NGN232.99/s, DANGCEM's stock offers 16% potential upside – and expected total return of 21% after incorporating 2018E dividend yield of 5% – with BUY recommendation. Based on our estimates, the stock is trading on a 2019E P/E and EV/EBITDA multiples of 13.8x and 7.4x, which compares with Asian (16.0x and 8.6x) and Middle Eastern (15.7x and 9.6x) peers.

BUY	
Target Price (NGN)	232.99
Current Price (NGN)	200.50
Implied Return (%)	16.21
Expected Dividend Yield (%)	5.08
Expected Total Return	21.28

Company Data	
NSE Code	DANGCEM
Bloomberg Code	DANGCEM:NL
Reuters Code	DANGCEM: LG
Sector	INDUSTRIAL GOODS
Market Cap. (NGN' bn)	3,416.62
Free Float (%)	17.83

Ratios	Q3-2018	Q3-2017	2017FY
Gross margin	58.0%	56.9%	56.4%
Opex margin	19.7%	18.8%	19.3%
EBITDA margin	49.2%	48.8%	48.2%
EBIT margin	38.9%	38.6%	37.8%
PAT margin	23.1%	25.5%	25.4%
EPS (NGN)	9.3	9.0	11.7

Price movement (DANGCEM vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

[1] LAFARGE: The entire Nigeria cement market is forecast to grow 3-6% in Q4-18 according to management, and likely, at same low single-digit rate next year. Forecasts coming from South Africa is for flat demand.

[2] DANGCEM: Management said at the recent analysts' call that there has been price cutting in RoA from competition, which led the group to start giving out discount in order to regain its market share.

Financial Statements (NGN billion).

Statement of Comprehensive Income	2015a	2016a	2017a	2018e	2019e
Turnover	491.73	615.10	805.58	910.95	975.62
Cost of Sales	-201.81	-323.82	-351.29	-389.55	-413.98
Gross Profit	289.92	291.29	454.29	521.39	561.64
Net Opex	-31.42	-44.59	-71.36	-85.24	-86.93
Other Operating Income/Expenses	3.95	10.54	5.21	7.75	7.85
EBITDA	262.45	257.24	388.15	443.91	482.56
Depreciation	-54.63	-74.75	-83.94	-99.23	-102.73
EBIT/ Operating Income	207.82	182.49	304.21	344.68	379.83
Finance income	34.82	2.66	9.14	12.48	16.26
Finance costs	-54.35	-45.38	-52.71	-50.91	-52.40
Profit Before Tax	188.29	180.93	289.59	300.69	343.26
Taxation	-6.97	-38.07	-85.34	-96.65	-95.93
Profit After Tax	181.32	142.86	204.25	204.05	247.32

Financial Position	2015a	2016a	2017a	2018e	2019e
PPE	917.21	1155.71	1192.14	1282.53	1398.59
Inventories	53.12	82.90	94.59	102.31	111.72
Trade debtors/receivables	11.54	26.28	30.16	32.40	35.31
Prepayment/other current assets	60.53	78.29	115.50	129.93	143.34
Bank and Cash	40.79	115.69	168.39	181.88	198.54
Total Assets	1110.94	1527.91	1659.27	1809.71	1980.64
Trade and other payables	127.60	268.97	270.72	314.57	348.80
Current income tax	1.29	4.67	63.90	138.83	153.87
Financial debt	47.28	220.30	144.78	149.09	149.09
Other current liabilities	24.54	18.31	41.07	49.40	52.67
Financial debt	208.33	152.48	242.89	199.06	216.20
Long term provisions	3.28	3.34	3.42	3.95	4.35
Deferred revenue	0.98	1.07	0.84	26.19	44.39
Retirement benefits obligation	3.99	0.00	0.00	0.00	0.00
Long term payables	24.44	17.73	0.00	0.00	0.00
Deferred tax liabilities	24.50	43.70	116.90	121.56	130.31
Total Liabilities	466.22	730.56	884.52	1002.63	1099.69
Net assets	644.72	797.35	774.75	807.07	880.96

Growth Data	2015a	2016a	2017a	2018e	2019e
Revenue	25.6%	25.1%	31.0%	13.1%	7.1%
Gross profit	16.6%	0.5%	56.0%	14.8%	7.7%
EBITDA	17.5%	-2.0%	50.9%	14.4%	8.7%
EBIT	11.1%	-12.2%	66.7%	13.3%	10.2%
PBT	2.0%	-3.9%	60.1%	3.8%	14.2%
PAT	13.7%	-21.2%	43.0%	-0.1%	21.2%
DPS	33.3%	6.3%	23.5%	-3.1%	21.2%

Profitability Ratios	2015a	2016a	2017a	2018e	2019e
Gross margin	59.0%	47.4%	56.4%	57.2%	57.6%
EBITDA growth	17.5%	-2.0%	50.9%	14.4%	8.7%
EBITDA margin	53.4%	41.8%	48.2%	48.7%	49.5%
RoAE	29.3%	19.8%	26.0%	25.8%	29.3%
RoAA	17.3%	10.8%	12.8%	11.8%	13.1%
Interest cover	3.82x	4.02x	5.77x	6.77x	7.25x

Investment Ratios	2015a	2016a	2017a	2018e	2019e
Earnings per share (N)	10.64	8.38	11.99	11.97	14.51
Dividend per share (N)	8.0	8.5	10.5	10.2	12.3
Dividend payout	75.2%	101.4%	87.6%	85.0%	85.0%
Dividend yield	4.7%	4.9%	4.5%	5.1%	6.2%
Gross opex margin	-17.50%	-19.40%	-19.28%	-20.25%	-19.44%

Liquidity Ratios	2015a	2016a	2017a	2018e	2019e
Working capital (N'bn)	-34.72	-209.08	-110.18	-203.55	-213.52
Current ratio	0.83x	0.59x	0.79x	0.69x	0.70x
Quick ratio	0.56x	0.43x	0.61x	0.53x	0.54x
Cash ratio	0.20x	0.23x	0.32x	0.28x	0.28x

Solvency Ratios	2015a	2016a	2017a	2018e	2019e
Debt-to-capital	0.28x	0.32x	0.33x	0.30x	0.29x
Net debt-to-equity	0.33x	0.32x	0.28x	0.21x	0.19x
Net debt-to-EBITDA	0.82x	1.00x	0.56x	0.37x	0.35x
Interest coverage	3.82x	4.02x	5.77x	6.77x	7.25x

P/E	15.98x	20.75x	19.65x	16.74x	13.81x
EV/EBITDA	11.86x	12.52x	10.90x	8.07x	7.43x

Source: Company Accounts, Cordros Research estimates

26 October 2018

Disclosures.

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